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ROCK - Q1 2016 Gibraltar Industries Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar

Industries first quarter 2016 earnings conference call. Today's call is being recorded and webcasted. My name is Michelle and I will be your coordinator today. At this time, all participants will be in a listen-only mode. We will be conducting a question and answer session towards the end of the conference call. I would now like to turn the conference over to your host for today, Mr. David Calusdian, from the investor relations firm, Sharon Merrill. Please proceed.

David Calusdian - *Sharon Merrill Associates - 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 also are posted to the Company's website.

Please turn to slide 2 in the presentation. The Company's earnings release and slide presentation 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. Additionally, Gibraltar's earnings release and remarks this morning contain non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

On the call this morning are Gibraltar's Chief Executive Officer, Frank Heard, and Chief Financial Officer, Ken Smith. At this point please turn to slide 3 in the presentation and I will turn the call over to Frank.

Frank Heard - *Gibraltar Industries - President and CEO*

Thanks, David. Good morning everyone, and thank you for joining us on our call today.

Gibraltar began 2016 with a strong first quarter performance as a result of significant gains from our value-creation strategy, including the continued benefits of our acquisition, RBI. A little over a year ago, we laid out a four-pillar strategy at our investor day and since then we've been executing on this strategy to transform Gibraltar and have made some excellent progress so far. We're transitioning resources to our most significant opportunities and achieving results from operational-improvement initiatives across the portfolio.

This quarter, we reported a 300% increase in adjusted net income on a 17% increase in sales. This quarter's adjusted earnings per share of $0.24 exceeded our guidance of $0.12 to $0.15 and compares favorably to $0.06 per share last year and $0.05 loss per share in Q1 2014. This was the result of the increased profitability of our base businesses, despite market headwinds, plus RBI's solid top- and bottom-line performance. I'll speak more about our strategic progress after Ken reviews our financials. Ken?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Thank you, Frank, and good morning. I'll start by referring to slide 4 in the presentation, our consolidated results.

As Frank noted, first quarter revenues were up 17% year over year. RBI, which we acquired in June 2015, added 27 percentage points of the net revenue increase while the base businesses had revenues 10% below last year for reasons that I'll explain when speaking about each reporting segment.

Regarding profitability, we certainly had strong bottom-line performance from the combined contributions of RBI and our base businesses, which contributed significantly to the adjusted EPS improvement. And, although not shown on slide 4, the Company's first quarter consolidated margins improved meaningfully. Adjusted gross margin increased 550 basis points to 21.9%. And, as for adjusted operating margin in the first quarter 2016, it grew 370 basis points compared to the first quarter of last year.

The profit and margin improvements were the direct result of successful execution on the four-pillar strategy. Internal resources have been and continue to be transitioned to our largest operational opportunities that, in combination with 80/20 initiatives, have resulted in higher efficiencies and income. And RBI continued to be accretive and contributed to this quarter's higher financial performance.

Now, turning to slide 5, you can see the degree of outperformance of our base businesses compared with the prior-year period. Represented on slide 5 are the results of the Company excluding RBI. As expected, revenues were unfavorable due to two factors. First, the sales to industrial and infrastructure markets were weak, affected by lower demand from commodity-related markets and the effect of lower average selling prices due to lower raw material costs, primarily steel. And second, in our residential products segment, we completed in December 2015 a discrete, two-year supply contract for centralized mailboxes.

Even with the sales decrease in our base businesses, we reported a 90% increase -- that's nine-zero percent -- in adjusted operating income for the quarter as a result of our operational-improvement initiatives. In the first quarter 2016, our operational-excellence initiatives and the 80/20 simplification were responsible for 190 basis points of the 370 basis point improvement in adjusted operating margin, all coming from our base businesses. Additionally, the balance sheet benefitted from 80/20. Inventories at March 31, 2016, compared to a year ago, March 31, 2015, decreased $37 million within our base businesses, the combined effects of 80/20 simplification and lower raw material costs.

Next, I'll talk about each of our three reporting segments. We'll start with the segment discussion with slide 6, the Residential Products segment. Revenues for this segment decreased 6% reflecting the discrete two-year contract that was completed in the prior quarter, Q4 2015. Revenues from that discrete contract amounted to $12 million in Q1 2015. Apart from that discrete contract, this segment continued to see favorable demand for its residential products including demand for roof-related products, reflecting gradual improvement in residential repair and remodeling activity.

This segment's operating margin increased to 13.2% resulting from the benefit of improved operational efficiencies and continuing contributions from the 80/20 simplification. Of this segment's 550 basis point improvement in operating margin, the 80/20 projects contributed 300 basis points. Work teams across this segment have successfully executed on a number of large-opportunity projects which, among other benefits, have increased service levels to customers, reduced complexity of internal cost structures, while yielding a lower amount of operating assets, namely inventory and leased warehouses.

Turning to slide 7, the Industrial Infrastructure Products segment. Revenue in this segment decreased 15% from a year-ago first quarter. Over half the revenue decrease was due to lower volume on weak market conditions including lower demand from commodity-related and extractive industries. Additionally, lower raw material costs, primarily carbon steel, also affected average selling prices.

Concerning this segment's operating income and operating margin, remarkably, actual profit dollars and margins increased, more than offsetting the contribution loss on lower revenues of $14 million. This segment's increased profitability resulted from improved efficiencies, tighter management of raw material costs, and the continuing contributions from its 80/20 simplification initiatives. Of this segment's 250 basis point improvement in margin, the 80/20-related simplification projects contributed 190 basis points.

Turning to slide 8, our third segment, the Renewable Energy and Conservation segment. This reports the results of RBI, which we acquired in June of 2015. On slide 8 we have provided a column of figures for 1Q 2015, although Gibraltar did not own it during that time period. We're providing RBI's pro forma results for the first quarter 2015 because it offers another important comparison on its progress. Within its 35% growth in revenues, there was strong demand for both its ground-mounted solar racking products as well as its commercial greenhouse offerings. While a majority of the revenue increase stemmed from higher sales of solar racking products, its greenhouse business also benefitted from growing demand for locally-grown foods as well as public and private plant research.

Concerning this segment's operating margin, it benefitted from the leverage of higher unit volume, while also being partially affected by incremental costs to support growing international sales and a reserve taken against receivables due from SunEdison. These two offsets were worth a combined 300 basis points on this segment's first quarter 2016 operating margin. Integration with RBI continues to proceed as planned. Synergies are beginning to benefit margins, particularly related to supply chain initiatives.

At this point, Frank will provide an update on our four-pillar strategy, which continues to have an early, but positive, effect on our financial performance. Please turn to slide 9, "Continued Progress on Value-creation Strategy."

Frank Heard - *Gibraltar Industries - President and CEO*

Thank you, Ken. The strong results that we have delivered during the past few quarters reflect the ability of our teams across the organization to rapidly transform our culture and execute on our four-pillar strategy.

The first of these four pillars is operational excellence. We are reducing overhead, pricing our products more strategically to better support our partners, consolidating facilities, improving our raw materials sourcing, and increasing efficiencies across our businesses. We've had excellent early results from these initiatives in 2015 and we expect an even better contribution to our income statement and balance sheet in 2016.

As Ken cited, in the first quarter 2016, our operational excellence initiatives and 80/20 simplification strategy were responsible for 190 basis points of the 370 basis point improvement in our adjusted operating margin this quarter. Our 80/20 initiatives also significantly contributed to a $37 million reduction in inventories from our base businesses over the past 12 months. In 2016, the expected results will come from the incremental effect of what we achieved in the second half of 2015 as well as new initiatives that will drive improvements throughout the balance of this year.

For example, during the first quarter, we held our leadership meeting to introduce the team to in-lining and market rate of demand replenishment. These methods, which are focused on manufacturing replenishment of our "A" products based on actual market rate of demand, are the next management tools we're using in our simplification efforts. We expect these methods will yield benefits in the areas of lower cost, lower inventories, and an even higher level of service to our end customers. We also began to work with RBI early in the first quarter to implement operational excellence and 80/20 simplification processes and expect the initial benefits will start to accrue in the back half of the year.

We're often asked as to where we are in our operational excellence journey, and, at this point, I would suggest that we're in about the third or fourth inning. Our progress thus far has resulted in some very nice incremental improvement, but we have a long way to go and we are continually finding new opportunities to simplify our business and increase shareholder returns.

The second of the four pillars in our strategy is portfolio management. This pillar leverages the work we're doing in 80/20 by taking a more strategic look at our customers and end markets, as we allocate leadership time, capital, and resources to the highest potential platforms and businesses. As a result, we're spending less capital in 2016, compared with historical levels, with a higher expected rate of return. We anticipate capital expenditures in the range of $15 million to $18 million in 2016, including RBI, compared with CapEx of $12 million in 2015 and a historical high in 2014 well north of $20 million. We've grown and we're managing capital very well with an emphasis on the highest-return platforms as well as initiatives such as 80/20.

Also regarding portfolio management, we recently divested our European industrial manufacturing business, which contributed $36 million in revenue to our Industrial & Infrastructure Products segment for the full year 2015, with breakeven profitability. Our decision to divest this small business unit was based on our assessment of its capacity to contribute higher earnings at a higher rate of return with more efficient use of capital at an ever-increasing rate. And we believe our capital would be better applied to other, more significant opportunities at this point in time. That said, we do remain interested in industrial-related product platforms and we do remain interested in participating in international markets including Europe.

Regarding future reporting and future guidance, we're expecting this recent divestiture of our European industrial manufacturing business will remain in our historical results as part of continuing operations and not be reclassified into discontinued operations due to its relatively small size. And our guidance update this morning reflects this.

As we've mentioned on previous calls, the third of the four pillars is greater product innovation. We continue to expect four of our current product platforms to be key areas for greater product innovation and they are: centralized mail and parcel delivery, residential air management, transportation infrastructure, and renewable energy, including green technologies.

Our xPpress Locker for centralized parcel delivery continues to gain acceptance in the market driven by increasing volumes from e-commerce. We installed 100 units in 2015 and we've already booked new orders for 40 units in the first quarter of 2016 alone. For residential housing, we recently launched roof-related ventilation and rain protection innovations that have been very well-received by contractors.

Additionally, in our renewable energy segment, we're expanding into adjacent markets, where glass held in place by uniquely-designed metal structures are gaining customer interest, like the car wash industry and outdoor canopies for retailers. These innovative customers are using RBI's capabilities to design, fabricate, and install greenhouse structures to provide a greater sense of safety and improved aesthetics to their own customer base. Additionally, this segment's solar business also is introducing innovative cost-reduced products in their segment as well.

Innovative products, which we define as products with patent protection introduced within the past three years, represented 4% of revenues for the quarter. Our objective is to approach 10% of revenues by 2020 from the 4% forecasted in 2015. This will be driven initially by internal product development, but then by acquired product lines as well.

Our fourth strategic pillar is acquisitions. We're focused on making strategic acquisitions in five key markets: postal and parcel solutions, residential building products, transportation infrastructure, water management, and renewable energy and conservation, where acquisitions can accelerate profitable and sustainable growth in these key market segments. Our RBI acquisition has performed above our expectations and we're striving to complete additional transactions this year.

Now, I'll talk about our guidance for 2016, referencing slide 10. As a result of the performance of our base business and the success of our RBI acquisition, even with continued softness in certain end markets, we expect to achieve our key financial objectives for 2016; increasing earnings, making more efficient use of our capital, and delivering higher shareholder returns than we did in 2015.

We expect 2016 total revenues in the range of $1.04 billion to $1.06 billion, an increase of approximately 1% with $1.04 billion in 2015, led by continuing growth in sales of solar racking. This revenue range for 2016 is lower than previous guidance due to the Company's divestiture in April 2016 of the European industrial business that contributed $36 million in revenues in 2015.

Despite the modest overall revenue growth this year, we are confirming guidance for adjusted earnings for full-year 2016, unchanged from our initial guidance offered in February. Adjusted earnings for 2016 are expected in the range of $1.30 to $1.40 per diluted share compared to $1.09 per diluted share in 2015.

While our Q1 earnings over-achieved against our Q1 guidance, we still have another 75% of the year to go. Raw material costs continue to rise meaningfully and there are still uncertain market conditions. Nonetheless, our full-year guidance remains unchanged, still reflecting a very favorable comparison to 2015.

Looking at our segments specifically, we expect the increased demand for residential products to continue as a result of the gradual recovery of residential housing starts, renovation activity, and our improving service levels resulting from the 80/20 initiatives. We expect that these improving market conditions will partially offset the decline in revenue from centralized mail receptacles due to the completion of a very specific two-year contract in December 2015. Further, and importantly, we expect our Residential Product segments to have equivalent profits in 2016 compared to 2015 despite the unfavorable impact of $50 million in revenue that is related to this discrete contract provided to our 2015 revenues.

In our Industrial and Infrastructure Products segment, we expect to see a strengthening of our backlog due to the opportunities provided by the U.S. FAST Act, a five-year funding bill for highways and bridges. The industrial-related markets served by this segment continue to be affected by a general slowdown and severe energy downturn. At the same time, as we said in our last call, we believe demand from commodity- and energy-related markets have flattened out and we're cautiously optimistic for 2016.

For the Renewable Energy and Conservation segment, we see continued growth in the short term as a result of demand strength for solar racking and commercial greenhouse products. Longer term, the recent five-year extension of the U.S. Federal Investment Tax Credit should support growth in solar for some time to come. Additionally, entering new markets, plus share growth opportunities, are also expected to provide long-term growth for its commercial greenhouse division.

Near term, for the second quarter of 2016, revenues are expected to increase 7% to 8% and adjusted EPS are expected to be between $0.36 and $0.41 per share compared with $0.25 for the second quarter of 2015, led by income from the Renewable Energy and Conservation segment and continuing operational efficiencies in our base business.

In summary, we're on track for a strong 2016. Our employees have done a superb job thus far adopting our four-pillar strategy, and we've built some excellent momentum so far. We remain fully committed to achieving three goals for 2016; first, increasing adjusted earnings; second, making more efficient use of our capital; and, thirdly, delivering higher shareholder returns than we did in 2015.

And, at this point, we'll open the call up for any questions that you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting a question and answer session. (Operator Instructions). Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good morning, gentlemen.

Frank Heard - *Gibraltar Industries - President and CEO*

Good morning, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Given the weather that we had in the first quarter, could you describe, on the residential, kind of the tailwind that you think came of it, especially in some categories we've seen really strong strength, so we can perhaps understand how that dynamic is impacting the business and the results that you saw?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I think that was certainly a small benefit, but, historically, and I think it will apply currently, there is a lag to when there's a flow-through of product to take care of all the good weather. And so, it certainly helped the first quarter and I think it, to a degree, will also help us in the second quarter as well, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And then, obviously, just sticking with residential, because that was an area that you guys have worked on for a long time. I think you said it was -- how many basis points associated with the 80/20 of the plant and distribution efforts that you began last year?

Frank Heard - *Gibraltar Industries - President and CEO*

The residential segment was at 300 basis points improvement.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And then --

Frank Heard - *Gibraltar Industries - President and CEO*

Towards their total operating margin improvement, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And then, so if it was 300 basis points, so what was kind of the other elements that were going into that, would you say, for the residential side?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, we also had, I would say, some -- we did have challenges in our efficiencies and ramp up for that discrete contract that we talked about, the centralized mailboxes. So that's now a favorable comparison on profitability. And I'd say the final of the meaningful reasons would be lower raw material costs, compared to the first quarter of 2015.

Ken Zener - *KeyBanc Capital Markets - Analyst*

If you were to rate those -- it sounds like the 80/20 was the number-one element, which is obviously sustainable. Was it the absence of mail or lower commodities that is helping round out that 400 basis point gap?

Ken Smith - *Gibraltar Industries - SVP and CFO*

400 basis points?

Ken Zener - *KeyBanc Capital Markets - Analyst*

You went from 5% higher. Was the material cost or the absence of the cluster mailbox contract more significant? I'm just trying to understand how much we might swing back.

Ken Smith - *Gibraltar Industries - SVP and CFO*

It's probably the centralized contract, followed by raw material costs.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And then, in RBI, could you kind of just walk through, perhaps, like the seasonality of the margins that we should expect or operating leverage? Or is the margins really dependent upon the type of contracts that you are working on at any given point?

Ken Smith - *Gibraltar Industries - SVP and CFO*

And this is for the --

Ken Zener - *KeyBanc Capital Markets - Analyst*

RBI.

Ken Smith - *Gibraltar Industries - SVP and CFO*

RBI segment.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Yes. I mean, so if sales go up X million, should it be at a 25% incremental or is really the margin dependent upon the type of contract that you're working on?

Ken Smith - *Gibraltar Industries - SVP and CFO*

They do outsource a meaningful degree of their cost of goods sold as they rapidly scaled up to meet market demand over recent time periods. So, the flow-through leverage on its inside internal fixed cost structure is not as significant as some of our other segments. So, it's in the teens, mid- to low teens at the moment and we see that expanding through the supply chain initiatives that we're helping them procure at more favorable rates. So, I do see that being expanding. And it's supplemented by specific projects that they're able to win in the marketplace that could influence that upward.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And then, one last question, if it's okay. With RBI, you mentioned incentives. I mean are there any outside contract exposures, I guess there's suppliers, that we should be aware of that might be impacting that still relatively nascent industry in terms of liabilities, if there's anything? Thank you so much.

Ken Smith - *Gibraltar Industries - SVP and CFO*

I would say our guidance includes what we expect to be forthcoming in profitability from existing backlog and expected new orders that they'll win this year. And, often times, the contract estimates at the time we quote projects are improved on, or not, depending on how projects go. Collectively, we're still expecting margins out of their business that continue to gradually go upward as they improve their efficiencies and take advantage of our procurement power and they become sharper competitors in the marketplace.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you, gentlemen.

Ken Smith - *Gibraltar Industries - SVP and CFO*

You're welcome, Ken.

Operator

Al Kaschalk, Wedbush Securities.

Al Kaschalk - *Wedbush Securities - Analyst*

Good morning, guys.

Frank Heard - *Gibraltar Industries - President and CEO*

Good morning, Al.

Al Kaschalk - *Wedbush Securities - Analyst*

I wanted just to follow up on the renewable side, real quick. The $80 million of revenue guidance you've provided or the assumption, I should say, 9% growth. That's off of your actual reported in 2015 or is that a pro-forma number growth rate?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Off of our actual in 2015.

Al Kaschalk - *Wedbush Securities - Analyst*

Alright. I wanted to switch over to portfolio management for a second, Frank. If you could -- it was good to see the industrial piece that you've sort of carved out there and exited. Are there still additional chunks or are there similar size, I guess, business units, operations that you continue to look at or are at a spot where we could see that further in 2016 in terms of potential sale? I just want to get an understanding where you're at on that.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. I think that's a good question, and I want to emphasize that the divestiture we made in Europe was a unique set of circumstances. It was a certain type of business and happened to be in a certain market tied to a very specific industry. We just didn't see a runway forward as to how we could meaningfully contribute on that basis to the long-term sustainable value-creation that we're looking for. So on that basis, we had it on kind of our initial watch list and we kind of focused on it to see whether or not -- as we did some 80/20 work and looked at the market dynamics there, we just didn't see a path forward.

You know, at the end of the day, we start with the existing portfolio and we look at in on a basis of: can we make more money year-over-year at a higher rate of return, (with a) more efficient use of capital and do that in a sustainable way? So, we look at every business in a unique way relative to the types of products, the markets it serves, and the long-term dynamics of those markets. And the balance of the portfolio, I think we've said this before, that every business from 2014 to 2015 made more money at a higher rate of return, (and) more efficient use of capital. And the balance of the portfolio, we expect to see that happen again in 2016.

So, on that basis, we have no businesses that are kind of immediately on the list and we're using that time - that, as we focus on the top customer segments with the key products, we start to spend time with the end markets to see how we can continue to innovate and transform those businesses in a more sustainable way. So, early days in the process. I think this one, it was easy to conclude, so we thought it was important that we move forward.

And, to be quite honest, I think, from our perspective, they're in better hands. I think they'll get more support. They can integrate it with other opportunities that they have in their portfolio much better than we can. And we appreciate the support that the local management team gave Gibraltar during our ownership period.

Al Kaschalk - *Wedbush Securities - Analyst*

To that point, was the operations integrated or was it, for lack of a better word, easier to separate from the footprint of Gibraltar?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. They were a standalone right from the market through to the, on the demand side, right through the manufacturing distribution side. So there's no integration whatsoever.

Al Kaschalk - *Wedbush Securities - Analyst*

Okay, great. And if I might transition to sort of a working capital and commodities question, sort of a two-parter here. But I want to focus, first: Ken, do you have the contribution on working capital, I think you called out inventory in particular, but the split between maybe the 80/20 benefit and then maybe the raw material benefit?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I would say they're probably equivalent on that $37 million figure that I quoted you, Al, or quoted to everybody. I would say it's proportionally equal, derived from lesser quantities in the 80/20 projects and the other balance from the drop in raw material costs.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. And, Al, if I recall, I think our target for 2015 on inventory was about $12 million. And I remember on the last update I think we came in just around $15 million or so. And I think the balance was, as Ken said, related to change in raw material cost inputs.

Al Kaschalk - *Wedbush Securities - Analyst*

So, I guess what I'm trying to get at is the raw material benefit. I don't know if you have a view, if you care to share. Do you view this as being more permanent or is it just where we're at in the cycle, the benefits you're getting?

And then, secondly, maybe just help us appreciate what I think is a benefit on lower commodity costs on the margin story. But, going forward, do you need to do anything different contractually or with your relationships to support you keeping more of this benefit from a margin perspective in the future?

Frank Heard - *Gibraltar Industries - President and CEO*

Okay. Al, maybe I'll speak to the balance sheet side and I'll let Ken speak to the margin side. Clearly, as raw material prices may ramp back up over time, we'll lose that, maybe, benefit of $12 million or $15 million on the core inventory values. But our plans -- we're in the early days of the 80/20 process in terms of the benefits on the balance sheet and we certainly expect to see a similar type of progress in 2016 that we made in 2015 just in general projects. And that's without some of the structural changes in the back end of the businesses, moving to more in-line processes where we'll really start to peel out some of the inventories and the fixed assets. So, I think that work will far offset any rising tide of raw material input costs.

Ken Smith - *Gibraltar Industries - SVP and CFO*

And part B of the question; as far as its effect on margins, I think about two dimensions, going forward. One is, as raw material costs rise, and they have significantly for carbon steel here in the first four months of 2016, but also the continuing and offsetting influences of continued 80/20 programs that include working capital like inventory, I think will help us sharpen not only our efficiencies internally, but, as we bring value-added programs to our customers and try to be a successful partner with them as they sell on to their end users, that we'll be able to keep a good relationship between our cost structure and our pricing such that our margins will play into it and help us deliver the kind of guidance that we've got laid out here for 2016.

Frank Heard - *Gibraltar Industries - President and CEO*

The part B of the 80/20 process on the income statement; certainly, we've made some real progress from an operating margin perspective as it relates to better strategic pricing to support our key partners, focusing on A products, and reallocation of overhead, those types of things, and footprint and all those related items. And that's been material in 2015.

As we move into the structural changes of in-lining and market rate of demand replenishment, as we get the key products in-lined, what we're going to see is a higher degree of utilization on those fixed assets, lower cost inputs, and, ultimately, lower resulting unit costs, which is going to drive our margins up on the lion's share of our key product volumes. And the result of that is we'll also see a reduction in sort of work-in-process inventory, and higher levels of service for those key items targeted with our closest partners. And the byproduct of the higher service and the shorter period of time in replenishment cycles will draw more confidence from those people and, ultimately, we'll get a greater share of their proportion of the business as they serve their customers at the user level in the markets.

So, there's a Phase 2 of this that really gets tied to some of the structural changes that we're really going to start to implement in the back end of 2016.

Al Kaschalk - *Wedbush Securities - Analyst*

Great. Thank you.

Frank Heard - *Gibraltar Industries - President and CEO*

You're welcome.

Operator

Dan Moore, CJS Securities.

Dan Moore - *CJS Securities - Analyst*

Good morning. Thanks for taking the questions.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Good morning, Dan.

Dan Moore - *CJS Securities - Analyst*

You gave a lot of color as it relates to the full-year guide. Can you give us, perhaps, a little bit more color on the growth rates embedded in your Q2 guidance for each of the operating segments?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, we're certainly going to have incremental revenue uptick for the renewable energy segment because we didn't have that for a majority of the second quarter of 2015.

Continuing in the Industrial & Infrastructure segment, that's going to be, again, unfavorable to Q2 of a year ago, again for the same reasons we commented on that segment for the full year of 2016. There are certain markets that are down, particularly the commodity-related ones. And certainly, at the moment, with raw materials costing so much less than a year ago level, that has influenced average selling prices down. So, that second segment also will likely have unfavorable comparisons on revenue compared to a year ago.

And then for Residential, we did have that discrete contract revenues in the second quarter of 2015. It'll be close to the same amount of money that we had in the first quarter of 2015 of $12 million to $15 million. And market conditions aren't that strong, are not that strong this year to overcome all of that. So, I am expecting that our Residential segment in the second quarter will be unfavorable to the second quarter of a year ago, as well. Full stop.

Dan Moore - *CJS Securities - Analyst*

Very good. It's helpful, at least directionally. Any remaining receivables on the balance sheet as of March 31st, as it relates to SunEdison?

Ken Smith - *Gibraltar Industries - SVP and CFO*

No.

Dan Moore - *CJS Securities - Analyst*

Okay. And maybe just talk a little bit, Frank, if you would, about the status of the M&A pipeline. I know there's limited amounts you can say. But maybe the nature of the dialogues you're having today versus six months ago and any likelihood, more or less, around executing a transaction between now and year end.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. Well, certainly, it would be our plan and our expectation to move forward in another acquisition between now and the end of the year 2016.

If you look at the quality of our activities from a prospecting perspective today versus maybe where we were a year ago, we did a lot of reactive, back end of 2014, a lot of reactive reviewing of incoming books through the banking organization. Certainly well-intended. But businesses that looked a lot like what we already look like from a portfolio perspective. And, as we educated that group and kind of went through a strategic thinking process ourselves, we identified kind of the market segments that we thought we'd buy into in terms of existing verticals and a couple outside as well.

And, today, we have a dedicated resource in Paul Plourde, our Corporate Development Vice President here at the office, full time, working on the new spaces. And then, we completely reallocated our group presidents, there's four of them, to spend primarily 80% of their time prospecting within their own verticals, partnered with third-party organizations outside. And then, Ken and myself spend a good portion of our time, as well, filtering.

So, if you look at... a year ago we probably looked at 20 incoming books. This year, we probably looked at north of that number from a prospecting perspective and we bought one business as we filtered them through our process. And I would say that, out of that group, we probably had serious interest in about four or five.

So, it takes longer when you're doing it proactively and you're cold calling on spaces once you quantify the attractiveness of the space, the industry segment, find the pain point in the value chain, and then go out there and knock on doors in trying to identify willing sellers. So, it's a little longer and probably a lower kill rate, but we certainly have an attractive pipeline of opportunities and we're working our way through that list.

Dan Moore - *CJS Securities - Analyst*

Very helpful. And, lastly, and I'll jump off; a lot of moving parts obviously, but given the outperformance in Q1, the improvement in residential, and some of the other factors, RBI still acting very well, would you say you're more comfortable with full-year guide coming out of Q1 or roughly the same or no comment?

Frank Heard - *Gibraltar Industries - President and CEO*

My personal opinion is I'm comfortable. The converse of what we said in our prepared remarks, we now have 25% of the year in on the books. So, I'm at least 25% more sure than I was in mid-February, Dan.

Dan Moore - *CJS Securities - Analyst*

Alright, we'll take it. We'll take it.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. I still think we feel very comfortable about the range we've offered this morning, reconfirming what we think we can over-deliver compared to 2015.

Dan Moore - *CJS Securities - Analyst*

I appreciate the call.

Frank Heard - *Gibraltar Industries - President and CEO*

You're welcome.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Thanks, Dan.

Operator

Michael Conti, Sidoti.

Michael Conti - *Sidoti & Company - Analyst*

Hey, Frank. Hey, Ken. How are you?

Frank Heard - *Gibraltar Industries - President and CEO*

Good, Michael. How are you?

Michael Conti - *Sidoti & Company - Analyst*

Good, good. Questions on the infrastructure side. I know there's a pretty long lead time with D.S. Brown, but how is the backlog looking on year-over-year basis for D.S. Brown? And if you can share with us just quoting and bidding activity within that space, if you expect that to be more back-end weighted for 2017.

Frank Heard - *Gibraltar Industries - President and CEO*

I think the latter part of that statement. Our expectation relative to the FAST Act is, is that we'll begin to see a building backlog towards the back end of 2016 and kind of a rising tide of shipments based on the length of the processing in some of these larger projects that, in some cases, can be six months to two years, from a cycle perspective. So, I think that our expectation is if we're coming off the bottom in the past years through to the early part of 2016, we'll start to see a rising tide of backlog in shipments.

Michael Conti - *Sidoti & Company - Analyst*

Okay. And then, switching to the industrials side, how we should think of margins within that segment, just taking into account the upturn in steel prices, your FIFO accounting, and then just the recent divestiture of your two metal operations? Will that impact your purchasing power at all on the raw materials side?

Frank Heard - *Gibraltar Industries - President and CEO*

No.

Ken Smith - *Gibraltar Industries - SVP and CFO*

No, it's $36 million in revenue and, of course, a smaller portion, half of that may have been raw material purchases so very small de minimis effect on our total company-wide procurement scale that we have today.

And the other part of your question, Mike, was that we're still expecting that this segment, even though it's going to have, in aggregate, 10% or 12% revenue unfavorable comparison to all of 2015, we're still expecting each of the sequential quarters going forward this year will still have favorable margin comparisons to its comparable period in 2015.

Michael Conti - *Sidoti & Company - Analyst*

Okay. And then, just last question, with the guidance. Just backing into the numbers just suggests that the second half EPS is going to be down on a year-over-year basis. What's driving that earnings decline? Is there any color you can share with us or is that just, I guess, just being conservative, just given where we are right now?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, I think as we talked about in Frank's prepared remarks, telling you about the guidance and revenue expectations, steel costs have gone up meaningfully and has essentially gone, in order of magnitude, the first of this year at $400 a ton and now over $600 a ton. That's, in my math without my solar-powered calculator, that's up 50% -- five zero. In addition, some of the end-market conditions, particularly in industrials, seem to be still jagged, even though we think they've flattened out. It's hard to predict what they'll actually be in August and October this year.

So, we've got some, my term, conservatism in what we think the whole year will play out because we've got to navigate these waters and those factors. And, hopefully, in that guidance range that we feel pretty confident about.

Michael Conti - *Sidoti & Company - Analyst*

Okay, great. And then, just the last one, on the RBI. I mean how should we think about margins? I mean if you're doing the 80/20 in the back half of this year, what exactly do you plan on doing within that space just to get margins up and how should we think about that in 2017?

Frank Heard - *Gibraltar Industries - President and CEO*

Well, I think you can look at -- when we look at RBI from an acquisition perspective, like all acquisitions we look for opportunities to get 3 or 4 points of margin expansion. And if you look at RBI, most of that will -- in a lot of cases, it comes from the 80/20 simplification process. And the RBI acquisition, what's playing out is it's kind of split in thirds. We see some tremendous opportunities in the supply chain freight management side, raw materials sourcing, and freight management, etc. And I would say that we're starting to get some of that early gains, early part of 2016 forward.

I think if you look at -- the other aspect is they had a tremendously simple business model, to their credit, and the byproduct of that, and I think Ken mentioned earlier on another question, was, in our opinion, they don't make enough of their A items. And they were growing so quickly they outsourced a lot of their cost of goods sold. So, through the investment of some roll-forming technology in their core business in Ohio and also on the West Coast, we've expanded their ability to service their large customers with the A products. And we expect that to drive some increased improvements in the margin profile.

And then, lastly, there are some areas through the 80/20 process that we're beginning to work with them on that we expect to start to see those benefits in the back end of the operating year. So, supply chain is well underway. Make-versus-buy, in terms of the roll-forming technology being brought in-house in some cases, is probably mid-year, second in line. And then, the 80/20 benefits towards the back end of 2016.

Michael Conti - *Sidoti & Company - Analyst*

Got it. Thank you.

Frank Heard - *Gibraltar Industries - President and CEO*

You're welcome.

Operator

Walter Liptak, Seaport Global.

Walter Liptak - *Seaport Global Securities - Analyst*

Hi, thanks. Good morning, guys.

Frank Heard - *Gibraltar Industries - President and CEO*

Good morning, Walter.

Walter Liptak - *Seaport Global Securities - Analyst*

Great quarter. I wanted to ask about your own internal plans. Did this quarter -- it's clearly upside to the consensus numbers and our numbers. Was it better than your own internal plan or was this in-line?

Ken Smith - *Gibraltar Industries - SVP and CFO*

This is Ken. It was better than our internal expectations. And, from my perspective, the work teams that are executing on these 80/20 programs are finding new ways and more efficiencies than, certainly, I anticipated. Frank can provide his opinion. But the work teams inside the Company are pretty amazing in a very favorable way. And what they're able to do internally and influence order rates to the upside has been very pleasing, at least to me.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. I would concur. I mean I think the 80/20 process, we've got a tremendous amount of transformation going on in terms of the results. But I've said before that the real pleasant surprise to this is how quickly our culture is changing around the concept of making more money, higher rate of return, more efficient use of capital. And here's a kind of series of tools that are helping people, who have always done good work, but now have a new way forward.

And I can tell you we just went through a quarterly review on some of what we knew were planned target projects. And I was surprised at the number of projects that are spread throughout all the businesses that are smaller in nature, but when taken in kind of the sum of their output, are going to be kind of the equivalent opportunity as some of the A projects.

So, people are really doing some real nice work and we're no longer having to, necessarily, hold people's hands. They understand the concepts and they're running with them. And we're not having to drive it from the corporate office and that's what you want. So, they're doing --

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Walter Liptak - *Seaport Global Securities - Analyst*

Yes, that's great that the culture, your employees have taken to the 80/20 process.

Kind of along those lines, in your commentary, you said third to fourth inning. And I don't mean to be silly about this, but just a couple of months ago you said first to second inning. Is that because of the employees kind of doing the 80/20 on their own and coming up with these projects? Or does that reflect, somehow, on margins, that maybe you're in the third to fourth inning of the margin improvement?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. I think on both those points. I think culturally we're shifting faster and I think we're getting more benefit sooner. We've said $25 million over the course, on the income statement, over the course of a five-year period. Our sense is, is that could be a bigger number. And it appears to be happening a little quicker than we originally though in terms of the roll-out plan. And a big part of that is not only are people getting more engaged earlier, I think, by the nature of you've got more people engaged earlier, they're finding opportunities for simplification that really wasn't on the radar screen as we put the program together. So, I think we're moving a little bit quicker and we're starting to move into some of the benefits that I highlighted earlier.

When we start to get into in-lining and MRD, that's more structural changes, we'll start to see some real benefits on the income statement. But, as we get focused on manufacturing the A items in a more focused way and a more efficient way, we'll start to see those costs go down, the inventories go down, and service go up, which will provide our customers a higher degree of confidence to focus more of their business with us, versus some of our other competitors, on the basis of price, service, and quality. So, yes, I think we're kind of third and fourth inning now.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Okay, great. And then, kind of along those lines; if you're seeing more benefits from 80/20 earlier, are you going to rethink and kind of reset some of the margin aspirations for us? It seems early to be doing that. But if you're getting more benefits, would you reset the expectations long term?

Frank Heard - *Gibraltar Industries - President and CEO*

Early days. Yes.

Walter Liptak - *Seaport Global Securities - Analyst*

Alright. Alright, fair enough. I wanted to ask about the steel costs. And with steel prices coming up, do you feel like you've got the ability to pass those prices through? It wasn't clear to me if that was going to be a headwind or if you were going to try and pass that through.

Ken Smith - *Gibraltar Industries - SVP and CFO*

I'm going to say that we are working to ensure that we provide the best value for our customers, for our products, for both themselves, because they're largely distribution partners, themselves and us to be successful in our markets. And how we navigate through this will be certainly with an eye to ensuring that our customers are fairly treated and that we're both successful in taking our products to the end users.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay, fair enough. Okay. And then, just one on the RBI business. You mentioned the growth rates were pretty nice in both greenhouse and solar. I wonder if you could break those out for us. Especially on the greenhouse side, what kind of a growth rate did you have in the quarter?

Frank Heard - *Gibraltar Industries - President and CEO*

It's approximately 10%, Walter.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Okay, great. Thank you.

Ken Smith - *Gibraltar Industries - SVP and CFO*

You're welcome.

Operator

Yilma Abebe, JPMorgan.

Andrew West - *JPMorgan - Analyst*

Hi. This is Andrew West on for Yilma. Just a quick question. When you're looking at the M&A pipeline, can you talk about just the relative size and how that might relate to your view on where you would take leverage to for the right acquisition? Thanks.

Ken Smith - *Gibraltar Industries - SVP and CFO*

The range of revenues on prospects that we continue to research and think about and come to our attention range from the double-digit millions to triple-digit millions. I'd say upwards of $250 million in revenue size to as small as $25 million, $30 million, $40 million on the other end.

And, as far as leverage, today, as I think people could compute off the earnings press release and its balance sheet, our gross leverage on an LTM EBITDA is probably around 2.0. So, very manageable, very modest. And with pro forma, with an acquisition of a particular size, at the higher end of that range I just cited, our leverage could even get to 3.0, mid-3s and I'd still feel very comfortable being able to service our debt level at that point.

Because, understand, this Gibraltar has made money, thick and thin, every year, generally averaging 5% to I think we got to 7% of revenues last year. We're keen on managing our CapEx closely. The operations continue to produce, in aggregate, good profitability, even in the lean years, post-2008.

I only see that expanding as these simplification initiatives continue to increase our profitability, take down our operating assets, and I am anticipating that the recent historical and very effective cash flows, free cash flows out of Gibraltar, will continue to keep overall leverage coming down when we do take on additional debt for acquisitions. This company generates, year-in year-out, positive free cash flow on a very healthy level given its relative small size in revenue.

Andrew West - *JPMorgan - Analyst*

Great. Thanks. And what kind of multiples are you seeing in that pipeline? Just for some context. Thanks.

Ken Smith - *Gibraltar Industries - SVP and CFO*

It depends on the seller and their appetite and what's negotiated. But I don't think we're seeing anything that approaches the high-tech industry and internet companies. So, we're still in single-digit multiples. I believe we could still come to agreement with interested sellers in assets that we're interested in and would still be in single-digit multiples on EBITDA.

Andrew West - *JPMorgan - Analyst*

Okay, great. Thanks for your time.

Frank Heard - *Gibraltar Industries - President and CEO*

You're welcome. Thank you.

Operator

(Operator Instructions). Al Kaschalk, Wedbush Securities.

Al Kaschalk - *Wedbush Securities - Analyst*

Frank, just to follow up; you had, in the prepared remarks, talked about the X-press locker and the number of units in 2015 and I think 40 in 2016, to date. Could you -- I don't know if there's additional color you can help us with that. Do you see that growing in 2016? And I think the maybe obvious question, but how should we think about the expectations there for that particular product category?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes. I think what we've seen, and Ken can add some details of this, but certainly the back end of 2015 and early 2016 we've really seen kind of the front-end side of our business really start to enjoy some -- after they got through kind of the testing phase with some of the big residential players across the country, they're starting to see, instead of buying one test system for a series of properties, they're now just defaulting to buying systems for every property they start to invest in and build. So, I think our expectation is, is this is going to continue to ramp up at a quicker rate now as we string out through seasonality of the year. Ken?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I echo those.

Frank Heard - *Gibraltar Industries - President and CEO*

At this point, I'm not sure what those numbers will look like because, as you know, this is kind of a new product introduction that's gone on over, kind of a test market, over a couple years. So, how quickly it's going to ramp now, I think, as people really engage, we haven't been down this path before so it's hard to put a number to it.

Al Kaschalk - *Wedbush Securities - Analyst*

Are you able to share or provide some color on the number of customers versus the number of units? In other words, is it one unit for 40 different customers or did you have some chunkiness to some of these sales?

Ken Smith - *Gibraltar Industries - SVP and CFO*

These are being marketed to the largest of the multi-family apartment property owners and managers in the U.S. So, there are several customers have bought multiple units of these parcel lockers that they've installed in a number of their properties that span across the continental U.S. So, the number of units that we have installed are owned by a fewer number of actual property owners.

Al Kaschalk - *Wedbush Securities - Analyst*

Great, thanks.

Ken Smith - *Gibraltar Industries - SVP and CFO*

At least a factor of three probably is a reasonable relationship.

Al Kaschalk - *Wedbush Securities - Analyst*

Great. Okay, thank you and good luck, guys.

Frank Heard - *Gibraltar Industries - President and CEO*

Thanks, Al.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Thank you.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Frank, Ken. Frank, you said $50 million. Was that correct? That seemed to be the first time I heard that number. In your comments. Is that $50 million related to the cluster postal? Is that correct? Did I hear you right?

Frank Heard - *Gibraltar Industries - President and CEO*

That was the --

Ken Smith - *Gibraltar Industries - SVP and CFO*

Contract.

Frank Heard - *Gibraltar Industries - President and CEO*

That was the revenue in calendar 2015 for that discrete contract that we spoke of.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay, good. I do appreciate that. So, based on that, doing a little math, it seems as though -- what I'm trying to understand here is, on your ventilation and your rain, given the results in other roofing categories that were very high, it seems as though -- how would you characterize the residential volume, then, ex that postal? Because it seems as though it's roughly -- if it's a 10% fiscal year headwind, it seems like it's running 10%, 11%.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Yes.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Same number for the whole year. So, is your 6% implying, really, an up 5% in residential? An the reason I say that is that it implies kind of a flat 2Q, 3Q, 4Q in residential. If that's the type of math. Is that all the lift we saw from you guys above your kind of flat roofing forecast?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Yes. I'm saying yes to your 5% statistic.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Yes, okay. And is that -- with the Owens Corning, Beacon, they're public companies that have reported on the roofing, that deal in that roofing category. Would there be a reason that your volume in residential would not be highly-correlated to the 4% or 5% increase that the companies are looking at for asphalt roofing shingle shipments? Is there a disconnect or could that be upside? I'm just trying to understand some nuances considering the heightened margins you now have in that business.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, one nuance that comes to my brain is that we do not have buy-in programs to speak of. So, channel inventory could be quite different between the channel partners they have for asphalt shingles compared to what our roofing-related ventilation stocking levels would be. That probably would be the first nuance that I'd offer up, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Do you guys have views on POS and their inventory levels within some of your customers? Or is that mostly what your salespeople are telling you apropos of their relationship?

Ken Smith - *Gibraltar Industries - SVP and CFO*

We have that information from retail channel partners.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay.

Ken Smith - *Gibraltar Industries - SVP and CFO*

But it's irregular on national wholesalers and contractors that we sell to.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. So, it just seems like you guys might -- well, not embedded in guidance. But it would be logical to assume that you would follow the activity in the shingles, it seems to me. Alright, thank you very much.

Ken Smith - *Gibraltar Industries - SVP and CFO*

I think overall, I think that's true, Ken, over a long multi-quarter time period. But the focus on one 90-day period, I think there's --

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Ken Zener - *KeyBanc Capital Markets - Analyst*

No, no. That's understood. Yes, you wouldn't see it come through. But it does seem illogical that you would be lagging a market where your product is almost always reset with. Thank you.

Ken Smith - *Gibraltar Industries - SVP and CFO*

You're welcome.

Operator

Walter Liptak, Seaport Global.

Walter Liptak - *Seaport Global Securities - Analyst*

Thanks. So, Ken, you mentioned a couple of times, and I think, Frank, you mentioned, too, the working capital this quarter, which was in a cash inflow, which is, I think, unique for first quarter. They seemed like they typically have cash outflows. I wondered if there is anything one-time in the working capital numbers and then any view of what you think working capital might look like in the second quarter, especially given that tends to be a bigger cash outflow.

Ken Smith - *Gibraltar Industries - SVP and CFO*

The first quarter this year, Walter, benefitted primarily from RBI's being now part of Gibraltar. And RBI had a really strong sales quarter in the fourth quarter of 2015. And what we saw primarily affecting the positive cash flow here in the first quarter was collections and cash coming in from RBI's customers. So, I'd like to think in every Q1 going forward we're going to have the same circumstance. But that was the underlying driver for the first quarter's improvement.

And then the second quarter, to your other aspect of the question, we have some build of working capital as we're now getting into the seasonally-stronger part of the calendar year that will influence both inventories and, to a lesser degree, receivables.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay, great. Thank you.

Ken Smith - *Gibraltar Industries - SVP and CFO*

You're welcome.

Operator

There are no further questions at this time. I would now like to turn the conference back over to Mr. Heard for any closing or additional remarks.

Frank Heard - *Gibraltar Industries - President and CEO*

Thanks, operator. And thank you, everyone, for joining us on our call today. We look forward to speaking with you on Thursday, July 28th when we expect to report our second quarter results. Thank you again. This concludes our call.

Operator

Ladies and gentlemen, thank you very much for your participation in today's conference call. You may now disconnect and have a wonderful day.
