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Gibraltar Industries, Inc. (ROCK)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Gibraltar Industries First Quarter 2026 Financial Results Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, May 7, 2026.

I would now like to turn the conference over to Carolyn Capaccio. Please go ahead.

Carolyn Capaccio

Senior Vice President, Alliance Advisors IR

Thanks, Joanne. Good morning, everyone, and thank you for joining us today. With me on the call is Bill Bosway, Gibraltar Industries' Chairman, President and Chief Executive Officer; and Joe Lovechio, Gibraltar's Chief Financial Officer. The earnings press release that was issued this morning as well as the slide presentation that management will use during the call are both available in the Investors section of the company's website, gibraltar1.com.

Gibraltar's earnings press release and remarks contain non-GAAP financial measures. Tables of reconciliation of GAAP to adjusted financial measures can be found in the earnings press release that was issued today.

Further, please note that continuing operations exclude net sales and operating results of the Renewables business, which was classified as held for sale and as a discontinued operation with second quarter 2025 results, the eBOS portion of which was subsequently sold on February 20, 2026. The acquisition of OmniMax International closed on February 2, 2026.

Also, as noted on slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guarantees of future

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performance and the company's actual results may differ materially from the anticipated events, performance, or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website.

Now I'll turn the call over to Bill Bosway. Bill?

William T. Bosway

Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

Thanks, Carolyn. Good morning, everybody, and thanks for joining us for today's call. A lot of interesting and exciting things to talk about. We'll take you through our Q1 results, which include OmniMax operations for the last two months. And then we'll update you on our integration and synergy initiatives, our deleveraging progress and our 2026 guidance, which we are reaffirming today. And I'll talk about some positive trends we have seen in April and early May. And then we'll open the call for questions.

So let's start by turning to slide 3, and we'll talk about the first quarter. So the first quarter is very dynamic and busy with the closing of the OmniMax acquisition in the middle of the quarter on February 2, the subsequent launch of our integration efforts, managing through some additional inflation of aluminum in February and March, and incremental commodity inflation in March post the start of the Middle East conflict. That all being said, I'm very pleased with how our team responded and executed in the quarter. And I was excited to see good operating performance in March as we exited the quarter and head into Q2.

So starting with the quarter. For the quarter, adjusted net sales were $356 million, up 44.6% driven by two months of having OmniMax as part of Gibraltar and our metal roofing and structures acquisitions. From a market perspective, Residential remains soft, and we'll talk more about that today. And despite the start of the Middle East conflict in late February, we actually started to see customer order activity improve and become more consistent in March. Agtech and Infrastructure markets remain solid with good backlog, but both businesses had some volume move into the second quarter, which we'll talk about. This is really related to some project schedules and timing of some shipments.

Adjusted EBITDA increased 16.1% and adjusted EPS was down 50%, driven by a net interest impact of $14.6 million and unfavorable price material economics from a 16% increase in aluminum market prices during the quarter, which really impacted mainly Residential, but we also had increases in steel, resin and fuel prices in March after the start of the Middle East conflict. Despite the inflation and the lower volume and absorbing some of inefficiencies with the OmniMax close in the middle of the quarter, we did perform very well in March with adjusted EBITDA accelerating to high-teens, which is supportive of our plan going into the second quarter.

We used $35 million of operating cash flow, which included payments related to closing of the OmniMax transaction, and we applied the $70 million of the proceeds from eBOS divestiture to debt reduction. We ended the quarter with net debt of $1.2 billion. And finally, we continue to make progress with the sale of the Renewables racking business, which – and are still targeting completion in Q2.

So with that, now let's dig into the business segments, and we'll have Joe start with Residential.

Joseph Allen Lovechio

Chief Financial Officer, Gibraltar Industries, Inc.

Thanks, Bill. Let's start with Residential on slide 4. Net sales increased just over $100 million to $281 million, which is up 56%, driven by the inclusion of two months of OmniMax results of operations, which contributed $89

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million, and our metal roofing acquisitions, which contributed $18 million. Organic growth for the segment decreased 3%, with building products down 3.8%, and mail and package down 1.5%, as the overall residential market continued to remain soft. Our metal roofing acquisitions, which we acquired at the end of Q1 2025, performed well. And overall, we are seeing a good start to Q2 in our Residential segment.

Adjusted operating EBITDA margins were down due to lower volume and inflation in the quarter, particularly with aluminum increasing 16% and other commodity inflation ramping up in March post the start of the conflict in the Middle East. Early in the quarter, we implemented price increases to help offset 14% aluminum price inflation in Q4 2025. And subsequently, we executed price increases in March and April across 14 of our brands and operating units to counter the additional aluminum inflation in Q1.

The timing of our price increases and therefore our price realization is governed by a well-defined approval process that takes 30 to 60 days, depending on the customer, the amount requested and the justification. Our teams did a good job addressing Q1 inflation in a timely manner, but we were not able to offset the full impact during the quarter. With these increases now in place, we expect price material economics to be positive in Q2. As well, there was no incremental tariff impact in the quarter. And as it relates to the recent changes to Section 232 of the Trade Expansion Act, we are proactively managing any potential impact.

Adjusted EBITDA margin for the quarter came in at 15.6%. But as Bill mentioned, we performed well in March, with adjusted EBITDA accelerating to high-teens, which is supportive of our plan going into the second quarter.

So, guys, let's move to slide 5 and we'll talk a little bit about the US residential roofing market. The market remained soft in Q1, with ARMA reporting shingle shipments down 10% versus prior year, with results varying quite widely by region and/or state. When we see big changes or swings in a particular quarter, it's typically related to a weather event that occurred in an earlier period in a region or a state. And you can see, for instance, Florida down pretty significantly in Q1.

General customer feedback remains consistent around affordability and interest rates. Limited weather impact in 2025 helping create demand in 2026. A lot of focus on inventory optimization while waiting for the season to start. And then, of course, most recently, the conflict in the Middle East and the timing of when that may be resolved. We believe we outperformed the market in Q1. Our retail sales and units were down 6% to 8%, where our sales dollars were down 1% to flat and our sales to distribution were also down roughly the same.

In contrast to year-over-year ARMA shipments, Q1 shipments were up 41% sequentially. It's an increase of approximately three times the average Q4 to Q1 increase we have seen during the last four years and likely driven by a correction to the market over-indexing on inventory correction in Q4 2025, some pull-ahead related to upcoming OEM shingle price increases and I also believe some better end-market demand with some green shoots in certain markets and regions.

And although it's early in the season, we have started to see positive activity – we started to see positive activity in April, which is really reflected in our actual April shipments and bookings, which were on plan and ahead of 2025 levels. We'll see how the market evolves. And once the conflict in the Middle East is resolved, I expect the market to have tailwinds as oil and gas prices improve, I think mortgage rates move back to pre-conflict levels, which, if you recall, the 30-year mortgage rate went below 6% back in February and existing home sales activity starts to improve.

Until then, we're going to focus on winning more of the market. And our team sees there is quite a bit of opportunity given the US has an installed base of over 80 million existing aging homes at an average age of 40-

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plus years. And a significant multifamily market, which is starting to pick up that today or in the future will require obviously new roofs or roof maintenance and repair.

Let's move to slide 6. I want to discuss some of the commercial synergies and what we're doing to expand our participation in the market and what we've done in a relatively short period of time. When we announced the OmniMax deal, we emphasized the importance of being able to shape the future of our industry versus having someone shape it for us.

And over the last 24 months, with customer consolidation happening across the industry and new ownership in the industry, we believed then and we believe even more now that we are and will be an important partner for our customers moving forward.

The combination of Gibraltar and OmniMax creates the local presence on a national basis to do things for this industry others cannot. So, we now have 39 locations serving most of the US. And by itself, this footprint and our local presence doesn't necessarily guarantee success. What matters is our ability to provide consistent high-level performance through, obviously, great service and speed and flexibility. We have to have the right products and, obviously, great quality from each of our locations. So, we have a good foundation with which we're going to further involve.

But there are really three core initiatives that you're going to see us start to focus more on as we go forward to help our customers even more. Number one, it's become very obvious that we've had conversations with our customers about this that we can help streamline their supply base, particularly with customers that currently manage between 50 and 100 suppliers, making products similar to what we make. And this is a tremendous 80/20 opportunity where we simplify a supply chain, we think will drive substantial productivity and efficiency for a customer's supply chain. And being local on a national basis gives us a chance to do that better than anyone else can.

Secondly, there's a lot of emphasis around what kind of digital solutions are going to be needed to connect more seamlessly with customers to increase service levels while also reducing cost and reducing the cost of doing business with us. Now, this takes investment in technology and we are in a position to support this effort going forward, again, both on a local and national basis.

And third, and I think this is our biggest 80/20 opportunity we have that we can bring to the industry, but also bring to our business and that's our ability to better optimize codes and specs and material selection. And that's going to be done by working through local municipalities, working with our contractors as well as distributors and retailers and really focus on SKU and product harmonization. And we'll do that, which is a lot of heavy work, but pretty exciting stuff as well as bringing in new products. And again, the result is taking an 80/20 approach to an entire quote-to-cash process that our industry has grown up with. And we're, again, in a position to do that.

If you step away and say, well, today, we actually do believe we bring the broadest product and service offering to the market. And that has, in a very short period of time, enabled us more geographic expansion, some cross-selling opportunities and private label programs I'm going to talk about now.

Now, in a short period of time, we've made good progress with each of these three initiatives. First, we expanded our presence geographically. We established new business in over 40 branch locations across 9 different customers located in Texas, Florida, the Midwest, Northeast, Southeast and Mid-Atlantic regions. These are branches we were not serving before when Gibraltar and OmniMax were independent of each other.

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Secondly, we now have over 60 locations where existing customers are buying a new product category from the combined business. And there are over 1,700 branch locations in the US. So, a lot of opportunity in front of us to do more and more cross-selling. Our ventilation family of products is a great example, but there are others as well where we've had some success.

And then, thirdly, we have manufacturers with adjacent and complementary product lines that are starting to source a private label product from us or grow their private label business with us.

So, I believe some of this work, not all of it, is starting to create new business and/or opening new doors for us. These commercial synergies also represent participation gains. And we will realize $4.3 million in our 2026 EBITDA as a result of these initiatives. And as I mentioned earlier, we started to see positive results in April with our shipments and orders on plan and in line with 2025 levels. I think these initiatives are contributing accordingly to some of the trends that we're currently seeing.

Now, let's turn to slide 7 and I'm going to give you an update on integration and what we've been doing over the last 90 days, with really a lot of effort over the last 75 days. First, the combined business has evolved from an organization transition when we started to integration discipline focused on building and executing synergy capture, inventory optimization, network rationalization opportunities and further optimizing procurement.

The Integration Management Office and our 22 integration teams have delivered 500-plus milestones and, organizationally, we've accomplished quite a bit as well. We've completed Phase 1 of the organization structural work, with Phase 2 to be completed in May and in June. We have integrated and consolidated Gibraltar's corporate supply chain team and are leveraging this team to support other businesses, including the mail and package business. And we've combined and communicated a single 2026 financial plan and set of goals for the new team.

Let's turn to slide 8 and I'm going to discuss a little bit of how the Integration Management Office is now pivoting. In February, in our February earnings call, I shared our leadership team, the role of the Integration Management Office, the structure and the process to drive integration across the combined business in the first 100 days. The first 100 days focused primarily on organization transition to build one culture, ensuring we get our internal structure right and build an ownership mindset across the team. Our teams have done excellent work to create and execute charters and work plans for effectively every function in the business.

We now have a good foundation in place as we move into our next phase, post-100 days, where we'll narrow focus to 11 high-value work streams with key synergies, continue to execute the 2026 work plans and start working on plans for 2027, and finalize all our business cases for the remaining work streams. It's an important step as we move from integration to transformation, which means moving into a way that we expect the organization to execute the business going forward.

Now we'll move to slide 9. I'll give you a quick update on our 2026 synergy savings. As our team digs in, we continue to identify additional cost and commercial synergy opportunities. And we have raised our synergy commitment an additional $2 million to $26 million, with $16.3 million realized in our full year 2026 adjusted EBITDA. Over 50% of our 2026 commitment has been executed, and realized savings will ramp up in the second quarter and accelerate further in the second half of the year.

We have also created a corporate synergy category, where we are identifying structural and spend reduction opportunities across Gibraltar as we continue to develop the portfolio and further leverage shared service capabilities. Recently, we identified $600,000 in insurance premium savings based on a rate differential with the

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same provider, which will be realized on renewal of the policy. Looking at every cost line item, you find things like the example of insurance premium, where we think there'll be more and more opportunity. And as I mentioned earlier, we have already consolidated, integrated our corporate supply chain team.

Finally, I want to recognize our commercial team. It's really coming together. This is – we've got the right leadership, we've got – with great experience and a very good reputation and really focused on execution. We also have very strong leaders dedicated specifically to business development and sales enablement. This is really foundational for us as we drive more wins and participation gains.

So with that, we'll move on to Agtech, slide 10. Okay. So Agtech net sales grew about $10 million or 23.6%, driven by the Lane Supply acquisition, which continues to perform as expected with solid demand. This offset organic volume decreasing approximately 3% in the quarter, with project movement during the year. Total backlog of $84 million supports the full year plan, but is down 13% in Q1 with the removal of the Arizona CEA project. Adjusted operating and EBITDA margin decreased mainly due to lower volume and the impact of a full quarter results of the Lane acquisition in 2026, which included January and February, which are the lowest margin months of the year.

Now let's move to Infrastructure on slide 11. Net sales decreased $2.1 million or 10% as two separate weather events occurred in March that resulted in our factory losing power and impacted our production schedules. One event caused the entire community where we operate to lose power and the second event was the lightning strike to the plant's key power source. As a result, some customer shipments were pushed into April. Backlog decreased 3%, driven by the timing of project awards, while quoting and bid activity remained strong. Segment adjusted operating EBITDA margins declined due to the lower volume as well as business mix.

Let's move to slide 12 to touch on our balance sheet and cash flow. The company's current position with respect to cash allocation will be to keep a minimum of $20 million to $25 million of cash on hand, use the revolver as needed to fund seasonal needs, and pay down debt with excess cash flow. During the quarter for continuing operations, Gibraltar used $35 million in cash from operations and used $41 million of free cash flow or 11% of sales. Of the $35 million in special charges that occurred in Q1 related to the close and initial integration efforts of OmniMax, $25 million of those were cash. Also, we used $43 million for working capital, including a use related to OmniMax, as is typical given the seasonality of the business.

Capital expenditures were $6 million or 1.6% of sales in the quarter. At quarter-end, the drawn balance on the revolver was $25 million and our cash on hand was $20 million. Debt prepayment was $75 million, including the proceeds from the eBOS renewables sale. So as a result, at quarter-end, our net debt on the balance sheet was $1.2 billion. And our net leverage ratio, as defined by our credit agreement, which includes $35 million of anticipated cost synergies and the pro forma adjusted EBITDA, was 3.9 times. The availability on our revolving credit facility was $467 million and total available liquidity was $487 million.

Let's talk now on slide 13 about our deleveraging road map. As we noted on our last call, our priority and focus is to deleverage as quickly as possible over the next two years through, as shown on the left side, a plan of strong EBITDA delivery and synergy realization, working capital optimization and utilization of cash tax benefits. Planned uses of cash include capital expenditures of 2% to 3% of sales, interest payments on our debt and special charges related to the acquisition transaction, integration and restructuring-related costs. The special charges we reported today represent approximately two-third of the charges we expect to record this year.

During the second year post-transaction close, we expect continued strong EBITDA margin, the realization of additional synergies, benefits from continued working capital optimization and cash taxes, lower interest

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payments as our debt level is reduced, and a reduced amount of special charges. We expect these factors to drive additional free cash flow and our net debt down even further. We may also create additional liquidity from other non-core asset divestitures. Our deleverage path targets a leverage ratio of approximately 2.5 times adjusted EBITDA in 24 months ended first quarter of 2028. Again, during this two-year period, our capital allocations will be focused on funding the growth of our business through capital expenditures and on debt reduction.

Also during the quarter, the Renewables business, which has been reclassified as discontinued operations, reached a settlement agreement regarding unresolved warranty claims related to projects with certain discontinued products installed dating back as far as 2017. This settlement in the amount of approximately $25 million is expected to be paid in Q2 and has been factored into our deleveraging plan.

Let's now move to slide 14 to talk about our key assumptions for 2026 for continuing operations. First, given OmniMax closed on February 2, we will recognize 11 months of ownership in 2026. The expected contribution from OmniMax plus synergy realization, which will occur both within legacy OmniMax and the legacy Gibraltar business, is approximately $570 million to adjusted net sales and approximately $70 million to adjusted operating income and $120 million to adjusted EBITDA. As we execute our integration efforts across the combined business, we expect synergies to start to flow through in Q2 and accelerate in Q3 and Q4. More broadly, in Residential, we see a continued soft market as we already discussed.

In Agtech, we have removed the Arizona project from our plan and will continue to monitor the funding status accordingly. Within Infrastructure, engineering backlog and quoting activity remains strong. In regard to free cash flow for continuing operations, given the seasonality of earnings in the business, the ramp-up in synergies and working capital initiatives starting in Q2 and the cash outlays of the special charges related to the close and initial integration of OmniMax that already occurred in Q1, we would expect free cash flow generation throughout the rest of the year. We continue to expect CapEx to be 2% to 3% of sales, free cash flow of approximately 8% of sales, and we will be focused on debt paydown.

Lastly, some additional assumptions to factor in. With the combined company, we expect depreciation, amortization and stock compensation expense to be approximately $90 million for the year, which includes approximately $40 million annual assumption for non-cash amortization related to intangibles due to the OmniMax acquisition. We anticipate approximately $50 million in special charges related to the acquisition transaction, integration and restructuring costs, of which two-thirds already occurred in Q1. We expect greater than $70 million in interest expense, financing, and commitment fees, which will be dependent on the timing of our debt repayments and interest rates. And lastly, we are assuming a 26% tax rate.

Now let's move to slide 15, where we are reconfirming our 2026 full year guidance. For continuing operations, we still expect consolidated net sales between $1.76 billion and $1.83 billion, compared to $1.14 billion in 2025; adjusted operating income between $222 million and $238 million, compared to $151 million; adjusted EBITDA between $310 million and $326 million, compared to $185 million for 2025; GAAP EPS between $2.40 and $2.80, compared to $3.25 in 2025, including the expected impact of special charges; and adjusted EPS between $3.65 and $4.05, compared to $3.92 in 2025.

Now let me turn it over to Bill.

William T. Bosway

Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

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Thanks, Joe. Just to summarize for today, a lot to unpack and a lot of heavy lifting, as I mentioned. We have accomplished a lot of the heavy lifting and made good progress in the quarter, and we continue as we move into Q2. And the entire team has contributed, obviously, over the last 90 days to make that happen. We are transforming the business, as we said, going into the year, and we're going to continue to do that.

In Residential, and I would say in regards to the near-term market situation, we're going to stay really focused on winning more with our customers. We're going to continue to expand, as we showed earlier, geographically. We're going to continue to do more cross-selling initiatives as well as support our private label programs. And if the market remains soft throughout the year for whatever reason, I'd say we're already working on all the right integration costs and commercial synergy capture and price management initiatives to deliver our plan.

And our building products leadership team and IMO teams will maintain their intensity and discipline and focus on executing our plan, while improving safety, service levels, productivity, 80/20 initiatives and winning more business. In Agtech, the business is in a position to deliver a solid year with $84 million of backlog at the end of Q1, with robust design and bid activity across North America in process. We also expect infrastructure to deliver another good year and transition some key projects in engineering backlog to order backlog over the next two quarters.

So, with that, let's open the call up and we'll take some questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question comes from Daniel Moore with CJS Securities. Please go ahead.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Thanks, Bill. Thanks, Joe. Thanks for taking questions. Start with resi. Obviously, good to hear the progress you're making thus far into Q2. Just has the inventory drawdown at retailers, I know it's seasonal, has that largely run its course? Where would you say customer inventories are now kind of on a historic basis? And maybe just talk about the monthly cadence of volume growth both at legacy Gibraltar and OmniMax through Q1 and thus far into Q2.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. Thanks, Dan. We think inventory levels are much better aligned than they have been in the last two or three years within demand. We've talked about that in the last quarter. And I think it differs a little bit between channels. So, distribution versus retail. And I think the retail guys seem to be a little bit more cautious with how they're trying to manage inventory as they wait to see the season evolve. And I would say, on the distribution side, probably less so there. But remember, contractors source about 80% of their needs through distribution. So, distribution may see a little bit – may see sooner a little bit more of that demand materializing in the marketplace than maybe the big box guys do. That may be part of it.

But I would say, right now, the general feedback from customers is the inventory is in a decent position. It probably varies a little bit by product line, which I don't have stats on that. But as we think about our POS results

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and we see – it gives us some visibility of how inventory is positioned. We can see it's in a better position than it was last year.

I will also say, it really – the other aspect of this is the regional piece. So, as you get into the season, you see the weather patterns start to kick in through the spring season. You'll start to see orders move based on some of those events in different regions. And so, wherever folks are a little bit short of inventory, we've seen them make corrections pretty quickly as they've had some sustained weather and we'll continue to see that as we go forward.

As it relates to our situation, yeah, it's been a good pleasant surprise to see how we got off to a start in April with the demand profile that we've seen as well as the first, what, four, five days in May have been pretty consistent as well. And I think a piece of that is there are some green shoots out there. We're a much broader company now where we have access to more of the US than we did six months ago. So, we're seeing more opportunities. Some of the work that we've talked about with cross-selling is starting to kick in. Some of the participation gains, as we pick up more branches, are starting to kick in.

I don't think the end market is dramatically different than it was before. I just think we're taking opportunities to participate more in it than we were before. And I do think inventory is in a better position right now. So, you add all that up, for us, it's been a decent start to the second quarter. I'm a little bit surprised that we're ahead of last year's levels. And it's good to see that. Like to see that continue and we'll watch that closely.

I think, as I mentioned earlier also, people are waiting to see what happens with the Middle East. Is that going to be prolonged? Because if people think back to late February, we had 30-year mortgage rates go under 6%. We had existing home sales really start to pick up. And then, boom, Middle East conflict happens and rates go back to 6.5%, existing home sales start to fall.

So, I do think there's going to be some tailwinds that could occur. I think the other thing with the Middle East conflict, which I know this is common sense for everybody, but it brings an overhang to everybody. Just kind of thinking about what this could mean and it causes consumer sentiment challenges.

So, between interest rates correcting a bit, gas prices coming down, I think it makes people feel a little bit better. Mortgage rates starting to get back in line as this conflict comes to an end, hopefully sooner than later, that should help as we move into the year.

So, anyway, that was kind of off the beaten path of your question. But inventory seems to be better aligned with demand. And our demand, I think, is benefiting from that, but also some of the other activities I mentioned.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

That's helpful. And you mentioned if the market doesn't pick up, obviously, you'll just keep focusing on participation. But is there sort of a market growth rate or band for the back half of the year that you have in mind that kind of underpins the fiscal 2026 guidance?

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. I don't think our – when we went into the year, I think we had growth in 4%, 5% was built into the base plan for the residential business, if you're talking specifically about that. And so, we still feel good about that as we go into the season based on what we're seeing so far. What I tell people also, and internally this is kind of our mantra, if the market doesn't improve or if it stays soft or it gets a little bit softer, whatever be the case, we're

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doing all the right things because everything that we're doing to integrate the business, to get the right cost structure in place, with the right people in the right seats in the bus, the synergies that we're executing, we're not doing that because the market is soft. We're not reacting to that. We're doing that because we're building an organization that we think is the right way to approach this industry and serve it over the next 5, 10 years.

So if, at the end of the day, things got a little more challenging in the market, I would say we're proactively ahead of the game relative to making sure that we put ourselves in a position to operate in whatever market situation does come. So I'm not anticipating the market to be bad or to be worse than it is right now with what we have in our plan. But what I am making sure people understand is we are taking and executing all the things that you would do assuming that the market would be bad because of the way we're trying to build out the business. So we're kind of accomplishing two things at one time, so to speak, if you think about it that way.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Okay. And then one more and I'll jump back. But on the cost and margin side, you've always been pretty adept at passing along input costs, rising steel, aluminum. And I appreciate the color, Joe, on the pricing mechanisms. Is the same generally true for OmniMax? I guess, could the integration cause any incremental delays in how you're sort of passing those through? Or just talk about how they have handled and your expectations for the cadence of margins as we get into Q2 and beyond. Thanks.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. Well, first of all, I would say, OmniMax historically probably is better than we have been relative to discipline and centralization of how they manage price. We were a little bit more decentralized in the way we ran our business. They're more centralized. And in the world of pricing in an inflationary environment, that's played well for them, and they're very good at that. And that ties all the way from the commercial organization I mentioned earlier, which is really coming together, tying in directly to the financial leadership and having a centralized control.

And now we are one company with that approach. And that's really helped us, I think, accelerate some of the price actions we've taken in a short period of time, utilizing their process and their systems and their discipline associated with doing that. So actually, that was a great pickup for Gibraltar of having that approach, which I think is going to serve us even better going forward than what we've been able to do in the past, which has been pretty good ourselves.

The thing that I'll point out for the quarter that was kind of interesting, I've mentioned in Q4 that we had a late price increase in legacy Gibraltar business that came in, in January, trying to catch up with the aluminum inflation of 14% in Q4. And so that inflation continued in January and the first part of – well, throughout the quarter, but we had to overcome that in our legacy business. And we subsequently, through the price increases that Joe mentioned in March, we brought that into the system that we use now as a combined company and that enabled us to catch up to get the – to overcome the first quarter incremental inflation, not offset it all, but at least get the pricing in place, so as we go into Q2, our price cost alignment is much better in total for the business than it would have been otherwise.

So, yeah, I'm quite pleased with the way OmniMax has always approached pricing, their system, the centralization thereof, and the connection within the business. And we are now using that same approach under one team for the total business, so that's going to be helpful.

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Daniel Moore
Analyst, CJS Securities, Inc.

Q

And those are price increases, not surcharges, so presumably get some benefit if and when aluminum does come down.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

All price increases.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Okay.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. We try to stay away from surcharges.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

[indiscernible] (00:36:16)

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

I'm sorry.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

No, go ahead. I apologize.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

No, I was going to say, yeah, we try to stay away from surcharges for that very reason. Increases tend to stick a little bit better and stick a little bit longer. But, yeah, everything that we've done are actually price increases, whether it's aluminum, steel, resin, vinyl and even fuel. So, that's our mentality. I'm not saying it's 100% there, but we have a very little surcharge-type approach across the entire business, in our Residential business whatsoever. So it's really about price increases.

Operator: Thank you. The next question comes from Walt Liptak with Seaport Research. Please go ahead.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Hi. Thanks. Good morning, guys.

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William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Good morning, Walt.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

So just to follow-on to the last question first. I guess, the price/cost lag that happened on aluminum in the first quarter, how much was that, like, in dollars? And how much of a profit benefit do you think you'll pick up as you catch up on that price/cost?

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. When you look at the amount of aluminum we bought in the quarter and you look at the delta on the increase from January 1 to end of the quarter, it's a $9 million to $10 million headwind that you would – that came our way. Now, obviously, that assumes that – that headwind in total would assume you had no inventory and so on and so forth, which is not the case. So we're able to offset a chunk of that because we had aluminum on hand at a lower cost, but we didn't have enough to cover everything. So we were able to chip away at that as best we could.

We did get some pricing in March, but you don't get a whole lot in the quarter that affect to go after that. But we – that helped offset that. We did, obviously, more 80/20. We tried to accelerate more of our synergies sooner than we could, but those are time constrained. We were relatively new into the process of bringing the business together.

So – but that was what we dealt with, and we tried to minimize that. And I think we did a pretty good job minimizing that headwind to a much lower level. We probably ended up netting out a couple of million dollars' worth of incremental costs in the quarter associated with that. That will recover as we go into next quarter, as we go into Q2, I would say.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Great. And I'd like to try one on the integration cost-out. I wonder if you could maybe give us a feel for how you're feeling about the integration. It sounds like it's good, but I mean maybe get a little bit granular. Like, it looks like logistics, that's more of a headwind. Like, where are you feeling better about things? And are there any planned or things that you could sell to help generate cash in the first year and increase some of your cash inflow?

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Well, first, on the integration, I'm seeing two questions here, Walt. I think one is how we doing on integration. The third is, are you asking about the portfolio? Or the second question is...

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Yeah. Yes, right. If there's assets you can sell, if there's duplicate real estate in some regions or...

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William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Oh, yeah, yeah, yeah. Yeah, sorry. Yeah. So we kind of just walk down the list, if you will, which we've been working pretty hard, and let me pull my list up in front of me so I can just answer your question a little bit more succinctly. So supply chain, we've got – originally had $6 million in plan. We've taken it up to $7 million. We're going to get about $3.7 million of that. That's going to flow through that both direct and indirect spend. That is mainly driven by contracts that we have to have expire before we can actually get more implemented, if you will. That's not – that doesn't surprise us so much. But steel and aluminum contracts tend to be signed in October, November in the previous year that carry you through the year. So as we get towards October, November of this year, those contracts will come up for renewal, and we'll have an opportunity to then negotiate, which will help us as we finish up the year and get into next year.

On the indirect side, we're working that as we speak. Those tend not to have long-term contracts. So that's where you see a lot of savings this year. And that's everything from MRO and packaging. We're looking at all our leases, everything we lease, whether it's buildings or forklifts or what have you. And so the team is doing a pretty good job. That tends to be – there's some of that across the entire footprint and there's some that's very specific to operations. And so we're going to continue to work that pretty hard.

I mentioned earlier, we've had a really – a lot of progress on pulling the supply chain team together. That supply chain team is working their tails off on this. But we're also identifying some other opportunities to support other parts of Gibraltar as well. So supply chain, I think, feel really good about not just for what we do this year, but as we roll into next year.

On the SG&A side, people think about organization mainly. We talked about Phase 1 being implemented. Phase 2 will come here this month and next, and we will have our organization work done. So the second half of the year, you get that full run rate effect of that as we move into that. But the other SG&A buckets are kind of interesting as well. I mentioned one example of finding line items like the insurance premium. $600,000 is $0.015 in EPS for us. So as you go through each of those hundreds of line items, whether it's COGS or SG&A, we're just attacking every one of those to see what the opportunities are. And so that's how we're able, I think, each month to kind of keep adding to our list of things that we think will be helpful.

80/20, and this kind of gets at what you're talking about, two things going on there. Yeah, we have some things around the facility, optimization front, that we're starting to recognize that could be opportunities for us. And that is kind of on the map, if you will. And we're working that as we speak. And that's twofold. That's, one, do you need all those locations? And we're not talking about a bunch here, Walt, and we lease most of this anyway. But it's really more around are we optimized in those facilities to support distribution and retail accordingly. But a lot of work going on relative to 80/20 on the facility optimization aspect.

And as I alluded to, we have our new leader of product innovation that is starting next Monday. One of our big efforts is really going to be around our biggest 80/20 initiative, which is product line simplification. And if I break that down a little bit further, that's really harmonization around SKUs. What we're really trying to do there is simplify from raw material purchase all the way through to finished product, how we can change the supply chain, how we can drive cost out of that supply chain by simplifying what the industry actually should be using versus what it has always grown up with. And we think that's going to actually start with work internally, gathering data, what we're doing to each of our 39 facilities, but it's also sitting down with core municipalities and talking about why they have what they have.

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And so it's big 80/20 effort. We're resourcing that accordingly, but it's one of our biggest strategy initiatives that we'll have. And you'll see that start to kick off this year, but really in earnest start to read through next year. It has a lot of positive implications for us that we're excited about. We are doing other types of PLS work as we speak, and we'll continue to do that. So 80/20 becomes a pretty big bucket for us going forward.

I talked about commercial, so I won't be repetitive here, but I think what surprised us here is how quickly we were able to actually win incremental business, lining up new branches and doing more cross-selling in a short period of time. If you think about it, we closed on February 2. It's not like February 3, the sales team was together and we figured this out. It takes a while to get the teams together. But really in the last 60 days, I'd say, we've done a pretty good job working with customers on some of these opportunities. And I just think there's a lot more there. We have work to do and we're working on it, but I think we're off to a pretty good start on that front.

Logistics is actually related to the 80/20 initiative on harmonization. As we harmonize SKUs and product lines, it has a huge impact on how we drive our logistics. And that's why those two are linked, as I referenced that, I think, in our last call. We're not saying there's not logistics opportunities that we're working on with negotiating freight rates and all that. We're doing that. What I'm referring to here is more the broader strategy of logistics and as it ties to our product portfolio going forward that we're producing out of these 39 locations to support customers.

And then finally, corporate, we added this bucket, which we didn't have last quarter. What we start to recognize a little bit is the skating to where the puck is going to be as the portfolio evolves. But in the short term or the near term, I mentioned earlier, we consolidated our supply chain team. While that is pretty meaningful in a lot of ways, if you think about residential being over 80% of what we do, it made sense to actually combine forces and build the right structure around what we need to support that business.

And so, we went ahead and proactively said, well, let's figure out how to integrate some of these corporate teams now and the corporate supply chain team was one of those that kind of came into the fold. So, we're doing more of that. There will be other things across the board as the portfolio continues to simplify and majority of what we're doing becomes more residential-focused.

So, sorry for the long answer, but, hopefully, that gives you a little bit more perspective on what the teams are focused on every day.

Walter Liptak
Analyst, Seaport Global Securities LLC
Q

Yeah. Thanks for the detailed answer. And it's great to hear that 80/20 is such a big focus of these integrations.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.
A

Walt, it'll be the biggest – single biggest thing that we'll do in the next couple years is attacking the harmonization and simplification of the product lines that we have. Absolutely.

Walter Liptak
Analyst, Seaport Global Securities LLC
Q

Okay. Okay. That's great to hear.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.
A

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It's a big piece of what we're doing.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. And then, one for Joe around the free cash flow. I wonder if you could help us get a little bit more granular around second quarter free cash flow and then what that number might look like. And then, the back half of the year, is this going to be a hockey stick as we go into the year or is it loaded to the fourth quarter?

Joseph Allen Lovechio
Chief Financial Officer, Gibraltar Industries, Inc.

A

Yeah. No, I think from a continuing ops perspective, we talked about the fact that you kind of had two-thirds of these special charges in Q1. That had a cash impact. That won't recur to the same level as you kind of go through Q2, Q3 and Q4, because we've got a third left to go of those between now and the end of the year. I would probably think about those as probably fairly even by quarter from here on out. So, more a little bit each quarter, not all in Q2 or back-half weighted.

Then, on the working capital side, talked about a use in Q1. Obviously, as we bring the teams together, we'll now start in earnest the working capital initiatives in Q2 and we'll expect those to drive benefits as we go into the back half of the year.

And then, the third piece is just kind of the earnings seasonality. And obviously, Q2 and Q3 are kind of more of the earnings season, particularly as it relates to residential. So, those are probably the pieces to kind of think through in terms of how the seasonality will unfold. So, that would imply that it's not anticipated to be a hockey stick or back half-weighted into Q4.

Walter Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Great. Okay. Thank you.

Operator: Thank you. [Operator Instructions] Next question comes from Julio Romero from Sidoti & Company. Please go ahead.

Julio Romero
Analyst, Sidoti & Co. LLC

Q

Thanks. Hey. Good morning, Bill and Joe. Following up on some of the residential commentary.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Hey, Julio.

Julio Romero
Analyst, Sidoti & Co. LLC

Q

Hey. Good morning. You mentioned the uplift in distribution was a little bit better than what was in retail in April. As I understand, you guys are about two-thirds distribution, one-third retail and residential. So, I think that dynamic would be helpful to you guys. How much more pronounced was that uplift in distribution versus retail?

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Did that surprise you? And curious if that factors into your confidence in passing through price across the segment.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. Well, yeah, I think it's – I don't think it's changed. We saw more uplift, I think, in distribution in the last 60 days. And I think part of it, Julio, honestly, is the branches are that much closer to the contractor. So, they see demand in a real-time way differently than probably a walk-in big box kind of situation. I think that plays a lot into it. And that's partly – again, you have such a large portion of your contractor needs are being served by the branches.

So, when you have weather start to evolve like we saw in March and in April, those branches, I think, react a little bit quicker and I think that's part of why the uplift was sooner for them. I think the DIY guys, if you think about it, Home Depot would probably say something like, at Home Depot stores or – maybe the uplift is not as strong as what SRS is.

So, they see both sides, because they own both. And I think that's a big piece of it is you just have your branches at the ground level that are seeing real-time demand that they can act on. And so they're closer to some of those things that maybe drive things in a different way.

But I think the relationship between the channels in terms of how much will drive through both isn't going to change dramatically this year. I just think, in the last six weeks, that's what we've seen. We've just seen distro grow at a faster rate. Now, we are picking up branches, as I mentioned earlier, which is good. The cross-selling we talked about is really at the distro level. And it's easier to go pry branches or win branches and do cross-selling in a shorter period of time than it is to go get incremental business in a short period of time with retail. Retail tends to go through a product line review or it's a very lengthy process.

So really, in a short period of time, we're able to go win some things with quite a few branches through distro. And that's just a different DNA than dealing with retail when you're thinking about winning new stuff as well. So you got that. But I think the feedback I mentioned earlier with retail seems to be more cautious on inventory. I think partly coming off of that destocking and having to do that, I think, we have seen probably just a little bit more cautious approach to managing how they're going to optimize inventory until they start – season starts. So I don't know if that kind of gets at your questions, but hopefully it does, but that's my perspective.

Julio Romero
Analyst, Sidoti & Co. LLC

Q

It's good context for sure. Thank you, Bill. Joe, the factory in Agtech that lost power in the first quarter in March, how much of an impact was that in the first quarter? And I think you mentioned the customer shipments were pushed out. Has that been fully caught up and realized in the second quarter?

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. Hey, I'll take that just because I was involved. We lost about seven days of production...

Julio Romero
Analyst, Sidoti & Co. LLC

Q

Okay.

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William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

...yeah, all in March in a different time. So as Joe has mentioned, if you guys recall, Illinois, Ohio, Indiana, we've gotten hammered with tornadoes and big storms. And so the town where we're located lost power. Substations, et cetera, got knocked out. That hurt. And then we actually had a strike on our transformer feeding into the factory in a separate storm.

What caused the issue isn't so much that the power was out for a long period of time, is you're running all your machines and then, boom, your power goes out. Those machines lock down. And so if you have one or two, it's not that big of a deal and your maintenance crews can go – your maintenance team can go fix that. When all of your equipment goes down simultaneously, that's what caused the delay and bringing in extra expenses and costs to help us reset all the machines, check all the tooling and ramp them back up. That's where it gets hit.

Large companies would tend to think of this as business interruption insurance that you go after. It's not something we've ever actually done. We've never had this kind of a set of events happen in a particular location. But the team was able to work through that and make those shipments up in April. And so we think we're back on track in that regard. But – and then we had some mix effect as well that hit the quarter. But that's the impact of those two weather events. I don't like to use weather. I just feel those are pretty extraordinarily interesting to have a small town and a factor in the small town get hit twice in a three-week period.

Julio Romero
Analyst, Sidoti & Co. LLC

Q

Yeah. Makes sense for sure. It sounds like the integration is going well according to plan, first 100 days. You're up to synergy target and your realization target. I think the realization was up by a little more than $1 million, I believe. Does that – is that incremental $1.3 million all fourth quarter-weighted? Would you expect it a little bit earlier? And where does that take the 2027 kind of run rate and realization figure?

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yeah. So $16.3 million is what we realized. The incremental we added was $1.2 million. That will start flowing in actually in Q2 and Q3 and Q4. So all of our – so I mentioned earlier, so if you think about $26.2 million of annual run rate, we've implemented or executed over half of that. And now of that that we've executed, you'll start to see that flowing now into the rest of the year. So I mentioned earlier, we have Phase 2 that we will implement in our organization structure in May and June. So you'll get a half year/full year benefit, if you will, because that will be done in the second quarter. So Q3, Q4, we'll see a full year run rate of that, if you will.

And so that's how a lot of our things are timed that way. Again, not to use an example again, but the insurance premium, when that policy renews is when we'll get the $600,000 will start to flow through. And that's timed. Every one of these things is timed down to when we think it's going to flow into each month. And that's how we get the realization associated with when we've actually implemented or agreed or negotiated, whatever it is we've negotiated to get to the $26 million to start with. Does that make sense?

Julio Romero
Analyst, Sidoti & Co. LLC

Q

It does. That's all for me. Thanks very much.

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William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

A

Yes.

Operator: Thank you. We have no further questions. I will turn the call back over to Bill Bosway for closing comments.

William T. Bosway
Chairman, President & Chief Executive Officer, Gibraltar Industries, Inc.

Yes. So again, thanks, everyone, for joining today. I know it was a lot to unpack. There's a lot of heavy lifting going on in the quarter. Not so easy to follow, if you will, in some respects. But we're in the middle of this transformation. It's going as we had expected. We're excited about what we've seen so far and how we enter Q2.

I do want to thank everyone for taking the time with us today. We will be at the Seaport Annual Growth Discovery Conference and the CJS Annual Conference in May and also the Wells Fargo 16th Industrials and Materials Conference in June. And really look forward to connecting back with you to talk about Q2 when the quarter is done. So thanks again. Appreciate it.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.

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