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ROCK - Q1 2020 Gibraltar Industries Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to Gibraltar Industries' Q1 2020 Earnings Conference Call. (Operator Instructions). Please note this conference call is being recorded.

It is now my pleasure to turn the conference over to your host, Carolyn Capaccio. Thank you. You may begin.

Carolyn M. Capaccio - *LHA Investor Relations - SVP*

Good morning, everyone. And thank you for joining us today. With me on the call is Bill Bosway, Gibraltar Industries' President and Chief Executive Officer and Tim Murphy, 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.

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 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 website. Additionally, Gibraltar's earnings press release and remarks contain non-GAAP financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release and slides.

Now I will turn the call over to Bill Bosway. Bill?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Thanks, Carolyn. Good morning, everybody, and thank you for joining our call today. Before we get started, I just want to say, hope you and your families, friends and co-workers and everybody else you know are safe and healthy, and remain so as we all continue to move forward through this current situation that's pandemic.

I will begin with a summary on where we are today and how we see things evolving in the near term, and then Tim and I will provide a detailed review of Q1 results and then thoughts moving forward. Then I'll provide a short update on some of our key strategic initiatives and then we'll open the call for questions.

So let's turn to Slide 3, which is titled Q1 overview. As mentioned in this morning's earnings release, we did get off to the start we expected in Q1, despite experiencing some disruption due to the COVID pandemic. Overall revenue increased 9.7%, adjusted EPS increased 68%, and our backlog grew 39%, actually to a record level of $258 million. We had continued strength in our growth business, particularly renewable energy and conservation which grew just over 40%, of which 17.5% of that was organic. In our Residential Products business, we actually executed additional product line simplification initiatives and still delivered revenue equal to prior year. And finally, our strength in our infrastructure revenue was a bit offset by weakness in our industrial markets.

So let's turn to Slide 4. There are a few, if any, experiences in our lifetime I think that could have prepared us for what's going on today. Rather closest experience for me was living and working in Asia during SARS, which if anything had at least provided me a framework for things to think about and maybe anticipate; so the health and safety of our team, the economic impact to both our markets and our business and then some of the social challenges that come as a result of both.

We devised and implemented a solid playbook and continue to be very disciplined with our approach and the cadence we have, our processes and actions. In early February, we took our first step with implementing a travel ban to China and then formally launched our taskforce, which just comprise of our business leaders, our human resource leaders, and our executive team. So we meet every 48 hours to update, review and make changes to our plans as necessary, and we're also on-call 24x7 in the event that we have issues surface unexpectedly. As well over the last 6 weeks, we've been hosting a weekly live stream communication for all our employees where we talk about what's going on with the business. We address concerns and then try to answer everybody's questions.

For some context, all our businesses have been deemed essential by the states where we operate and by many of the customers we serve, which have also been deemed essential. So as a result, all our businesses are operating. Some are at full strength, some at less than 100%. And so to operate safely and effectively, we really focused on 6 key initiatives to support our team, our customers, our supply chain as well as the communities that we operate in.

So let me give you a brief summary of the 6 initiatives. First, we implemented operating protocols consistent with CDC guidelines. We also created an awareness initiative which I think is really important to encourage our team to share CDC best practices at home and throughout their communities. Secondly, we implemented social distancing, additional sanitization actions, we reduced the number of employees on the site -- onsite at a time, we implemented shift management in our factories, the zoning management inside our factories, temperature checks, employee tracking and follow-up, and obviously new visitor policies. Thirdly, our work-from-home protocol, which enabled us to continue supporting our customers and manufacturing operations and suppliers through distance management. And this effort was obviously critical. We executed our business continuity plan as well, both processes and digital technology, to support the transition to effective remote management with proven cyber security tools and processes.

Fourth, we worked closely with customer and supplier partners, and have managed the landscape, I think, effectively making sure that our folks, our suppliers, in particular, have essential classification. We worked through demand management, logistics and scheduling, and then frankly working capital requirements. Fifth, we did repurpose 3 production lines to produce and distribute PPE to our 2,400 employees. This includes face mask, face shields, and sanitizer, which our team is using today in our facilities. We are fortunate to have some core competency and technology that enabled us to quickly pivot and produce critical PPE to protect our team and others, including employee family members, local healthcare facilities, suppliers, dealers, and some small businesses.

And then 6, community support. Recently we challenged ourselves to raise money to provide 1.5 million meals to food banks in the communities where we operate. As you guys all know, food banks across the country are experiencing a significant increase in demand as more people are struggling to make ends meet. And so in just 6 days, our team responded exceptionally well. We raised enough money to donate 3.3 million meals, which will provide approximately 85,000 meals per food bank. So I'm pretty proud of our team.

We know 2020 will be a challenging year and how businesses chose to deal with that is really dependent on their leadership position and financial strength. I think we are in a unique position with a healthy balance sheet. We have a strong order backlog and good end markets. I think the ability to make money and generate cash during this crisis and the pipeline of attractive assets ready to join or be part of our journey. We've also developed flexibility and adaptability within our organization to manage through the uncertainties such as the one we are experiencing now. We continue to work on our business, executing on the business we have, challenging our paradigms, improving our processes, tools, and products and we continue to make investments for growth.

Currently we are making investment on our organization. We're keeping our team as much intact as possible even in our businesses where we're not running at full speed. I have the firm belief that this investment will put us in the best position to sprint out of this crisis faster than anyone else in our respective markets.

And I will finish before we get to Tim with -- I just -- I want to thank our entire team for their continued dedication and commitment particularly during this time, and we're honestly grateful that Gibraltar is in this position to contribute to hopefully easing the toll of the crisis just taking on our own people, let alone our healthcare workers and emergency responders serving all the communities where we operate and candidly across society.

So now let's turn to Slide 5 and we will have Tim review our consolidated financial results.

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Thank you, Bill, and good morning, everyone. After I provide an overview of the first quarter results, I will provide some color on what we are seeing each of the end markets we participate in.

Our first quarter results were not significantly impacted by the economic disruption caused by the pandemic. Consolidated revenues increased 9.7%, within our guidance range as renewable energy and conservation segment revenues continue to accelerate, Residential Product segment revenues were flat, and Industrial & Infrastructure decreased 9.8%. Of the 9.7% increase in consolidated revenue, 2.8% was driven by organic growth and 6.9% was generated by the acquisition of Apeks Supercritical which was completed in the third quarter of 2019, and Thermo Energy Solutions and Delta Separations which were completed in the first quarter of 2020.

As Bill noted, backlog at quarter-end was $258 million, up 39% from the prior year, driven by our Renewable Energy & Conservation and infrastructure businesses. On an organic basis, backlog was up 13%.

Consolidated GAAP operating income was up 43.4% and adjusted operating income increased 42.9% in the first quarter. First quarter 2019 operating income included a $3.4 million charge incurred related to the field improvements for our solar tracker product. Consolidated GAAP and adjusted EPS grew 94.7% and 67.9% respectively, exceeding values. The improvement from last year resulted from organic growth of Renewable Energy & Conservation, better price material cost alignment, continued benefits from 80/20 operational excellence initiatives and lower interest expense.

Included in GAAP results were costs of $3.8 million or $0.10 per share associated with acquisitions, restructuring, and senior leadership transition. During the quarter, we achieved interest savings from last year's first quarter repayment of our outstanding debt of $2 million on a GAAP basis and $1 million adjusted.

Now let's review each of our 3 reporting segments starting with Slide 6, the Renewable Energy & Conservation segment. Segment revenues increased 40.3% driven by organic growth of 17.5% and 22.8% growth from the acquisition of Apeks Supercritical, Thermo Energy Solutions, and Delta Separations. Organic growth was driven primarily by strong demand for our commercial greenhouse growing solutions, including design, structures, system integration, field project management, and general contracting services. Our core renewables and conservation business showed improved adjusted operating margins on continued execution and volume leverage, along with favorable product and vertical market mix, even after giving consideration to the prior-year incremental costs relating to the solar tracker.

Adjusted operating margins for the segment were impacted by the inclusion of the expected modest losses from acquisitions and seasonally lower volumes and lower margin products. We entered Q2 with strong backlog across the segment, up 58% from the prior year, as we gained further participation and see strong customer demand in both end markets. Backlog from conservation is up 73%, driven by our recent acquisitions and renewables is up 39% from the prior year on continued strong end market demand.

Let's move to Slide 7 to review our Residential Products segment. Residential Products segment revenues decreased 30 basis points from last year due to additional product line simplification initiatives. Excluding the impact of these initiatives, revenue expanded on continued participation in our postal and roofing accessories businesses. Adjusted operating margin increased to 175 basis points, a result of strong execution, improved price material cost management and 80/20 simplification initiatives.

Let's move to Slide 8 to review our Industrial & Infrastructure Products segment. Segment revenues decreased 9.8% in the Industrial & Infrastructure business driven by lower industrial revenue, a result of lower demand for core products and reduced selling prices in the declining steel cost environment. The infrastructure business continued to grow on both volume and pricing, and backlog for this business continue to grow. Adjusted operating margin was up 60 basis points through better price material cost alignment, continued execution on 80/20 profit improvement initiatives.

Let's move to Slide 9, titled Balance Sheet Provides Resilience, Supports Growth to discuss our liquidity. We used $43 million of cash in operations during the first quarter of this year, driven by an investment of approximately $37.5 million in working capital in Thermo Energy Solutions, which was undercapitalized at purchase. During the quarter, we used cash of $54.5 million to fund acquisitions and $2.8 million for the purchase of equipment. At March 31 and today, our revolver remains undrawn. So with the $86 million cash on our balance sheet and our undrawn $400 million revolving credit facility, we have strong liquidity position to weather the economic impacts of the pandemic, while continuing to invest in operational excellence, growth, and the development of our organization.

Given the economic uncertainty caused by the pandemic and federal, state, and local government's responses to it, we currently paused our M&A activities. We're remaining in contact with the companies we're interested in. We expect to reengage in these processes when the economic impact becomes clear. In the interim, we remain laser focused on managing our working capital through adjusting scheduled deliveries from inventory to match current demand levels and closely monitoring customer credit and collection activities.

Let's move to Slide 10, titled Revenue Sensitivity to Current Economic Events. This slide shows the relative impact the pandemic is having on our businesses and reflects the activity we've seen in the past month. Our Renewables & Conservation business, which accounted for 39% of first quarter revenue, is well positioned and end market demand remains strong. We continue to build backlog in this business in the weeks after the end of the quarter. We are working with customers on our core Renewable & Conservation business to adjust schedules where we've been impacted by either local restriction on construction activities or permit delays. We saw a more pronounced pause in the processing market when stay-at-home orders were issued. However, we've recently seen increased interest from customers as harvest seasons approach.

Our Residential business, which accounted for 41% of first quarter revenue, has seen modest decreases in demand while we continue to increase participation, both geographically and through channels. Direct-to-homeowner market, where we sell gutter protection and awning systems that generate meaningful margins, has seen a significant slowing and the second quarter is normally the peak of the awning business.

In our Industrial & Infrastructure businesses, which provide 20% of first quarter revenue, the infrastructure market remains strong. We have seen continued expansion of the backlog since the end of the first quarter. We have seen delays in construction activities in certain states where highway construction was paused. Our Industrial business has seen continued softness in demand for core products and a pause on shipments to the automotive customers. We've not seen instruction from our suppliers and our supply chain team remains in close contact with key suppliers and alternative supply sources to mitigate the risk of potential supply disruption.

As we continue to focus on execution, we are realizing the impact of the work we have been doing to reshape our portfolio and focus on more attractive higher growth, higher margin end markets, which better positions us to withstand a downturn. Our teams are remaining close to our customers and getting real time end market feedback from those with direct relationships. We maintained full staffing to protect our team from negative economic impacts as we assess the impact of the slowdown on our businesses and continue to invest in our team to be positioned to sprint as we come through the other side of this pandemic crisis. We also continue to invest in process improvement and digitalization to emerge stronger.

Now I'll turn the call back to Bill.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Thanks, Tim. Hey, let's move to Slide 11 and look at how we're leveraging our operating foundation to get through this pandemic. As we discussed last quarter and before, our strategy is focused on excelling across our 3 pillars. That's business systems, portfolio management, and organization development. Pillar 1, our business system, as a reminder, is just focused on our business model optimization, our 80/20 activities, productivity, supply chain management, innovation, new product development, and IT digital systems.

And as it relates to today's situation, we implemented our playbook, our business continuity plan and our -- and customer and supply chain initiatives, while maintaining focus on our day-to-day execution. And parallel to that, we continue to make our business stronger. So, as an example, in the information systems and digital technology world, we launched our new corporate website this past weekend. So if you get a chance, please go visit us at gibraltar1.com.

Pillar #2, portfolio management, is committed to optimizing our existing assets and allocating our time, capital, and energy to better execute our plans. We are delivering integration plans for our recent acquisitions. That's Apeks, Delta Separations, and Thermo Energy Systems. We are also continuing discussions, as Tim just mentioned, with companies interested in joining our journey. But we are currently paused until we collectively have more clarity on the general economy and markets.

Pillar 3, organization development. It's really focused on our talent acquisition and development, assessing our work design and structure, and then building the-best-place-to-work environment for the organization. Over the last 8 weeks, our main priority has been the health and safety of our team which will continue. Our task force has deployed our COVID-19 operating protocols, and I think the businesses continue to learn and optimize systems and processes, and drive better performance in our modified operating environment. We're also strengthening the organization and we're continuing to fill critical positions from a broader, more available pool of talent.

So to summarize, our immediate priority remains the same; to improve our revenue and income streams, and stay focused on execution, working to improve our business, helping our team, our customers, suppliers and partners get through today's environment. As the economy does begin to recover, we are ready to accelerate performance and continue faster growth, improve the profitability, better utilization of our assets and higher return on invested capital.

So let's talk about guidance for the rest of 2020. Given today's limited visibility across a number of our markets, we are going to rescind our previous guidance for the second quarter and full year 2020. And although we have a strong backlog in our Renewables and Conservation and Infrastructure segments, we still have 55% of our business that still resides in residential building products and Industrial segments which are more impacted by today's environment and consumer spending and general industrial market strength. So once we start to see the states open and how they open, little more confidence in consumer spending and less fear and the general economy recovering, we'll be in a better position to provide guidance for our business. That being said, we have been running scenarios to help us plan for an uncertain future.

So under a challenging case in which we experience a significant reduction in demand relative to what we actually are experiencing today, we're still and remain -- we still are confident -- remain confident that we will deliver positive earnings and generate cash from operations for 2020. We are continuing to transition our revenue and income streams toward end markets that are both vital to the economy's core needs and that are less impacted by economic variables and we continue to invest in long-term growth. Our business model resiliency coupled with the strength of our highly liquid balance sheet places us in a better position today, I think, to navigate through the current downturn than ever before in our company history. And that's going to allow us to further separate our businesses from the competition.

As I said before, listen, I am very proud of our team. We remain committed, passionate, and focused helping our customers, suppliers, partners, and communities and the effort, frankly, has just been outstanding. Today's situation is incredibly challenging for everyone around the world, but we do believe things will improve with time and we're going to continue to stay focused. We're going to work hard. We're going to contribute as much as possible to the solution. And we look forward to seeing everybody emerge from today's crisis.

So with that, now we'll open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from Ken Zener with KeyBanc Capital Markets.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Very nice to hear you being so positive and proactive in your communities. I know the -- there's obviously a couple of different questions here. But first of all, given the absence of the Investor Day, could you just break out where we are now in renewable in terms of sales mix between solar and conservation which would, I guess, be everything not solar?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Ken, it's -- frankly, it hasn't changed. The mix hasn't changed a whole lot just because we've had some acquisitions on the growing side, but we've also had organic growth on the solar side. So the mix between the 2 hasn't changed a whole lot year-over-year. And so we're -- go ahead.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

So when you talk about, if we can just talk about the Renewable Conservation because I think that was the area that many investors would have gained a lot of insight at the Investor Day. Can you talk to some of the items in terms of the recently acquired businesses that affected your margins? You talked about the seasonality. Tim, I think you mentioned people are waiting for harvest. I mean could you just give us a little better feel for those acquisitions that you did there, both in the, I guess, hot area as well as the vegetable business you brought out of Canada?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. So on the processing side, that's really Apeks and Delta Separation. So we'll talk to that first. That industry paused during a lot of the stay-at-home orders that were mandated across various states and that had initially to do with lot of the dispensaries where people would go for product.

And then those -- and then the states started to open up at different times and I think most of them are open, that's -- that was deemed essential. So initially it wasn't and then it was. So we had a little bit of a roller coaster ride there on the in-demand side of things. The in-demand for those products have continued to grow. So we've been tracking that, we've tracked that monthly and that continues to be solid growth. So that's good news. Maybe why it's growing isn't great news. I think a lot of people are anxious right now obviously in today's environment, but the in-demand continues to grow.

But remember, the make-up of the industry being relatively new, there's a lot of small companies. And I think when you -- like a lot of industries, when you saw things effectively shut down or slow down significantly, a lot of the companies and industries said, "Hey, let's pause as well and gather ourselves to see what this is really going to be." So that really caused the processing industry to slow. And then Tim referred to, well, you've got harvest season approaching. So we're seeing more activity, meaning enquiries and things of that nature, really over the last 30 days than we saw the previous probably 45 or 6 weeks as we're coming out of the pause and people moving more towards the summer months when harvest starts to kick it. So that impacted our processing businesses during that time because of that. That make sense?

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

It does. And the reason maybe these are such uncertain times, both for you guys operating across trying to look into the business. It seems like you have maybe about 10% revenue growth for your whole company tied to recent acquisitions that's using, well, I guess, it depends exactly how much. But I mean a high -- mid to high single-digit contribution from FX -- from acquisitions. Does that mean -- other companies have talked about sales being down anywhere from 10% to 30% in the second quarter. Is there a broad generalization that you might be able to give us about the quarter? Tim, perhaps about the EBIT leverage, just so we can get a general sense of where your April sales trends are in terms of the different businesses. That would be helpful just to get some sense of what you're seeing for the month of April and perhaps some type of EBIT leverage. General question, but it's hard to get specific in times like these as well.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Tim, do you want to?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Let me -- yes, I will -- I can try and answer that. So -- Ken, so again general answer, we saw revenues below prior-year levels, below our expectations as we came into the year, right? Nothing really surprising there. We're still closing April. So I'm basing that on basically the internal sales flashes and conversations we have. So I don't really have a great percentage for you. I will say that certainly our total sales will be down less because we did acquisitions this year that we didn't have last year, again sort of kept an obvious comment. And then on a deleveraging basis, it will -- it's going to depend a little bit on which businesses. Some are more profitable than the others. So we didn't give guidance because we didn't really have enough clarity to feel confident. So I don't want to give answers that change the guidance, but I don't have enough confidence in them.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Understood. It just is that a lot of companies and to the extent I will go out of the questioning, but to the extent you guys can illuminate April trends where possible. A lot of companies have been kind of talking about that.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

And guys, there's one thing I would say because I'm sure it's on everybody's mind and I think what we thought going into second quarter and particularly for April, when we think about that forecast going into the month and now we're a month later, we're still seeing ourselves down versus last year, but our experience in April was better than we originally thought. And again we don't have things closed yet, but that's how I characterize one month into the quarter. That's what we saw in April.

Operator

Our next question is from Daniel Moore with CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

I wanted to obviously -- I know you want to kind of stay away from the guidance. But in the scenarios that you mentioned like it's number one, maybe a little color around the challenging or bear case, is it you would expect to remain profitable for each quarter for the rest of the year in aggregate or for the full year including Q1? Just trying to get a little granularity there.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

I think it'd be both is the way to think about that Dan and Tim, correct me if I'm wrong. But we will look at it from a full year perspective. And if you take the worst case scenario, obviously with the country being shut down in April, the second quarter will be the most challenging, third would be the second most, and the fourth would be the third most challenging in that worst case scenario. And as I mentioned earlier, what's happened in April or what we think is rolling up in April is better than we thought going into the month. So that gives us some confidence that our worst case scenario is we're probably not on track for that, if that makes any sense.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

It does, it does. And then, would you be willing to comment on sort of the best case scenario? I mean, it seems given there's -- we haven't had any guidance update, one or two folks. Some of the estimates out there are still close to your guidance range and just trying to want it to be a prior guidance range, wondering if that is just absolutely too pollyannaish given the likely impact that we're to see here in Q2?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

I would love to be able to do it, I seriously. We talk about it a lot, but unfortunately the thing that we struggle with is, like everybody else, I mean we're not telling you anything any different than probably any other company right now. But trying to predict what states are going to open when and what construction sites are going to be allowed and what permits are going to be done and what big box guys are going to do, it's -- every 2 days it seems like we're learning something new. So as with the downside, it's tough to do it on the positive side of this. So again I'm not trying to -– I wish I didn't have to give you that answer. But unfortunately that's kind of where we are. And like I said, April is better than what we thought. And I would not have predicted what we think has happened in April. Again we're still down versus last year, but it's better than what we thought. That is not what I thought just a week ago or week-and-a-half ago. So that's the -- that's kind of the situation that we're trying to manage through, but so that…

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

Understood. And maybe broader question, what are the key indicators, mileposts you will be looking to, to get more clarity on the overall environment? And how long would you maintain full production capacity if demand levels were to remain a little bit more depressed than perhaps you'd hope to see in terms of recovery?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, I would suggest and our thinking right now is that Q2 is probably the toughest quarter, right? And April was the month of the entire country shutting down effectively. And you could argue, it started really happening in March. That's when the mandates really started kicking in. So you got to think in some respects that the toughest piece of this has been the last 6 weeks and we've been able to manage through that relatively well with all the things we talked about.

So we're not assuming that that May or June is going to be better than April, but we're not assuming it's going to be worse either. So right now, the way we're sized in our operations, most of our operations are -- actually all of our operations are running right now and while we're not running at full speed, we made some adjustments there. But I think it's -- again it's going to be week-to-week to see how things evolve on the demand side.

Obviously, we have more visibility in some of our businesses than others. So if you look at infrastructure and you look at renewables and you look at conservation, you look at the backlog, that continues to build and that's positive. The question for us is, when does it all fall into what timeslot because again starts and stops, and states opening and when they open, how they open and all of that is something we're trying to deal with.

Now I will tell you proactively what we're trying to do in that example is we have a number of subcontractors that help us implement and execute in the field, right, as you would with any major project business. We're out now trying to make PPE for them so they can actually go to work. Because as states open up, you're being required in some cases to have that with you, whether you're wearing it all the time or not.

So just trying to get our folks, our supply chain in that scenario available to work in certain states, we're doing some things to help them through that. But those starts and stops or those things like that make it even difficult on the most predictable part of our business, let alone the other piece. So I think backlog is a good indicator for us and if you think about, that's 45% of our business.

The other 55% which is Residential and Industrial, those metrics and what we're tracking there are literally just point of sale on the retail –- on the Residential side point of sale through our big box partners as well as our wholesale order entry week-to-week. We're -- mainly just to remind everybody, we are -- we're not -- I wouldn't say we're as consumer spending driven as maybe some, but most of our stuff is repair, replace and remodel.

So maybe that weathers this a little bit better than other, but again still a lot of unknowns out there that we're trying to deal with. So that was probably more than you're looking for. But that's how we're walking through it. Every 48 hours, we're talking to our business leaders and trying to see how demand is evolving.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

At this time, more is better than less. Lastly, just in terms of capital allocation, obviously M&A is on the backburner for the near term. Maybe some updated view of CapEx and any other changes in your thought process in terms of allocating capital?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, from an M&A perspective, we mentioned earlier we're on pause. We don't want to give the impression we're not active. We're very active on M&A side and we continue all the discussions we had in flight and there's more work that we're working on. There'll be things that will happen in our respective industries through this pandemic that will come about. And as they do, we'll take that in consideration. That's part of the reason for the pause.

A, is just trying to understand what's going on in the world. And then B, keeping all our relationships warm and moving forward. And then C, are there any structural shifts or changes in the markets that we're operating in as well. So as we learn through all 3 of those, we'll come out of this with some opportunities that we think are pretty positive and we'll move forward on those. Timing of that, let's see how the next quarter evolves. And when we have a little more confidence in what the broader economy is going to do, then we'll make a decision then. But we're very active and continue that.

In terms of CapEx where we have opportunities to deploy the capital and we see the returns and they make sense, we'll do that. But in general, as you can imagine, we'll probably spend a little less than we had originally planned just because of the giant pause, right? You can only spend so much in a certain period of time. But we're not –- we don't have a complete pause on that. As projects come around that makes sense, that give returns, that improve our safety, performance, et cetera, we're not holding back. We're moving forward on those key initiatives.

Operator

Our next question comes from Julio Romero with Sidoti.

Julio Alberto Romero - *Sidoti & Company, LLC - Equity Analyst*

I wanted to ask about the headwinds you're seeing in resi and if you could quantify at all how much of that would be from the sales channel through which some of those products are sold versus maybe more of just consumer confidence and folks holding back on discretionary spend or some combination of the 2 there?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So our resi is kind of broken into a couple of different buckets. Tim mentioned that our home improvement business where we sell gutters and awnings, that's not a big piece of overall Gibraltar. It's a higher margin business. But that's one of those businesses that requires an in-home sale, right? And you can imagine right now, not many people are inviting others in to talk to them about those kind of things. So we saw that really fall off. We anticipated that that is actually the group that we pivoted to start making the PPE for the rest of our organization because the [coms] around sewing fabric, all right, makes sense. So we pivoted quickly and done that. We've started to see more activity in that business as states have opened up and as some of our dealers have been able to go online and engage customers in that way. Still not anywhere near where we'd like to be, but at least there's some activity. So that's that piece of the Residential.

The rest of the -- and then we have 2 other buckets in Residential and that's more roof related. So we think about ventilation and our building accessories, our roofing accessories businesses, those are doing actually relatively well with our big box. So the Residential -- if you look at the marketplace, Residential Products have done much better in I'd say the retail channel than they have in the wholesale channel. And that makes sense, I mean at the end of the day you've got large, big box guys have been deemed essential. They've got good balance sheets. They can manage through this probably in a way that is a bit easier. And so we've seen sales through that channel actually be positive year-to-date.

On the wholesale side of things, a little bit different where you're more private in some respects in terms of companies and if not, you maybe just smaller. And so there's -- you've got to figure out how to manage your balance sheet and how to move inventory and such. And I think that's been a bit of a more challenge for that particular channel.

Eventually is there going to be a shift or a permanent shift as with contractors going to one or the other, it's hard to say today. Obviously, we've seen it because of the convenience associated with the big box guys being open and being everywhere. But I'm not sure what that'll mean longer term. So we do see a tale of 2 stories on that front; positive sales one part of the channel and not so positive on the other. And we'll see. I think that'll continue for some time, but eventually we'll see how that kind of works off.

And then the last piece of our Residential business is the postal piece and that actually has stayed relatively strong throughout this time frame. And part of that, I think, is we've good orders for the business in Q1 and then you start to realize that a lot of projects cannot be signed off unless they physically have a mailbox onsite. You can't get your -- you literally can't close on these projects without having that. It's deemed necessary, if you will, to make that happen. So we saw a lot of activity. I think, as shutdowns started to come in, we started to see more activity. People wanting to move a little bit quicker there. And -- but that business has stayed relatively strong. Some of that goes online which is held in and some goes through a big box and then some goes through other means.

So it's really a mix of different things to be honest. But it's interesting to see how the market is kind of shift-gear moving. As it relates to what's driving it, we've been tracking probably like yourself, the amount of activity of people wanting to do home improvement are do-it-yourself kind of home improvement. There are different types of home improvement, right? So do-it-yourself home improvement is just really accelerating. I think we saw something the other day from a webinar where I think paint searches were up -- searches on paint were up 700% in like a 2-week period.

So I do think people are being very active. I do think the unemployment level that you're -- that we all see today needs to -- you have to think about how to stratify that in terms of looking at the makeup of that unemployed group of people and who owns homes and so forth. But there is definitely a lot more activity and do-it-yourself kind of things right now in the last, I would say, quarter. Yes, I'd say the last month or 2 definitely have seen a spike there.

So a lot of moving parts. We've got a series of storms that have been coming through as you know in the Southeast. A lot of hail. Will that translate into demand? We -- again, there's a lag behind that. I don't know what that will mean yet. But we're trying to watch everything. And again at the end of the day, as I said earlier, every 48 hours we're just getting the pulse of what's going on in the Residential world as with our other businesses.

Julio Alberto Romero - *Sidoti & Company, LLC - Equity Analyst*

And that kind of close into my next question is, from a strategic standpoint, does this sudden disruption kind of create any opportunities for you for perhaps greater adoption of some of your new products or any changes in market share that's kind of more a progress if any?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, that's a great question and we get that asked a lot across all our businesses. But in particular, I've mentioned a couple of times where we've been doing much more work to understand the market, right, trade focus and we do have new products that we were introducing last year. We do have some regions where we put people we didn't have before. We have been working on product line expansion in some of our big box guys. And all of those things, I think, are opportunities for us and we're seeing those discussions kind of manifest a lot since they manifest. I think we're seeing those kind of activities and discussions around them actually accelerate right now. So part of the reason that we're keeping our team intact as best we can is because we do believe there are companies that just may not be able to do that. And so service levels are falling, I think, in some areas. And then when that happens, we're in a position to step in and maybe be that solution.

So we are seeing opportunities. How much they've flown through -- have flowed through yet, yet to be determined just because everything is depressed if you will. But I would say that our ability to gain participation during this time is something that we're looking forward to. How much that will be? I don't know yet. But again very active in trying to make that happen as much as we can.

Operator

(Operator Instructions). Our next question comes from Walter Liptak with Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

I wanted to try and talk a little bit about the employment levels and kind of your fixed levels of employment and variable levels of employment with the idea to see how much of your costs are variable. So if we are slowing in the resi part of the business in April, May, June, whatever the amount is double-digit, how much of your costs are variable? Like have you -- and when you talk about employment and keeping the team together, I imagine that some of your workers are hourly workers. If there might have been some layoffs or furloughs as they may be able to make more money on unemployment just temporarily and then bringing them back? I wonder if you can just discuss that a little bit so we can have an idea about how some of those costs in manufacturing flex during the second quarter.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. So to date, Walt, we haven't laid anybody off. We've kept the team together. And so really what we did initially, if you go back again 8 weeks and just for context here, and this is something that -- it's a little bit softer, but I think it's really important to us. But when you -- and again, it's not as if, for me SARS was -- prepared us 100% for this because it doesn't, right? This is unique. But I will tell you, this is very -- this is eerily similar. If you lived in the world of where I was, this felt very much the same. So the 2 things that really get people in doing an organization, what really challenges the psyche is, obviously you have the health and safety piece of this and then you have the economic or financial concerns that go along with it.

Our strategy from day one was we're going to take one of those off the table for our people. We don't want them to worry about that. We've been focused on health and safety. This thing was moving so quickly and the last thing they need to do is think about -- and this is prior to understanding all the government support that's come since -- with the stimulus that's some since. But the idea behind that was, let's take that off the table right now. So we actually, for our production employees, offered or provided what we call COVID pay. So it's not hazard pay. It's hours that you can use to take care of whatever you need to. So if your child care went away, if you've got a sick relative, if you're sick, if you have anxiety, if you're just scared and you cannot and do not want to be at onsite for some period of time, you can use those hours, stay employed, keep your health benefits and then circle back when you are ready. And you have a bucket of bank to use if you will.

And we did that because, one, we knew all these issues were coming quickly to people, what do I do with childcare now it's been shut down? My schools are shutdown, now I've got kids at home, don't have baby -- all of those things that people are dealing with. So we want to kind of help people navigate through that. And as we did that, our demand stayed relatively strong and that kind of worked us up through kind of where we are today. We have some businesses that are slower than others and where that's the case, people have started to furlough to smaller group of our organization or they will start to. Again there is some benefit for them to do that personally. But for the most part, the rest of our team is staying intact and still have their bank of hours to use accordingly. So strategically that's been our approach is to help people through this within our own team, stay intact, not knowing exactly how long this would last and knowing that week-to-week it's changing as we see, as we have talked about to be in a position to be ready to go. So as we start to see things turn back, I think we will be in a good position.

If things really go in a different direction, then there are still levers to pull and actions to take. But right now, that's not in our foreseeable plan based on what we know today and what we are seeing and as we have come through April with our business. About half of our employees are production, maybe a little bit more than that, and the rest is -- were being salaried. Is that helpful?

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

And maybe another way to think about the cost to goods sold, could we -- if maybe we can just get a breakdown of what's labor in the COGS, what's material and what's manufacturing overhead?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, I don't have the exact -- I mean labor is a relatively small piece of what we do, but I don't have the exact number in front of me. And Tim, if you want to comment on that?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Yes, well, I can. Overall, material costs are a little bit less than 50% on COGS and labor is probably 12%, 13% depending on what quarter you are in on a normalized basis, sort of like that. The rest is either fixed or variable overheads.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

And maybe the last one from me is, just to talk about the M&A deals and just help us understand. It sounded like there were some dilution from the M&A deals because of that pause that took place. And was that -- was the dilution related to kind of deal charges or -- and other upfront costs or was it because of the pause that took place? And if those businesses are starting to get back or could you get accretion from the deals throughout the year?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

So let me take the first, pass it back and you can add some color.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes.

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

So, well, I would say that the results that we are talking about were adjusted, so they don't include the actual deal costs. But remember the processing businesses are relatively small and it's a seasonal business where people buy processing equipment, right now sort of running up to a harvest season. So I think when we look at their historicals, it's sort of like first and second are slower, third and fourth is where historically the bulk of business is.

We expect that to even out over time, but that's the market as it is today. And so as expected, I would say those results were in the first quarter much more seasonally impacted the pause. Towards the end of the quarter, we started to see that and into the first part of April and then like we said, the last 30 days or so we've seen more activity than we did 30 days before that.

But I think that's that and then the other business, the greenhouse business up in Canada, we just acquired relatively low margin sort of work in process, right? These are big projects and so we will -- we are working on that business just like we did when we bought RBI back in 2015 and we think over time we can get that up to segment levels. But it doesn't happen the day after we buy it. And I think we expect all of them to be profitable for the year.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

I think the thing on the Thermo business, it's kind of as we expected. But like our core business -- growing business, we've had some starts and stops on permits and things of that nature as well. So the backlog is going to continue to build. It's really set up for a strong 2021, I believe, with the types of projects that we are closing now. And so we are excited about that. But in immediate term, again puts and takes as growers themselves are trying to figure out things and now we are starting to see people kind of get their feet on the ground and think a little -- be able to think through what they want to do next. And so it's just something we are managing through, but anyway that's the thought on Thermo.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

And then the last one on the M&A. Considering the financial strength, would you look at the stressed assets if a target ran into liquidity situation? Is there the possibility to find something like that? And would you -- I know that you want to buy the strategic businesses, but if you found one that was in the tough liquidity situation or even the profitability crunch because of the virus, could you change a little bit your strategy to take advantage of those opportunity?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, it's a great question. When something fits our strategy, that's the most important things. And if it's in the marketplace where it drives the fundamental, try to -- what we are trying to do, become more relevant, lead that industry and so forth, then absolutely we will take a look at it. We have had a number of calls, as you can imagine, every week. So as I said earlier, we are very active. We had a slew of discussion ongoing before this hit and those discussions continue. And we've had a number of calls since at the same time across a couple of our different industries. So if the opportunity is there and it makes sense, absolutely we will act on it and we are keeping every one of those opportunities warm right now.

Operator

Our next question comes from Ken Zener with KeyBanc Capital Markets.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

On the solar side, can you talk to -- given the turmoil and debt market and stuff, can you talk to specifically developer's access to capital to develop your 2 to 5 gigawatt targeted market?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So, Ken, I don't have the -- I probably can't give you a discuss of general understanding down to the detailed level of every one of those developers, but let me just context around that business. We implemented a new CRM system probably 6 months ago. Our new leader there that came on board named [Dean Ludvig] and his team have done a great job putting some business processes in place that I think that have really helped us see some opportunities that we weren't seeing before.

As a result of that, I would say our broader activity is much improved in terms of opportunity "finding projects and bringing those to the finish line". I think that's one reason our backlog in solar has gone up so much is we are just wining more. We are winning more because we have visibility and we have different engagement. We are winning more because our ability to deliver which we've always been proud of but we are getting better at that. We have been implementing and investing in better processes, project management, and so forth. So I think at a broad-brush, we've done some things in the business that just make us that much more effective, that much more productive and I think our customers are starting to see it, and that's one thing.

Second thing is we've had some competitors that maybe have not been able to deliver or struggled last year and/or struggled a little bit more this year because of the current situation. So, again, we are in a better position and I think our customers are recognizing that, and so again we have an opportunity to bid more and win more and which is what's happening.

I would say in general the strength from an in demand perspective and again I think this whole event that we are in the middle of right now probably supports it even further when you start thinking about renewables and sources of energy and so forth. But the general strength continues to be very solid. So I think the funding that at least the developers we are working with us is there. I mean these are -- when we say backlog, people ask, "Well, you think that may go away". And we don't think so. The activity going into April and going into May and the number of jobs that are being quoted in and taken across the finish line continue to be at a very high pace.

So I think the developers are funded. I think they are also moving forward. The timing of when each of those projects falls, I can't tell exactly. But we feel pretty good about the strength of the end market, the developer positions and our ability to participate differently than we have in the past. So, so far it has been pretty positive this year.

Operator

We have reached the end of the question and answer session. At this time, I would like to turn the call back over to Mr. Bill Bosway for closing comment.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Well, so I just want to thank everybody again for joining us today. And again, I hope everybody stay safe and healthy. We are in clearly a unique time and it's not easy for everybody around the world for sure, but we -- I do believe we will get through it. I do believe we have to attack the problem and we are trying to do that as a company and as an organization and we are going to continue to do so. So look forward to speaking with you. We have a number of virtual conferences and non-deal roadshows coming up. We're looking forward to having more conversation with you and updating you as to where we are. And then we will circle back at the -- for our second quarter call. So have a great day and again thanks for your interest. Take care.

Operator

This concludes today's conference. You may disconnect your lines at this time. And we thank you for your participation.
