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ROCK.OQ - Q1 2025 Gibraltar Industries Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to Gibraltar Industries first quarter 2025 financial results conference call. (Operator Instructions) As a reminder, this conference call is being recorded. It is now my pleasure to introduce Carolyn Capaccio of Alliance Advisors Investor Relations. Thank you. You may begin.

Carolyn Capaccio - *Alliance Advisors IR - Investor Relations*

Thank you, Sherry. Good morning, everyone, and thank you for joining us today. With me on the call is Bill Bosway, Gibraltar Industries Chairman, President, and Chief Executive Officer, and Joe Lovechio, Gibraltar's Chief Financial Officer.

The earnings press release that was issued this morning, as well as the slide presentation that management will use during the call, are both available in the investor section of the company's website, gibraltar1.com. Gibraltar's earnings press release and remarks contain non-GAAP financial measures, tables of reconciliation of GAAP to adjusted financial measures can be found in the earnings press release that was issued today.

Further, please note that adjusted results include -- exclude the net sales and operating results of the residential electronic locker business, which was sold on December 17, 2024.

Also, as noted on slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guaranteed the 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 details in its SEC filings, which can also be accessed through the company's website. Now I'll turn it over the call over to Bill Bosway. Bill?

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Thanks, Carolyn. Good morning, everyone, and thank you for joining today's call. We'll take you through our first quarter results and then we're going to review our current full year outlook and guidance, which remains unchanged from our previous guidance. Then we'll open the call for your questions. So let's turn to slide 3 for a review of the first quarter.

We delivered a solid start to the year with each of our businesses executing close to plan and demand in our end markets remaining consistent with the expectations going into the quarter. Adjusted sales were flat while adjusted operating income and EBITDA improved 110 basis points and 160 basis points respectively. EPS improved 19% with solid margin performance in our Residential, Agtech, and Infrastructure businesses, which collectively offsets specific challenges in our Renewables business.

We generated \$14 million in operating cash flow and \$2 million in free cash flows as we proactively invested in some pre-tariff inventory prior to our normal seasonal build.

Our demand remains solid, with new bookings for all our project-based businesses, Agtech, Renewables, and Infrastructure, each increasing during the quarter, resulting in consolidated backlog being up 30%, \$434 million, which is record level for Gibraltar. Year-over-year, Agtech bookings increased 226%, reflecting demand in both produce and structures markets. Infrastructure is up 11%, and Renewables is up 3%.

Renewables bookings and backlog were up sequentially 90% and 30%, respectively, which supports a solid second half outlook for the business.

In our Residential business, participation gains awarded in 2024 across our building accessories product lines, trims, flashings, and ventilation are helping Gibraltar outpace end market demand.

With respect to portfolio management, the Lane Supply acquisition completed in February also delivered solid performance, contributing to sales, margins, and backlog growth.

Additionally, on March 31, we completed two transactions that further expand our presence in the Residential and light commercial Metal Roofing market. We'll talk more about these in a moment.

Collectively, in the first quarter, we invested and deployed \$210 million to expand and build more presence in attractive end markets for both the Agtech and Residential businesses. We've also continued to drive value through our stock repurchase program.

To date, we have repurchased 91% of our current \$200 million authorization. This week, our Board of Directors approved a new three year \$200 million program that we will execute opportunistically with available cash, and Joe will provide more details later in the call.

Now let's switch gears and discuss the full year and our decision to reaffirm our outlook and guidance for earnings for 2025. I do think it's important we start with some recent learning, namely the business environment in 2021 and 2022, where everyone experienced incredibly high inflation across all input costs. There was also significant disruption to supply chain.

Markets may not remember, but during that time, the price of hot rolled coil steel increased \$50 per ton per week for effectively 50 straight weeks, eventually peaking at \$2,200 per ton. That price today is approximately \$900 per ton.

So although the current situation is dynamic and presents some uncertainty, we have operated through a similar, if not more challenging environment, not too long ago. That being said, last November, we began preliminary modeling and planning for potential tariffs of 20% to 30%, and what that could mean for our markets, products, input costs, and/or availability of materials.

Although there remains uncertainty in today's economy, we have a relatively clear understanding of the potential impact from tariffs based on the amount and timing of tariffs announced to date. And we believe the impact of overall material cost will be approximately 5%, an amount we also believe we will manage and mitigate during the year.

So in reaffirming our current guide, we have taken into consideration the status of five key business drivers. Number one, the impact of tariffs and the mitigating actions we have already taken or we've already taken or we'll deploy; number two, our current order input rates across each business; number three, current order backlog in each of our project-based businesses; number four, we have reduced revenue expectations for Renewables related to ongoing industry uncertainty unique to the solar industry; and number five, we have included incremental revenue and margin from our recent acquisitions.

And we'll further discuss each of these drivers during today's call, and then I'll summarize again our thoughts at the end of our comments. So now let's dive into the business segments, and Joe will start with Residential.

Joe Lovechio - *Gibraltar Industries, Inc. - Chief Financial Officer*

Thanks, Bill, and good morning, everyone. Let's start with Residential on slide 4. Net sales for our Residential segment decreased by \$2.4 million or 1.3%, driven by lower retail store traffic and soft end market point of sale activity early in the quarter, and in mail and package which is driven mainly by new construction starts from the previous year.

In the building accessories business, product sales have increased solidly, driven by participation gains we earned last year through our expansion initiatives in selected local markets, and strong acceptance of new products launched in 2024. Order entry remains solid entering the second quarter, typically the start of the season.

Now let's turn to margins. Adjusted operating EBITDA margins decreased 80 basis points and 70 basis points, respectively, remaining at strong levels despite impacts from volume and product line mix for both building accessories and mail and package. We continue to execute well and drive profitability benefits from 80/20 initiatives.

Earlier this month, we successfully completed business system conversions at two of our Residential facilities. And we continue to expect to have all locations completed in 2026.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

So let's move to slide 5. I'll give you an update on the Residential market and our expansion initiatives. So if you think about it, compared to a fairly solid market in Q1 2024, this year the market started off slow in January and February and then started to improve in late March as the construction season started to ramp up.

Retailer point of sale results were down 3% in the quarter, with a wide range of results depending on the retailer, anywhere from 1% to 12%. The ARMA report also reflected a slower market with shingle shipments down 2% versus last year.

Overall, for our business, our strength remains in line with our plan and continues to be supported by participation gains in our core building products. In fact, with the sales of trims, flashings, and ventilation up 3.5% in the quarter, we believe we outpaced end market demand as described above.

Our mail and package product sales specifically for our centralized mail solutions which are driven mainly by new construction starts from the previous year and sold through our dealer channel, were down as expected in the quarter and in line with our plan.

We remained active in our expansive initiatives and added seven local markets through two acquisitions that currently focus on the Metal Roofing end market. And these locations will also drive sales synergies for trims, flashings, and other roofing accessories in the near future.

We will continue to add more locations in 2025 to organic investment and M&A and as we expand our localization efforts to better support customers and increase our participation.

Let's turn to slide 6 and we'll discuss our recent acquisitions. So despite today's macro environment, the M&A market remains relatively active, particularly in the building products and Agtech segments, and we will continue to be engaged in opportunities as they present themselves.

To that point, on March 31, we completed two acquisitions in building products, both specializing in Metal Roofing systems, wall panels, and trim products, and both operating in attractive local markets. One positioned well in the Rocky Mountain region and one positioned well in the Carolinas.

We're excited about the leadership and management teams in both businesses. They are highly experienced in their local markets and have built leadership positions with strong customer relationships as well.

Metal Roofing continues to become more mainstream, particularly in challenging weather impacted end markets. It offers a viable substitute for traditional roofing building products. As well, we're excited for the go-to-market direct to contractor models serving both Residential and commercial customers.

We paid a total consideration of \$90 million cash for combined net sales of \$73 million and adjusted EBITDA margin of 17.8%, a multiple we review as reasonable. And we expect these transactions to be accretive this year.

Let's switch gears and we'll move on to Agtech.

Joe Lovechio - Gibraltar Industries, Inc. - Chief Financial Officer

So turning to slide 7, Agtech net sales increased 32.4%, driven primarily by the Lane Supply acquisition, which was completed on February 11, 2025.

Organic net sales decreased 12.6% as permit approval pushed two produce project start dates to the end of the second quarter. Bookings are up 226%, driven mainly by organic bookings and the addition of the Lane Supply backlog.

Segment adjusted operating and EBITDA margins expanded 270 basis points and 330 basis points, respectively, driven by productivity, project mix, and project execution. And Lane Supply is performing as expected.

Bill Bosway - Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer

So let's move to slide 8. I wanted to share with you some recent wins that support our expansion initiatives in the US. If you recall, as we mentioned in our last earnings call, we are focused on winning more opportunities to support customers for the construction of new facilities, but as well, retrofitting and servicing existing facilities.

So here are two new projects signed in the quarter, one of which has recently started after some short scheduled delays, and the other, which will begin later this year or in early 2026. So the one on the left, the Houwelings Arizona project, which will be completed in three phases, is a major retrofit project of an existing growing facility that spans approximately 5 miles long and 1 mile deep. Value of the project for Gibraltar is \$90 million.

Incremental to that, we have also entered a contract to provide daily maintenance for the existing growing operations, while we retrofit other sections of the campus. This is a first for Gibraltar, and we're super excited about that. This project started in Q2 and includes converting the existing greenhouse to a semi-closed facility with a climate corridor requiring over 140 miles of air distribution.

As well, we're redesigning and retrofitting the irrigation, heating, and screen systems and are also integrating and installing three new co-generation CHP or combined heat and power systems.

On the right hand side of the slide, you can see our new project with the University of Kentucky. Our partnership with them to design and build two greenhouse facilities, one for research and one for teaching, and then incorporate both of them into its new Ag research facility is very exciting. We have designed and we'll build a 28,000 square foot research greenhouse to be located on the rooftop of the new UK Ag research facility.

And we will also design and build a 4,000 square foot teaching greenhouse to be incorporated on the ground level of the research facility. The project value for Gibraltar will exceed \$12 million and is expected to start in Q4 this year or in early 2026.

For 2025, with our existing backlog and pipeline of new opportunities, we expect Agtech business to deliver solid growth and operating margin improvement. Based on the current timing and the project schedules, the business should accelerate late Q2 through the end of the year. We also expect to book additional projects and further build our backlog for 2025 and 2026. So let's move on to Renewables.

Joe Lovechio - Gibraltar Industries, Inc. - Chief Financial Officer

So moving to slide 9, Renewables adjusted net sales decreased \$7.8 million or 15.1%, and although bookings were up 3% versus last year, backlog was down 23%.

As we discussed in our Q4 earnings call, sales and bookings were suppressed in the second half of 2024 as customers focused on meeting industry deadlines by December 3 related to the expiration of the Presidential proclamation. Since then, new bookings have improved, up 3% versus last year and up 90% sequentially, which resulted in backlog being up 30% sequentially.

Adjusted operating margin decreased 50 basis points, while adjusted EBITDA margin improved 100 basis points. Operating margin was impacted by lower volume and field inefficiencies related to the launch and ramp of the new 1P tracker technology.

Bill Bosway - Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer

So let's move to slide 10. I'll give you an update on the regulatory trade and end market situation. The Department of Commerce has issued its final determination on the second AD/CVD complaint and assigned tariff rates to the panel manufacturers operating in these countries accordingly.

In almost all cases, the final tariff rates came in higher than what the DOC recommended in their preliminary findings. The next step in the process is for the US International Trade Commission to issue its final determinations for AD/CVD, which are expected on or around June 2. And if they are in agreement with the DOC, final orders are expected to be issued on around June 9.

Closure on this investigation is helpful for the industry as it brings a bit more clarity on cost, at least on panels imported from Southeast Asia. The higher AD/CVD tariff rates create some concern for project economics, but given there is a much more developed and diverse panel supply chain today, the industry has more options to consider when designing and developing a project.

As it relates to other dynamics in the solar market, developers are assessing four potential drivers of their business and how to proceed in this environment. As with all businesses, the potential impact from the tariffs recently announced and how to mitigate them.

Secondly, what if any impact there will be to their purchase or their power purchase agreements and what options are available to negotiate prices for new projects and renegotiate contracts for existing projects if necessary. Third, the timing and impact of the reconciliation bill, if any, to existing IRA tax benefits, namely the ITC, PTC, and 45X.

And then fourth, interconnectivity and transmission permitting, has or will the government efficiency initiative help improve today's situation or adversely impact it, and will new or existing transmission capacity be redirected in favor of fossil fuel energy production?

In general, developers are digesting a lot right now, working through potential scenarios based on a set of assumptions they're waiting to confirm one way or another. Regardless, with this added uncertainty, we believe it is likely there will be delays to existing project schedules and to the signing of new projects.

Let's move to slide 11, and we'll discuss our Renewables current market situation and the ongoing investments we're making to expand and grow the business.

So as we discussed in our last earnings call, we expected new orders to start improving in Q1, and they did. New bookings have accelerated up 3%, as Joe said, versus prior year. And all our technologies, tracker, fixed tilt, canopy, and eBOS are contributing accordingly, and sequentially new orders and backlog are up 90% and 30%, respectively.

The new project pipeline remains active, albeit customers, as I mentioned, are assessing and/or are waiting to see what happens with the new tariffs, the reconciliation bill, and the final determinations from the USITC. As a result, we are taking a more cautious view of industry demand.

And we have reduced our revenue and margin outlook for Renewables in Q2 and for the year. Our full year plan is still built on the assumption of a slower first half and a stronger second half, given our bookings activity and current backlog.

On the right side of the slide, I have outlined some key investments we have made and are making to build and further improve the business. First, we added hail stow capability to our tracker system cloud software and launched it in Q4 2024 along with commissioning improvements.

Secondly, we have developed our 1P tracker designed for pile foundations to help us expand geographic growth opportunities, which we are launching in Q4 of 2025. Third, we opened our internal distribution center to support 1P tracker in Q4 2024 and upgraded our logistics network as well.

Fourth, we're launching our next generation fixed tilt platforms in the first half of 2026. And fifth, we have reduced our fixed tilt manufacturing footprint by 50% through 80/20 initiatives. And finally, sixth, we have implemented multivariate micro-segmentation analytics to determine and prioritize additional states and local markets where our solutions create the most value for customers.

We continue to focus on winning more, where we are well-positioned today and have added focus across the Upper Midwest, where a combination of our technologies makes sense. Now let's move on to our Infrastructure business.

Joe Lovechio - Gibraltar Industries, Inc. - Chief Financial Officer

Let's move to slide 12. Infrastructure net sales decreased \$0.6 million or 2.7% as project delays push some shipments into the second quarter. Demand remains strong and backlog is increasing 11%. Quoting activity remains robust, supported by ongoing investment and funding at both federal and state levels.

Segment adjusted operating and EBITDA margins improved 230 basis points and 220 basis points, respectively, driven by strong execution, good supply chain management, and product line mix. And we expect sales growth and marginal expansion in this business in 2025.

So now let's move to slide 13 to discuss our balance sheet and cash flow. At March 31, we had cash on hand of \$25 million, which reflected our investments in Agtech and Residential M&A and stock repurchases in the quarter, and we have \$395 million available on our revolver.

During the quarter, we generated approximately \$14 million in cash from operations from net income, which funded a working capital investment of \$20 million. We invested in inventory, some of which we purchased at more favorable prices in an anticipation of tariff introductions to support our typical Q2 to Q3 seasonal build. And the increase in accounts receivable relates to collections, which are flowing in during the course of the current quarter.

Free cash flow generation was 1% of sales, which we expect to expand over the course of the year toward our 2025 target.

During the quarter, we used \$62 million to repurchase approximately 915,000 shares of common stock, and I'll cover our repurchase program in greater detail in just a moment. Our revolving credit facility remains untapped, and we remain debt free.

As mentioned, we acquired lane supply for \$120 million in cash, subject to customary working capital and other adjustments. And as we announced today on March 31, we completed two Metal Roofing acquisitions in the Residential segment for a combined approximate \$90 million in cash.

We expect to continue to generate strong cash flow in 2025 and in the coming years. Our capital allocation priorities for 2025 are to continue to invest in our organic growth in operating systems for scale with capital expenditures approximately 3% of sales. We continue to explore inorganic growth opportunities and have an active pipeline of high quality M&A.

Our strong balance sheet provides optionality and flexibility, and we remain focused in the near term on our Residential and Agtech segments. Lastly, we plan to continue to deploy capital for value creation through opportunistic share repurchases.

So let's move to slide 14 to discuss share repurchase. To date, over the life of our current share repurchase program, we have repurchased approximately 3.6 million shares of common stock at an average price of \$50.45.

At quarter end, we had approximately \$19 million or roughly 9% remaining under this \$200 million stock repurchase authorization, which expires on May 2.

This week our board of directors approved a new three year \$200 million common stock repurchase program that will succeed our current program and expire on April 30, 2028. Like our current program, this new program seeks to return value to shareholders through opportunistic repurchases to be funded by cash generated from operations and the use of our revolver, depending on timing of any M&A or repurchases. So now I'll turn the call back over to Bill.

Bill Bosway - Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer

So let's move on to slide 15. I want to revisit our 2025 guide and review the four key drivers that support our plan.

First, let's discuss driver number one, current demand or order entry in our Residential business has been consistently on pace with our Q2 plan, and we are benefiting from participation gains in our building accessory product lines. Our backlog for our project-based businesses, as mentioned earlier is very solid and is at record levels today.

Secondly, we made an adjustment to our Renewables plan. We have reduced our outlook for Renewables as developers deal with uncertainty associated with the new tariffs and AD/CVD impacts.

Thirdly, we have the impact of recent acquisitions. We have added in the incremental revenue and margin expected from the Lane Supply and our recent Metal Roofing acquisitions completed in March 31.

And lastly, tariff mitigation. We're executing our price/cost plan via the playbook we used in 2021 and 2022, which has been updated and modified for today's situation.

And I think it's important to know that our forecast for the Residential, Agtech, and Infrastructure businesses has effectively not changed from our plan for each segment coming into 2025.

So to reiterate our 2025 guidance on slide 16, we expect net sales to range between \$1.4 billion and \$1.45 billion, growing between 8% and 12%. Adjusted operating margin to range between 13.9% and 14.2%, expanding 110 basis points to 140 basis points, adjusted EBITDA margin to range between 16.7% and 17%, expanding 100 basis points to 130 basis points, GAAP EPS to be in the range of \$4.25 to \$4.50 approximately flat prior year, adjusted EPS to be in the range of \$4.80 and \$5.05, representing growth of 13% to 19%, and free cash flows as percentage to net sales will reach 10%.

We will continue to monitor the macro environment and be ready to make adjustments as necessary. While we are navigating through an interesting time period, I believe our team is well-prepared and we'll execute accordingly. And as always, I'm grateful to our teams. I'm proud of the work they do and the results that we deliver. So now, let's open the call up and we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities, Inc. - Analyst*

I appreciate the color and thanks for taking questions. To start with Residential, obviously you gave good color, as you described one of the three end markets that that the plan is essentially unchanged. Just talk about the cadence of demand over the past few months, if you've seen any impact kind since Liberation Day, and same question for your participation gains, and it sounds like they've picked up after a sluggish Q4. Just talk about, what you're seeing kind of in real time on both of those fronts.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, thanks, Dan. Yeah, from a demand perspective, real time demand continues to flow in as we had built on the plan as we expected and it's increasing as we enter the season, which, as we anticipated. From a participation gain perspective, if you recall, we talked a lot about how the timing of these gains would start to flow into the first quarter, they've started to happen that way.

That was just a matter of the incumbents being flushed out relative to inventory and us coming in and so that's worked as we had expected and then subsequent to that, we continue to expand ourselves into local markets where we weren't.

So whether it's new products, whether it's existing products where we've one more business at branches or at stores, or we've gotten into additional markets, all of it is driving towards the participation gains. And frankly if you think about the Residential markets in the last couple of years, it's not been robust to start with.

So our plan has been and will continue to be to drive towards a larger piece of the pie and to do that, you got to get local and you have to have the right products, and you got to serve customers with speed and excellence.

And I'm not saying we're perfect by any means, but we're gaining some momentum and we're going to continue pushing hard down that path and we're in a financial position to do so to maintain those investments and make those acquisitions. So that's where we think things are today, that's how demand is shaping up today and that's supportive of what we thought.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Helpful, inclusive of these, the two acquisitions, what, what's your sort of overall revenue in Metal Roofing on a pro forma basis, and how should we think about the TAM and the opportunity set there.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, well, it's first of all, it's a really interesting market and what we like about it, obviously, I mentioned earlier is the merchant profiles is really solid. We like the opportunity to go there. We have synergies that we can leverage as well on the back end of that business.

We really like getting closer to the contractor and that direct to contractor market gives you more opportunity to drive margin in that way if you perform really well. Our Metal Roofing business really started four or five years ago.

We were in that \$50 million to \$60 million range, and now with the acquisitions we made and the progress we made in the last three or four years, you're starting to see us creep towards more towards a couple \$100 million. So we're not done. We're excited about where we want to go. We've got -- we're very active right now in the M&A world. There are opportunities out there as we speak.

And we're engaged and we're going to continue to invest accordingly. So it's all about finding the right markets. And we've talked a lot about that on trims, flashings, and ventilation. It's almost the exact same approach on Metal Roofing.

It's figuring out what MSAs you want to be in and how you can do something different than maybe what, and how the market's being served today. So yeah, we're excited about it. It's got a great substitution effect. I won't bore everyone with a lot of details, but there are states that are pushing a little bit harder on building codes to drive Metal Roofing, not just the roofing, but panels where you have maybe more risk of significant weather events, and so there's a lot of good momentum behind it, and we're excited to be part of it.

Daniel Moore - *CJS Securities, Inc. - Analyst*

And I presume still a pretty small, penetration at this stage.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, the market is probably in excess of \$3 billion is how I'd characterize it. And I say that, Dan, because there's the roofing that people think about on top of the roof, what you're finding now more. Also, when you think about like commercial and Residential is the panels may be replacing siding or brick or other things. So the market continues to kind of expand if you will, in those traditional end markets that were served other ways.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Helpful. Joe, we can certainly do the math and happy to do it if, but figured I'd ask what your kind of expected revenue and EPS contribution from the two, recent acquisitions looks like for the balance of '25.

Joe Lovechio - *Gibraltar Industries, Inc. - Chief Financial Officer*

Yeah, so we kind of assumed that an accretion benefit of about \$0.15 EPS and then revenue probably around \$50 million.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Perfect. Okay, last one I'll jump back. Just curious how things are progressing at Lane Supply. In the last call you mentioned there's three other players of size in the market. Have you had -- I know it's early days, have you had dialogues with any of those at this point and, just thinking about the cadence of how quickly you might be able to ramp up penetration there? And thanks for the color.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, no, we haven't done on that front, but I will say the team's doing a nice job. They're on track. We've made some investments in additional capacity because of the demand profile that's in front of us. That equipment is coming in, to be installed, and so we're excited about, the business, and I think, we've been in now for 45 days.

So as we get a little bit further down the road, obviously we'll start taking a look at some broader opportunities in the space, but right now, there's integration work to be done. There's some synergy work to be done. And there's some investment to be get up and running as we get into the season.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Put the cart before the horse, makes sense. Appreciate the color.

Operator

Walt Liptak, Seaport Research.

Walt Liptak - *Seaport Research Partners - Analyst*

Hi, thanks. Good morning, guys. Hey, I wanted to ask about the Renewables segment and just a little bit more specifically, it sounds like you're lowering the revenue and profit outlook for that business. I wonder if you can give us an idea of what -- how much that that change was, and then, what you're thinking longer term for that business.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, so, well, I, if you're modeling, I think 15% to 20% is the adjustment. That can change. And the reason there's a range is because we've got -- put in place what we thought might be pushed to the right. It's more of a timing issue than anything else.

So as we said, we've got the backlog. I do think developers are working through some of these assumptions right now, and they need clarity, before they start signing more projects, but we've taken 15% to 20% in that range is how I think about from modeling perspective, and obviously we've been able to offset that with the strength of the rest of the business and the acquisition. So that's how the plan for the rest of the year is built.

Long term of the business, let's see what evolves and what we learned with the IRA and a host of other things. And there's a tremendous amount of work being done.

I think, it's a little bit unfortunate where it's not necessarily clear on a lot what's happened, the last month or so for a lot of different industries, but we're starting to get buckets of clarity that are starting to come out, and that's true for Renewables, particularly around like the reconciliation bill.

And there's a lot of activity with the industry and DC and helping people understand what's important, what's not, and we'll have more clarity here sooner than later, and I think that'll impact how our and when our developers, what they do next.

So that's probably the best framework I can give you today, but like I said, we feel pretty solid with what we have in our backlog and in the backlog built as we had expected. So the plan was built slow first half, second half will start to pick up as we discussed and we'll go from there as we learn more.

Walt Liptak - *Seaport Research Partners - Analyst*

Okay, sounds great. And you know maybe just to change topics at [30,000 feet], I wonder if you could talk a little bit about your supply chain, and I think you have a couple of factories that are out in China. I don't think of you as having a lot of supply from China, but I wonder if you could talk about what products or components you get from China and, could any tariffs get offset with pricing?

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, well, first and foremost, from a supply chain perspective, the one thing we all dealt with in '21, '22 was just getting access to components and materials. That's not an issue today for us. I suspect it's not for many. We, I remind people and sometimes people may not remember this, but 1.5 years ago, there were a number of -- there was an AD/CVD case on aluminum extrusions across that was trying to cover 15-plus countries.

So during that time, that really forced us to find local suppliers to help avoid and offset some of that in the event that that case was going to have a difficult ruling for folks like us. That case was dismissed, but we didn't wait for the ruling. We started actually redesigning our supply chain for aluminum extrusions to have more local capabilities.

So the other side of that is, how do you start moving stuff out of China? And we've been doing that for the last few years. We still buy some things in China. We don't have any factories ourselves in China. We do have some suppliers in China.

And where we've been able to move that the last couple of years to, Malaysia or some other parts of the world, we've been doing that. But there's still some dependency on there and we'll, we factor that into our tariff calculator, and we understand that by business, and what we have to do to overcome it, is also well-planned, I think, for each business. As I mentioned in the call, we actually went through the exercise back in November.

Because everyone was hearing about tariffs, so we just plugged in 20% to 30% and said, what does that mean? So each business has been working on this for some time.

And I feel like we have a pretty good idea of what that cost impact is. I mentioned that earlier, what it means to our material cost, and you break that down by business and everyone has a plan to offset it quarterly. That'll be done through productivity, through 80/20, through price, through mixing the business with higher margin projects, products, channel margin mixes.

So there's a lot of levers in the playbook that we learned from in '21 and '22 that I think are there, that we can utilize for each business accordingly. I'm not saying we'll be perfect with it, but I am saying that I think 2021 and 2022 are much more challenging than what we're dealing with right now as it relates to inflation associated with tariffs. So I feel pretty good about our operating capability in this environment.

Walt Liptak - *Seaport Research Partners - Analyst*

Okay, appreciate that. All right, thanks. And then the last one for me, in Residential, the -- I know of Gibraltar is always being value added with the customers and so I wonder if you could talk about how you add value with the direct-to-contractor model and if there is a value add there accretive to margins.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, it is. That's -- we've talked a lot about localization. So again, if it's trims, flashings, ventilation products, Metal Roofing, the idea of speed and being able to respond in short periods of time, whether it's 24 hours or 48 hours, matters a lot. If you're a counter person in the wholesale branch, or if you're a contractor we're dealing directly with.

Our bucket, if you think about our bucket of products as it relates to a roof, traditionally speaking, our core products, that bucket is not overly expensive. But if that bucket isn't there on time, that roof doesn't go on. So if you can outpace or outmaneuver or be more flexible or have greater speed than your comp competition, I think you can do pretty well in this space.

I think the other thing we've been doing is, coming out with some newer creative products in the last three or four years that are resonating with contractors, but again, those are all designed to one, give you confidence on the job that when installed, it's going to work, so you don't have to come back and/or create more productivity for the contractor on the job for the same reasons. The contractor doing a roof cannot come back to that job and have to work on it twice without having a major economic impact on their business.

And so we do everything we can to avoid that by involving them in our new product development. So our contractors or our people are on site oftentimes working with them to see what makes most sense. So it is new products. It's trying to drive speed throughout the chain from the time we make it to the time it's put on the roof.

And it's been in the right local markets that are underserved by competitive framework. And so, as I said, I think last call or maybe the call before, we have studied the top 80 MSAs, and on top of that, now we're going into the smaller markets where there's an opportunity as well.

So it's a very, I'd say regimented and disciplined approach to how we go out and create differentiation in the markets where we think there's an opportunity and that's -- I'm sharing with you our strategy. I just think it's hard to duplicate, otherwise it'd already be done.

Walt Liptak - *Seaport Research Partners - Analyst*

Okay, makes sense. All right, thank you.

Operator

Julio Romero, Sidoti & Company.

Justin Mechetti - *Sidoti & Company, LLC - Analyst*

Good morning. This is Justin on for Julio. On Agtech, can you discuss current project schedules and what kind of visibility they give you into sequential segment performance as we go into 2Q and then also the back half of the year?

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Yeah, Justin, it varies a little bit by type of, you've got produce and you have structures business. In our structures business, you've got a number of different, sub-segments, if you will, in market segments that we track, and they're all a little bit different in terms of how schedules work. So let me start with produce, much larger projects, generally speaking.

If it's a retrofit project and the building is already standing, once you get your share of permits, you're usually, a lot of times you're inside, so you have less disruption. If it's a brand new construction project, you may deal a little bit with obviously permits and get those final permits in place, and then you may deal with weather, typical construction kind of stuff.

But those are larger projects, and when they move a month, it can change a quarter. Doesn't necessarily change the year, but it changes the quarter. When you get on the other end of the spectrum, like the Lane Supply acquisition, they will get a store roadmap that covers the next 25, 30 weeks.

And it will tell you exactly where and in what order that they're going to do those stores in those cities. That may change a little bit. They may put and take on what cities come first or second versus what they thought before.

But in general, you get that visibility out there, and that's one of the reasons that the Lane acquisition also helps us, is because when you have the very large projects, you have a little bit of unpredictability with the things I mentioned, but when you have a cadence-like Lane, that kind of help offset that and gets the overall business a little bit more predictable.

So I would say, think about this and remember this too. When you see our backlog, remember, those are signed contracts. They have deposits. Those projects are going to happen.

The scheduling can vary a little bit versus what the original plan was for that customer, and we react to it accordingly. But I would say with the mix of business as we're developing it, we're going to be a little bit more predictable.

And right now the way things are flowing, you'll see a pretty strong second half starting really in Q2, and I shared with you a couple of projects just recently signed, that's not all that we signed, but the ones we just recently signed. So hopefully that gives you a little more color on. How we think about it, but that's how the business actually works in Agtech.

Justin Mechetti - *Sidoti & Company, LLC - Analyst*

Very helpful. Thanks for the color there. And then can you speak to capital allocation priorities going forward? And does the new \$200 million repurchase authorization signal you will be more opportunistic with repurchases going forward?

Bill Bosway - Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer

Yeah, I don't think we'll be any more or less opportunistic than we have been. I think we did a pretty good job. If you recall the first program we launched three years ago, we came out and said, listen, based on the markets right now, the amount of M&A activity in our segments. And that's when interest rates really shot up. We didn't anticipate a lot of M&A. So we said, let's, return this way to our shareholders just because we didn't think the opportunities would be there as much.

I would say with the framework of the business and how we expect it to evolve and the cash that we can generate, we feel like given a more active M&A landscape, we're going to continue to deploy more there, but we're going to have capacity to actually return as well through our buyback program.

So you'll see us do both. As Joe mentioned, it will be opportunistic on the buyback, but as these opportunities that we're currently involved in, they continue to evolve like we expect, you'll see us deploy more M&A or continue to deploy M&A, particularly in Residential and Agtech like we have in the first quarter.

So that's the way we think about it. Those are the two drivers of how we're going to deploy and then of course, we'll support the ongoing investments we need in the business, which is relatively small in comparison. So put ourselves in a really good position, because we're going to generate a lot of cash. We have a good balance sheet. It's going to allow us to do more than one of the two, and that's how we're approaching it.

Justin Mechetti - Sidoti & Company, LLC - Analyst

Great. Thanks again for the color. That's all for me.

Operator

Daniel Moore, CJS.

Daniel Moore - CJS Securities, Inc. - Analyst

Yeah, just in general, the project based businesses obviously backlogs remain very healthy as you described, that said across almost every business and industry, that we've seen projects are being pushed to the right. So are you seeing any of that in Agtech, Infrastructure, or is it, primarily isolated to Renewables right now?

Bill Bosway - Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer

We've actually seen it in Renewables, Dan, and what I'm -- what we anticipate is that that will happen. So we've made those adjustments to the plan, so there's no surprise on Renewables if it does. And frankly, with what's been going on in Renewables in the last three or four years from an end market perspective, every one of these situations that came about, whether the investigations or what have you, resulted in, projects getting pushed.

So I can't tell you today that we've seen that actually happen, but what I think is going to happen is why we've adjusted Renewables down because there's a history of the last three or four years where that actually happens.

We are not seeing that in Agtech or Infrastructure, outside of the common stuff moving around for a delay on permitting or whatever. But I think when the tariffs were announced, there was a short pause, as there was for everybody to see what if anything this would impact respective businesses, and I think our growers have realized, independent of the day, food is food.

It's not discretionary. It's fruits and vegetables and their demand profile hasn't really changed. Remember also, we have business in Canada and we have business in the US. So that has continued to move on and I would say the pipeline there of opportunities has not slowed down, and the ones we're currently involved in right now continue to seem to move forward.

So that's good news, and I think, as I mentioned earlier, Lane has not slowed down. In fact, I think, they've accelerated a little bit more. So I think, I suspect if you're in a discretionary spend world and your business really focused on that or supported that, there's probably a little different view. Our world is not discretionary.

We're not remodel, we're repair, we're food. We are, I would say more deemed, I'm going to say deemed potential, that's not my point, but it's really not a discretionary world that we live in, per se. So that piece, I'm not saying we're immune to everything, but I think that is a reality with our business that hopefully it's helpful, to navigate through whatever. We're going to see the next few months. I do not believe the world is going to come to an end.

I believe things will start getting some clarity on a number of fronts over the next four or five months. There's a lot of reasons for that.

I think will happen and I don't think the terror situation as announced will be where we land either. We have planned as if it is going to be, but I'm not entirely in the camp that, that's going to be the case. So we'll learn to collectively in the next few months, but that's where my head is right now.

Daniel Moore - *CJS Securities, Inc. - Analyst*

Makes sense. Okay, thank you again.

Operator

There are no more further questions at this time, I would like to turn the floor back over to Mr. Bosway for closing remarks.

Bill Bosway - *Gibraltar Industries, Inc. - Chairman of the Board of Directors & Chief Executive Officer*

Well, thanks. Hey, listen, everybody, thanks for joining us. I know it's a pretty interesting time right now. There's a lot going on. There's a lot to think about. We feel pretty good about where we are and I'm not saying, again, it's easy, but I think we're prepared and we're working through it.

Coming up, we are -- we do plan to present the CGS Virtual Conference in May, the Jefferies Power, and Wells Fargo Industrial Conferences in June, as well as other events coming up. So thank you again for your ongoing support of Gibraltar, and we really look forward to giving you an update again after the second quarter. So take care. Thank you.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time. And thank you for your participation.

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