THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ROCK - Q1 2012 Gibraltar Earnings Conference Call

EVENT DATE/TIME: MAY 03, 2012 / 01:00PM GMT

CORPORATE PARTICIPANTS

David Calusdian *Sharon Merrill - IR*

Brian Lipke *Gibraltar Industries Inc - Chairman, CEO*

Henning Kornbrekke *Gibraltar Industries Inc - President, COO*

Ken Smith *Gibraltar Industries Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Peter Lisnic *Robert W. Baird & Co. - Analyst*

Ken Zener *KeyBanc Capital Markets - Analyst*

Robert Kelly *Sidoti & Company - Analyst*

John Ockerman *Davenport & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries, Incorporated first quarter 2012 earnings conference call. At this time all participants are on a listen-only mode. We will be conducting a question and answer session towards the end of the conference. I will now turn the call over to your host for today, Mr. David Calusdian from the investor relations firm, Sharon Merrill. Please proceed.

David Calusdian - ***Sharon Merrill - IR***

Good morning everyone, and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the investor info section of the Gibraltar website, gibraltar1.com.

During the prepared remarks today, management will be referring to presentation slides that summarize the Company's first quarter performance. These slides are also posted on the website. Please turn to slide number 2 in the presentation.

Gibraltar's earnings release and this morning's slide presentation both contain adjusted non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

Additionally, the Company's remarks contain forward-looking statements about future financial results. 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.

On our call this morning, are Gibraltar's Chairman and CEO Brian Lipke, Henning Kornbrekke, President and Chief Operating Officer, and Ken Smith, CFO. At this point I will turn the call over to Brian.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Thanks, David. Good morning everyone, and thanks for joining us on our call this morning. I'll begin as usual with some brief comments, and then I'll turn the call over to Henning and Ken for more detailed review of our results. And then following that I'll close our prepared remarks with comments about our business outlook before opening the call to any questions that any of you may have. You can now refer to slide 3 in our presentation.

Gibraltar performed solidly in the first quarter, starting 2012 with double-digit sales growth sequentially as well as compared to a year ago despite the persistently weak economic conditions, especially in the construction markets that we serve.

Our top line growth is a result of high market share in our major product categories, providing new products and expanded programs to our customers, and judicially using our liquidity to acquire product lines that will enhance our customer offerings, expand the markets we serve, and ultimately help raise the value of Gibraltar.

On February 14 we announced the purchase of Edvan Industries, a grating fabricator serving the oil sands region of Alberta, Canada. While our AMICO business has a strong presence in serving the energy markets in North America, the addition of Edvan helps solidify Gibraltar's exposure to the growing oil and gas market of Western Canada.

As we look forward to the second quarter and beyond, we have a well-positioned portfolio of products serving a diverse set of markets with good long-term growth prospects. And for additional color on this point, please turn to slide number 4.

Looking back at the past three years through organic growth, acquisitions and divestitures we've expanded our presence in the non-residential, industrial and infrastructure end markets to 50% of our current total sales, from 30% in 2008.

In the residential part of our business, the portion of sales related to housing starts is now down to approximately 25% or approximately 12.5% of our overall business with the other 75% or 37.5% of our overall business being driven by home repair and remodeling activity. Despite the very soft market, we continue to take share.

The other half of our total sales which come from non-residential markets is about evenly split between the building, construction, infrastructure, and industrial sectors with 55% of that being driven by repair, remodeling and replacement applications. In both the residential and non-residential markets this type of activity typically begins picking up well in advance of new construction.

We believe that our success in combining non-residential diversification with a stronger presence in repair, remodeling and replacement in all of our end markets is the key reason why we've been able to deliver organic top line growth during an unprecedented and continuing downturn in the housing sector. And we expect that continuing sales growth will drive further improvements in our profitability.

I'll come back with some additional observations on where the business is heading, after Henning and Ken review our first-quarter results in greater detail. Henning?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Thanks, Brian. Turning now to slide number 5, I'll begin with a closer look at our 17% sales growth. Our end markets continued to reflect the ongoing weakness in housing starts and in residential repair and remodeling demand.

Nonetheless, our sales increased in all regions of the country, except for the West Coast residential market. In that region, business in both the retail and wholesale channels to the residential market was off year-over-year, reflecting lower demand particularly for residential HVAC products.

In our traditional core markets -- residential and non-residential construction -- we've positioned Gibraltar as the leader in the majority of our product categories, launching new products, expanding our geographic coverage, and improving our penetration of existing nationwide customer accounts to continue increasing our overall market share.

We said on our last earnings call that warm weather seemed to be driving stronger construction activity. As it turned out, we did see increased activity in January and February. However, this may have been driven by demand being pulled in from March, which didn't show the normal seasonal pickup this year.

In the retail channel, we continue to strengthen our presence in home centers by offering targeted programs to our home center customers on a region-by-region basis. We continue to build our presence in this channel by providing quality products on a competitive basis and are expanding our offerings with product and market innovations regionally and nationally.

As with retail, we performed well in quarter one in the wholesale channel, again with the exception of the West Coast. Our broad geographic footprint, broad line of products, compelling marketing and merchandising programs, and proven manufacturing capacity are enabling us to further penetrate this sales channel. As Brian said, our diversification into non-residential construction and the industrial and infrastructure markets has enabled us to offset weak demand in housing. And our growth continued to evolve from this side of the business in Q1.

We experienced low double-digit revenue growth sequentially, fueled by increases in Europe, in public infrastructure, and oil and gas industry demand. Sales to non-residential construction and the industrial and infrastructure markets were equivalent to Q1 a year ago on steady order volume for grating, perforated and expanded metal products for industrial applications such as filtration, energy production platforms and architectural exterior facades. Looking forward, we continue to see excellent potential for our exposure in all such markets that we serve worldwide.

On the infrastructure side, we continue to be highly pleased with the performance of D.S. Brown, which just completed its fourth full quarter as a part of Gibraltar. The backlog at D.S. Brown reached another record level at March-end. Demand was driven by a good mix of bridge and highway-related opportunities.

With the success of D.S. Brown, we've taking actions to expand the business by penetrating additional markets and geographies. D.S. Brown recently began supplying product for another offshore oil production platform and has made progress in further broadening its presence in Europe.

Please turn to slide number 6. We continued to effectively manage commodity costs and increase our efficiencies in the first quarter. Our primary focus in this area was facilities consolidation and business restructuring in the West Coast region following last year's acquisition of Pacific Award Metals.

On our last earnings call, we discussed our plans to close two facilities on the West Coast. One of these facilities was closed in Q1, and the second closing is planned for the second half of 2012. Additionally, we're in the process of completing the closing of facilities in Kansas City and Denver.

Going forward, we considered consolidating several more small facilities in connection with the Award Metals integration, but have decided instead to focus on closing a single very large facility later this year, which is the reason why the process is taking longer than we expected.

In terms of commodity costs, utilizing the systems investments made over the past few years we continue to focus on effectively managing the purchase price variance in inventory in all of our business units. Based on our experience in the first quarter, we continue to believe that commodity costs will have less impact on our margins in 2012 than they did in 2011. We're committed to providing our customers with competitive products and service, which means placing a high priority on managing the cost side of this equation.

We have continued to make good progress with the integration of our two largest acquisitions into Gibraltar's manufacturing platform. Gross margins for D.S. Brown increased as workflow and efficiencies improved, which was, in part, an outcome of our new investments in building and equipment expansions.

The Award Metals business is receiving a major overhaul in its manufacturing and distribution operations. A number of West Coast facilities are being consolidated, new equipment added, and product lines are being expanded to accommodate our plans for sales growth. The large size of this project has pushed out the completion to year-end, but incremental improvements will be accomplished each quarter. By year-end, our gross margin objectives will be accomplished with a delivery platform that will support a significant growth in sales, serving both retail and wholesale channels.

Overall, we're satisfied with the progress we made this quarter. We're looking forward to accelerating our sales growth and further improving our financial performance in 2012.

With that, I'll turn the call over to Ken Smith.

Ken Smith - ***Gibraltar Industries Inc - CFO***

Thanks, Henning. And good morning. I will start by discussing the first quarter P&L performance from two perspectives, the first perspective being sequential performance, so let's turn to slide number 7 in the presentation. In describing our first quarter P&L performance, I will be referring to the "adjusted measures" presented on these slides.

Regarding revenues, we had strong double-digit growth which was all volume related in both the residential and non-residential markets that we serve. For our products sold to residential markets, weakness in the West Coast region was more than offset by higher residential sales elsewhere to net a 4% increase as shown on slide 7. As Henning cited, our product and program offerings to retail channel customers helped propel that 4% increase.

Regarding gross profit and gross margin, there was excellent margin expansion on the increase in unit volume. As the slide notes, with an increase in revenues of $18 million, gross profit increased by $8 million which translates into a contribution margin north of 40%. Helping the incremental profit contribution were the savings from recent facility closures and our continuing Lean initiatives to improve efficiencies.

Next is operating income that improved substantially, benefiting from the leverage on higher unit volume plus the sequentially and much lower SG&A expense. Although SG&A expense is not specifically shown on slide 7, the Q4 2011 period had a significantly high charge in SG&A for performance-based equity awards. In Q1 2012, the charge in SG&A expense for equity-based comp was much lower and the sequential change in expense was a reduction of $6 million. As we discussed in our

Q4 earnings call on February 24, we expect the quarterly charge for equity-based comp in 2012 to approximate the more normalized amount we recorded in Q1 2012, with much less volatility quarter to quarter as compared to 2011.

And regarding EPS, the sequential increase of $0.26 per share was driven by the items summarized on the slide.

Now, let's turn to slide number 8 entitled "Year-Over-Year Performance." This slide presents our second perspective on Q1 2012 and its comparison to Q1 a year ago. Starting with revenues, our 17% increase was fueled by acquisitions with D.S. Brown and Award Metals being the largest, totaling 13 percentage points of that growth. And Henning's discussion of slide #5 covered the background on market conditions and top line growth initiatives.

Regarding gross profit, we increased by over $6 million compared to last year, on incremental revenues of nearly $29 million. As noted on slide 8's comment box, we did have margin expansion from D.S. Brown and many of our core businesses.

However, we also had unfavorable results in our West Coast operations serving the residential markets. Our West Coast residential business includes the Award Metals acquisition, which Henning described in some detail when talking to slide 5. Award is receiving a major overhaul in its manufacturing and distribution operations including facilities consolidation, new equipment and processes, and product line expansion -- a process all of which has expanded in scope since its acquisition.

So, the continued costs of integration, coupled with the reduced demand from the West Coast residential market, compared to Q1 last year have dampened gross profit, which partially offset gross margin improvements in our other businesses.

Talking about operating income, which declined from a year ago, the most significant factor affecting the nearly $500,000 decrease in operating income was higher SG&A expense. The SG&A expense was $28 million this quarter, and there were two factors why it's nearly $7 million higher than $21.5 million in Q1 last year.

First, SG&A expense in Q1 2011 had a benefit related to equity-based compensation as noted in the comment box on slide 8. Since certain of our equity-based compensation is fair-valued, based in part on Gibraltar's stock price, the stock price decline during Q1 2011 resulted in a benefit to the P&L for Q1 2011. And the second factor for higher SG&A this quarter was the added SG&A expense incurred by our newly acquired businesses.

And to summarize, the largest changes in operating income from Q1 2011 to this quarter, were -

A $2 million increase to operating income from a 30% contribution margin on incremental organic revenue, plus nearly a $2 million increase to operating income on revenue from the acquired D.S. Brown, less a $2 million reduction on lower West Coast demand and the Award integration costs, and finally the $3 million unfavorable comparison for accrued equity compensation.

Regarding the EPS decline of $0.02 compared to a year ago, I summarize the key changes as the following -

A combined $0.09 per share increase from organic growth outside the West Coast residential market including our acquisition into the public infrastructure market, which was more than offset by a combined $0.05 per share decrease on softer demand from the West Coast residential market and the continuing costs of integrating Award, and a $0.06 per share decrease on the change between the quarters for equity compensation costs.

I'll now turn to slide number 9, cash flow. We used free cash flow during both quarters as expected. We have higher inventories and accounts receivable as we support the rise in seasonal orders from our customers.

Days of net working capital continued to be low at 66 days for the first quarter of 2012 compared to 56 days first quarter last year. The 66 days for the first quarter of 2012 includes the higher working capital needs of D.S. Brown, whose customer orders generally involve longer time to fulfillment and compared to less complex products produced elsewhere in Gibraltar.

Total days of working capital continue to be well within the optimal range we're targeting for the long term, and we believe we will sustain this favorable level going forward.

Now turning to slide number 10 entitled "Continued Low Net Debt," we entered the quarter with a low position of debt-to-capitalization and net debt-to-net capitalization. We have no borrowings against our revolver currently, and we haven't had any borrowings since mid-September of 2011.

We did use some cash this quarter for seasonally higher working capital needs. Nonetheless, we continue to have a conservative debt level and no near term debt maturities. Our leverage ratio at March end was three times, and our liquidity increased again this quarter to $176 million at the end of March.

Our strong balance sheet, lower leverage and ample liquidity certainly can accommodate the financing of organic and acquisition-driven growth opportunities to which Brian will update you on in his closing remarks.

Lastly, I want to provide you more color on our P&L expectations for 2012. First, as Henning stated earlier, end markets have been steady but weak, certainly as compared to their conditions before 2008.

Published indices seem mixed, for example, the American Institute of Architects Architecture Billing Index was steady but still slightly positive. Harvard's Joint Center for Housing LIRA index projects moderate near term increases, while the National Association of Home Builders' Builder Sentiment Index slipped some in April, all of which suggest to us that growth in 2012 for the markets we serve would have mid-single-digit growth.

And we factored into that our small exposure in Europe, which is a geography with uncertain growth prospects this year, and the West Coast residential market whose growth we expect to catch up to other regions of the US.

In light of published indicators and what we're currently seeing in our markets we believe that for the full-year 2012 we'll likely have organic revenue growth of 4% to 5% for our core businesses plus incremental 2012 revenue from the acquisitions which would add an incremental $30 million to $35 million.

As we think about our gross margins, we do expect leverage on organic revenue increases in our core businesses, and that would be plus or minus 30% contribution margin. And any significant change in product mix would lead to an increase or decrease. In addition there are seasonal volume changes that historically drive notably higher volumes and margins in the second and third quarters and lower demand and margins in the fourth and first quarters.

We expect our gross margin for the full year 2012 to be in the range of 20% to 20.5% based on our current assumption of low volatility in raw material costs. This range factors in the costs and extended timeframe to complete our West Coast region reorganization including the Award Metals acquisition.

Regarding our SG&A expense for the full year of 2012, we expect it to approximate $27 million to $28 million per quarter and represent approximately 13% of our full year revenues. We expect much less volatility quarter to quarter for equity-based compensation costs than we experienced during 2011, primarily due to design changes for equity awards issued this year.

Our expectations for other financial measures for continuing operations on an adjusted basis for the full year 2012 include net interest expense at the current run rate of $4.7 million to $4.8 million per quarter, an effective tax rate of approximately 39%, CapEx spending of $16 million to $18 million and free cash flow to approximate 4% of full year revenues.

And in summary, we believe that Gibraltar is positioned for improved bottom line performance in 2012. And now Brian has concluding remarks.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Thank you, Ken. We believe that Gibraltar is well-positioned to leverage improved profitability. The background for this is summarized on slide number 11. Our strategy since the beginning of the housing downturn has been to pay down debt and make the business profitable at these low demand levels in our major end markets while positioning the Company for growth and improved profitability.

We're controlling as much of our own destiny as we can by reducing our cost structure, utilizing less working capital and improving our operational performance. Since late in 2007 when the recession began, we've essentially reconfigured the entire business, not only permanently eliminating costs, but repositioning our product and market focus through careful portfolio management.

We have a solid deal pipeline, which builds off the discussions with a number of small and mid-sized companies we know as competitors or as suppliers of products that could broaden our portfolio, and whose market position and business performance could be enhanced through integration with Gibraltar. As always, we're continuing to be thoughtful and systematic in our approach.

Wrapping up, we feel good about the progress that we've made on the top and bottom lines over the last three years despite the unprecedented and continuing weakness in our traditional end markets. We believe that Gibraltar is well-positioned to leverage future sales growth and margin improvement from even the most modest recovery in our end markets.

That concludes our prepared remarks, and at this point we will be happy to answer any questions that any of you may have. Operator, you can open the lines.

QUESTION AND ANSWER

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. (Operator Instructions) Our first question is coming from Peter Lisnic of Robert W. Baird. Please proceed with your question.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

Good morning, gentlemen.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Good morning.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Good morning, Peter.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

I guess a first quick one on D.S. Brown. If I heard you right record backlog there, and I'm just wondering if the capacity can support continued strong growth in that business?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Yes, it can, and in fact we've expanded their facilities. They're in the process of just completing an expansion at the site, so the answer is absolutely yes.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

Okay, perfect. And then in terms of the demand that you saw in the first quarter here in April can you give us a feel for a couple things? One, just the cadence between resi and non-resi through the quarter and into April? And then the second question would be if you're seeing any sort of inventory restock and how that might compare to sell-through rates that you're seeing, particularly in retail?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

The trend we saw in the first quarter is continuing into the early part of the second quarter. We're still optimistic that it will pick up slightly as we get into the second half of the year.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

Okay, and how about -- what does the inventory situation look like at customers and then sell-through rates?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

We don't see customers now starting to buy ahead on inventory. I think everything is fairly stable. Everybody's comfortable with their investment level, so we've not seen any of that. I think if the market starts to accelerate quickly I think then customers are more likely to become a little anxious and start to order ahead, but that's not happened yet.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

Okay, and then the same sort of question I guess on the non-resi side in terms of order inquiries or project inquiries, how does that look, like accelerating --

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

On the residential --

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

-- or just comparable?

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Peter, this is Brian Lipke. I just wanted to add one thing to Henning's previous comment. As we've reconfigured the business we've gone through a substantial amount of Lean manufacturing initiatives throughout the Company. One of the main benefits of doing that is we've shortened our lead times considerably through these Lean manufacturing initiatives.

And on top of that, we sit here today with substantial available manufacturing capacity across all product lines. So if, as you say, there could be a time -- and we hope it does -- when order inflow increases significantly, we can very easily ramp up and handle the additional demand that would come in that situation.

Peter Lisnic - ***Robert W. Baird & Co. - Analyst***

Okay. All right, thank you for the color and thanks for the financial guidance as well.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Thank you.

Operator

Thank you. Our next question comes from Ken Zener of KeyBanc Capital Markets. Please proceed with your question.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Good morning, gentlemen.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Good morning, Ken.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Again, I do as well appreciate your guidance. I think it's useful for everyone. When you look at your guidance for gross margins, would you in that kind of 20%, 20.5% was what you said for the year I think, as I look at it. And you said steel will be less of a contributor. Second quarter last year you had 23% margins and steel went up nearly 40% sequentially. Is it fair to assume stable steel prices sequentially will put us on a quarterly run rate into the end of the year closer to that 20%, 20.5% versus that 23% we saw last year?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Yes, I think our full-year gross margin expectation is 20% to 20.5%.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Thank you. And then what would -- I think the one thing that would be useful, how -- obviously, lower steel or higher steel impacts your cost. A 5% swing in, let's say, the HRC Index or let's say $35, could you help us think about sensitivity as it relates to a 5% swing using that index either up or down relative to your gross margins?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

We're not within a range that small. We're not that sensitive. I think we've seen significant swing far in excess of 5%, which has always provided a challenge because it takes a number of quarters to finally catch up. And so a swing, for instance in the second half of the year, we might not catch up to the beginning of the next year.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Let me just put it a little bit differently without giving away too many trade secrets. Generally we like a flat environment. That way we can earn our profits as opposed to either benefitting from or being penalized by volatility in commodity raw materials that we purchase. Of either an upward or a downward pricing environment, we strangely enough would prefer an upward.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Right.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Okay.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Yes. I guess -- and then you talked -- you highlighted residential and obviously the acquisition in southern California. Would you mind giving us a little more clarity around, given your focus on that, how much of your residential business that was relative to the uptick on the new side that we're broadly seeing.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Could you describe that one more time?

Ken Zener - ***KeyBanc Capital Markets - Analyst***

The residential sales tied to the Awards Metal acquisition in terms of how big that is? And I assume, in terms of lifecycle the products that you're installing on the roof would go in, what, on a one-quarter lag to start, two quarters?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Yes on the residential, Award does not deal with residential sales. They're almost exclusively wholesale, but we do have businesses on the West Coast, on the other hand, that are exclusively residential retail.

And the businesses that we're dealing with, especially in retail, we found their sales to be down 20% to 30% in some cases, depending on product categories, on the West Coast. And what we experienced was also experienced by our customers on the West Coast, and they, in fact, related their experience to us.

Ken Zener - ***KeyBanc Capital Markets - Analyst***

Thank you.

Operator

Thank you. (Operator Instructions) Our next question is coming from Robert Kelly of Sidoti and Company. Please proceed with your question.

Robert Kelly - ***Sidoti & Company - Analyst***

Good morning everyone.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Good morning, Bob.

Robert Kelly - ***Sidoti & Company - Analyst***

Just a point of clarification. The res business on the West Coast was down 20% to 30%. That's not -- that's over and above what Awards did?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Well, we were talking Award. It's just...

Robert Kelly - ***Sidoti & Company - Analyst***

Awards res business was down 30 then.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

On the West Coast we have four major businesses. Award happens to be one of them. And so what we're doing, we're in the process of basically combining all four of those businesses into a single enterprise.

Robert Kelly - ***Sidoti & Company - Analyst***

Understood.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

So when we talk Award, we're really talking a West Coast business which is a combination of, again, what had been four separate businesses.

Robert Kelly - ***Sidoti & Company - Analyst***

And the consolidated performance of those four businesses --

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

The residential portion of it --

Robert Kelly - ***Sidoti & Company - Analyst***

Of those four businesses.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

-- the four businesses was off considerably in the first quarter of this year.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay, all right. I just wanted to tie that all together. Okay. So all the puts and takes from combining those businesses in the West Coast, what sort of drag does that add up to for the full year? I'm not sure if we heard that from you. In that 20% to 25% gross margin, what sort of drag is the business combination giving you?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Yeah. We've looked at it a number different ways in an analysis and the total -- I think that the total it took our gross margin down by, I think, by 1.8 percentage points.

Robert Kelly - ***Sidoti & Company - Analyst***

That's in the quarter just ended?

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

In the quarter, yes.

Robert Kelly - ***Sidoti & Company - Analyst***

Right, right. But what would it be for the -- you talked about 20% to 20.5% --

---

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

For the full year?

Robert Kelly - ***Sidoti & Company - Analyst***

Yeah.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Well, I think for the full year we've indicated and, in fact, with the plans that we have in place, those businesses will continually improve each quarter. So by the time we get to the fourth quarter they're making a contribution. So I think on balance when you get finished for the whole year it's probably going to take, on a full year basis, gross margin down by approximately a 0.5 percentage point for the full year.

Robert Kelly - ***Sidoti & Company - Analyst***

So 50 basis point drag for the full year.

Henning Kornbrekke - ***Gibraltar Industries Inc - President, COO***

Full year.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay, great. Ken walked through, I think it was year-over-year improvement on the EBIT line. You said there was a $2 million benefit from organic sales. Could you just kind of recap those numbers one more time?

Ken Smith - ***Gibraltar Industries Inc - CFO***

We were up $2 million.

Robert Kelly - ***Sidoti & Company - Analyst***

And this is all EBIT prior to a year ago, correct?

Ken Smith - ***Gibraltar Industries Inc - CFO***

Correct.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay, so plus $2 million from organic.

Ken Smith - ***Gibraltar Industries Inc - CFO***

$2 million from organic, $2 million from Brown.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay.

Ken Smith - ***Gibraltar Industries Inc - CFO***

Down two on our West Coast residential sector including the reorganization for Award that Henning spoke to, and down $3 million on the unfavorable accrued equity comp.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay, great. So in your release, you talked about 13% of the sales growth coming from acquisition. Was all of that Brown? I'm just trying to figure out what the benefit to revenue was from D.S. Brown in the quarter?

Ken Smith - ***Gibraltar Industries Inc - CFO***

D.S. Brown's probably two-thirds.

Robert Kelly - ***Sidoti & Company - Analyst***

Two-thirds of that or 13%.

Ken Smith - ***Gibraltar Industries Inc - CFO***

Brown’s portion was two-thirds to 70% of the 13% points of revenue growth from acquisitions.

Robert Kelly - ***Sidoti & Company - Analyst***

Okay. That makes a little more sense. Great. And then just as far as the backlog discussion for D.S. Brown, obviously there's a secular story going on there with that product but the overarching story for highway and road spending seems pretty muted over the next couple of years just as far as Congress is operating. I mean, what sort of outperformance should that business hold relative to the government spending data that we see for transportation?

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Well let's talk about that part of it first, the government spending. We spend time talking with Senators and Congressmen about this issue, and to a person they would all say a new long term transportation bill is high on their list of priorities.

They recognize, number one, that there is a significant need for spending on infrastructure, particularly bridges and highways. Number two, they see that spending money on those areas immediately creates jobs, and that's something near and dear to all of their hearts. They want to be able to point to improvements in employment levels, and this is a direct linkage. So they want to get it done.

Unfortunately, there's a little bit of gridlock right now in Washington, as we all know, and that will probably postpone the implementation of a long-term plan, but each time the existing transportation bill expires they immediately move it forward for another period of time at the same spending level.

What's happened though is the states, who are directly linked to a lot of these projects, have in the past held off from initiating a longer term project because of the unsurety of the federal government funding.

What we're seeing now is more and more of the states are saying, you know what? We just can't wait any longer. We're going to take the risk and go ahead and initiate these projects. So, hopefully, that's going to drive continued and hopefully higher level demand for those projects.

I've given these statistics before, and I don't want to bore everybody with them again so I'll give the very short version of it, but the studies that have been done show that 25% of the 600,000 bridges in the United States of America are either structurally deficient or functionally obsolete, which means there's a big need for infrastructure spending.

I don't think there's a community around the country where people couldn't cite for you a major bridge problem that has occurred in their specific regional area of the country. So it's real. It's widespread, and it's something that has to be addressed at some point in time. And many of the states are just saying we've got to do it, and so they're increasing spending.

And we believe D.S. Brown's going to be a direct beneficiary of that, and it's one of the reasons that their backlog has grown and it's a reason that we built a new building for them to handle more business and expand their product line at the same time. So that part of it, I think, is a major driver of growth opportunities for the business.

Henning Kornbrekke *- Gibraltar Industries Inc - President, COO*

The other one, and I think Brian had talked about it earlier, we've been fortunate they've been able to expand their business into Europe and into Southeast Asia. They're in the process of supplying critical components to a large expansion bridge in Norway, just as an example. So it's not just to US funding. I think the business has true international scope, and we're starting to take full opportunity of those opportunities around the globe.

Robert Kelly *- Sidoti & Company - Analyst*

Great. Well maybe just D.S. Brown's backlog exiting 1Q and how much it was up year-over-year?

Henning Kornbrekke *- Gibraltar Industries Inc - President, COO*

It was up about -- I could do that, two, four --

Ken Smith *- Gibraltar Industries Inc - CFO*

Probably up 10% and equivalent to maybe two-thirds of its annual revenue for it. We don't disclose backlogs specifically, but it's up about 10 percent. --

---

Robert Kelly *- Sidoti & Company - Analyst*

10% year-over-year.

Ken Smith *- Gibraltar Industries Inc - CFO*

-- to another elevated high.

Robert Kelly *- Sidoti & Company - Analyst*

Okay, great. And then that backlog all ships within what period of time?

Henning Kornbrekke *- Gibraltar Industries Inc - President, COO*

It varies. Their backlog can go out as much as two years. Most of it normally ships within 12 months.

Robert Kelly *- Sidoti & Company - Analyst*

Okay, great. Thanks guys.

Operator

Once again --

Brian Lipke *- Gibraltar Industries Inc - Chairman, CEO*

That's exactly, also, one of the reasons, for the increase in working capital. Because of their longer process time, we have more work in process and somewhat more working capital. But that's not a bad thing. That's just the nature of the business.

Operator

Thank you. (Operator Instructions) Our next question is coming from John Ockerman of Davenport & Company. Please proceed with your question.

John Ockerman - ***Davenport & Company - Analyst***

A minor clarification on the 4% to 5% organic sales growth, that would be off of the 2011 $767 million and then whatever M&A activity would be on top of that?

Ken Smith - ***Gibraltar Industries Inc - CFO***

Correct.

John Ockerman - ***Davenport & Company - Analyst***

Okay, thank you.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Welcome.

Operator

Thank you. We've come to the end of the Q&A session. I will now turn the conference back over to Mr. Lipke for any closing or additional remarks.

Brian Lipke - ***Gibraltar Industries Inc - Chairman, CEO***

Thank you all for participating in our call this morning. We look forward to talking to you again at the end of the coming quarter and reporting continued improvements in our results. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.