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ROCK.OQ - Q4 2021 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 23, 2022 / 2:00PM GMT

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PRESENTATION

Operator

Greetings. Welcome to the Q4 2021 Gibraltar Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to your host, Carolyn Capaccio of LHA. You may begin.

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

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

Results of TerraSmart, which was followed at the end of December 2020 are included in year-to-date 2021 results. 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. Also, as noted on Slide 2 of the presentation, the earnings press release and slide presentation contains forward-looking statements with respect to financial results. These statements are not guarantees of future performance and the company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website. Now I'll turn the call over to Bill Bosway.

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

Thanks, Carolyn. Good morning, everyone, and thank you for joining us today. We'll start with an overview of the fourth quarter as well as full year results, and then Tim will review our financial performance. We'll then pivot and discuss 2022, discuss our plans and guidance for the year, and then we'll open the call for your questions.

So let's turn to Slide 3 titled 2021 year-end review. So our fourth quarter results were within the range that we previewed on January 27 and capping off a year of good top line growth as we continue to build leadership positions in our end markets. The overall business grew 29.8% with organic growth contributing 9%, driven by market price and participation gains across the business. Our acquisitions contributed growth of 21% and continue to support our demand momentum as we enter 2022. Customer order activity remained robust during the year with order backlog of 16%, reaching $344 million at the end of the year -- or at year-end, sorry. While margins were lower than expected, we generated positive growth in adjusted operating income, adjusted EBITDA and adjusted EPS despite headwinds throughout the year from accelerating inflation and availability of materials, labor and transportation. As well, we worked diligently to manage and to minimize disruptions from COVID and keep our teams safe, particularly in the first and fourth quarters when COVID infection rates were at their highest.

Adjusted operating income grew 7% to $124 million. Adjusted EBITDA increased 9.1% to $157 million and adjusted net income grew 2.5% to $92 million or $2.78 per share. Although our profitability improved modestly during the year, it was well below our expectations and reflects an environment that in hindsight really pressure-tested our systems and processes, our organization and some of our operating paradigms, all of which we have had to modify and improve to drive better performance as we move into 2022.

In the fourth quarter, we turned the margin corner in our residential business. Margin improved 70 basis points over last year, and we delivered revenue growth of 24.4%. In Agtech, margin again improved sequentially and versus last year. We held margin effectively flat on 17% lower volume while managing through inflation and supply chain challenges. We also made significant progress integrating our business, improving systems and just general execution. In infrastructure, we delivered strong growth in the quarter and for the year, while improving operating margin for the year as well. And in renewables, despite a difficult fourth quarter, we really fought hard to offset industry supply chain issues and significant inflation in the entire year and executed customer demand delivered adjusted EBITDA of $44 million, an increase of 31% over 2020.

Let's switch gears, turn to Slide 4 and talk a little bit more about inflation in the current operating environment. The fourth quarter marked the fifth consecutive quarter of high commodity prices. The market also experienced price movement across our 7 core commodities. While though still at elevated prices versus the beginning of 2021, we started to see market price reductions in hot rolled coil steel, aluminum, polypropylene resin and ocean freight rates during the quarter. Unfortunately, aluminum pricing reversed its course, and increased again in January.

Structural and plate steel continued to rise during the fourth quarter, and both are currently forecasted to remain elevated or rise further in Q1 2022. Over-the-road transportation prices also increased during the quarter, and we anticipate these will remain higher in 2022. Despite an elevated price situation, today's commodity environment is somewhat different. First, we are not currently seeing and nor do we expect to see severe and rapid price increases like we experienced throughout 2021. For example, starting back in Q4 2020, hot rolled coil still increased $25 per ton per week over a 12-month period, creating really an incredibly challenging and record-setting situation that we really don't expect to repeat. Second, we expect better supply consistency and have made investments to minimize the type of supply chain disruption we experienced in 2021. So given our learning in 2021, we've had to evolve our operating playbook to manage through a much different market environment. And we continue to focus on 5 key initiatives, all of which were active or activated during 2021.

First, keeping price and cost and balance and continue to manage in a time and effective manner. So as demonstrated in Q4, the residential business was able to balance price cost and generate both revenue growth and margin improvement over last year. Our project-based businesses, that's renewables, Agtech and infrastructure continue to improve their ability to better align project pricing and cost throughout the project life cycle. The teams have implemented various pricing approaches, whether it be increases, surcharges, et cetera, and demand shaping strategies for better alignment with customers and projects. Secondly, we really have continued 80/20 with focus on product line and customer simplification initiatives as well as lean enterprise and system optimization to support our project-based businesses and field operations. Third, introduce new products with enhanced value propositions and cost-reduced products through design modification, alternate materials development, supply chain optimization. Fourth, implement more automation for labor optimization, specifically during times for the year where markets -- where our markets experienced higher seasonal demand. We're launching initiatives in our residential business and investing in more autonomous installation vehicles to support our renewable skilled operations business. And lastly, fifth, invested inventory of key components where we believe there is ongoing availability and price inflation risk.

So 2021 was a challenging year, a year with multiple headwinds converging simultaneously with both speed and magnitude, something I think many businesses have never experienced, including our team. But I am proud of our team. Throughout the year, we enhanced our leadership position across our end markets. We generate significant revenue growth. We remain steadfast and focused on macroeconomic and various industry headwinds as well. The long-term fundamentals of our end markets haven't changed. They remain very attractive. And although we expect some short-term industry headwinds, particularly in the solar energy market, the investments and improvements made in both 2020 and 2021, we're going to drive better performance starting in 2022. And really, that's as demonstrated by our progress in residential, Agtech and infrastructure businesses in the second half of 2021. With that, let me turn it over to Tim for a more detailed review of our results.

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

Thanks, Bill, and good morning, everyone. I'll take you through our consolidated segment results, starting on Slide 5. As a reminder, my discussion will cover results from continuing operations. Also, we've added adjusted EBITDA and adjusted EBITDA margin to our non-GAAP disclosure metrics set as these measures afford greater comparability of our segment performance across our sectors. Again, you can find reconciliations of GAAP to non-GAAP measures in our press release issued today. Consolidated fourth quarter revenue increased 26.1% to $334.4 million. Organic growth of 8.6% was driven by pricing, volume and participation gains in the residential and infrastructure segments despite continued supply chain challenges in the quarter. We generated 17.5% growth from the 2020 acquisitions of TerraSmart and Architectural Mailboxes. Total backlog at quarter end approximated $344 million, up over 16% from fourth quarter 2020, driven by continued end market demand across our business. Adjusted operating income and adjusted EBITDA increased 1.5% and 4.7%, respectively, in the fourth quarter with adjusted EPS down 8.5%. Adjusted operating margin and adjusted EBITDA margin in the quarter were impacted, as previously announced, by compression in the renewable segment as well as higher material, transportation and labor costs, more than offset by pricing actions, volume and participation gains in residential, lean productivity initiatives and favorable product line mix and infrastructure and lean enterprise initiatives and supply chain improvements in Agtech.

Our income tax rate in the fourth quarter increased over the prior year rate due to a difference in the allocation of income to states where we generated revenues. Lower excess tax benefits from stock compensation and certain return to provision adjustments. Consolidated revenue grew 29.8% to $1.34 billion, with organic growth contributing 8.9% and acquisitions adding 20.9% as we executed our market demand with growth limited by macro challenges and supply chain disruption.

Adjusted operating margin and EBITDA margin contracted 200 basis points and 220 basis points, respectively, as labor, transportation costs accelerated during the year. Residential achieved positive price/cost balance in the fourth quarter. Renewables is an industry struggling with panel and key component availability and consistent project schedules. Agtech margin improved sequentially through the year and infrastructure delivering margin improvement. Our income tax rate increased over the 2020 rate due mainly to a difference in the allocation of income to states where we generate revenues. And in 2021, we generated more income in higher tax states, mostly the result of the acquisition of TerraSmart, which was strong in the Northeast this year and that's where taxes tend to be higher.

2021 adjusted net income increased 2.5% to $92 million, and adjusted EPS increased 1.8% to $2.78 per share, with adjusted EBITDA increasing 9.1% from $144.3 million to $157.4 million. These results are in line with the preliminary results we issued in January, and as I mentioned, demand remains strong in sustainable end markets with double-digit backlog growth.

Now let's review each segment, starting with Slide 6, the Renewable segment. Segment revenues were up 68.3%, driven by the TerraSmart acquisition. Organic revenue decreased 2.3% and pro forma revenue contracted 5.7%, driven by product slippage on supply chain challenges continue to impact field operation schedules, disrupting solar projects. On a pro forma basis, we grew over 9% for the full year. Despite the slippage we experienced, we saw significant growth from our TerraTrak tracker in both fourth quarter and full year and saw over 450% increase in subscribers to our Sunfig solar field design optimization tool in 2021. Underlying demand remained strong in the quarter despite the market headwinds I mentioned with backlog up 27% from prior year period to $167 million on continued strong market demand.

Segment Adjusted Operating Income decreased to $1.4 million and adjusted EBITDA decreased to $3.8 million. Adjusted operating and EBITDA margins contracted to 1.3% and 3.5%, respectively, impacted by the 2 factors we previously disclosed. First, by field operation efficiencies created by panel availability and scheduling management, resulting in significant project rescheduling that drove higher cost per unit of revenue and redeployment of install crews to racking field modifications to support panel type and option changes. And second, unanticipated and additional inflation in structural steel, which impacted canopy racking projects. We expect the margin impacts from affected canopy projects to roll off in the first half of 2022.

Our product margin mix was also impacted in the quarter by additional installations of our new TerraTrak tracker product and margins for this product should improve as we build experience and scale. On a full year basis, we grew revenue 81% or 9.3% on a pro forma basis and delivered adjusted operating margin and adjusted EBITDA margin of 8% and 10.2%, respectively. Our integration of TerraSmart into the renewables business remains on track with organization, process development, information systems, supply chain and in-sourcing activities gaining momentum per plan. And we expect to deliver double-digit margins for 2022 with margin recovering as we move throughout the year.

Let's move to Slide 7 to review our Residential segment. Segment revenues increased 24.4%, our sixth consecutive quarter of double-digit growth. Organic revenue grew 23.7%, driven by increased pricing to combat continued materials, transportation and labor cost inflation, participation gains driven by expanding share of wallet with existing customers and new customer additions, geographic expansion in the Midwest and product wins on both new and existing platforms. For example, an expansion of our metal roofing products with both new and existing customers. The timing of the Architectural Mailboxes acquisition contributed slightly less than 1% of the growth, with integration of this business on track.

Segment Adjusted Operating Income and adjusted EBITDA grew 29.9% and 26%, respectively. Adjusted operating and EBITDA margin expanded 70 basis points and 30 basis points, respectively, as price costs better aligned through pricing actions and slowing inflation for some commodities. We experienced less supply chain disruptions in Q4 versus the prior 2 quarters and the success of additional 80/20 initiatives as well as market and product line mix benefits, along with better productivity as labor management improved. We continue to work with our supply chain partners to support our customers' needs and are maintaining focus on price/cost management, simplification, in-lining and automation. We expect continued top and bottom line growth in this business during 2022.

Let's move to Slide 8 to review our Agtech segment. Segment revenue decreased 16.9% as a result of timing of revenue for produce projects was impacted by supply chain disruption and continued delays in Canadian permitting related to water rights. And as the timing of cannabis projects continue to be impacted by delayed permitting at the state and local level. The commercial greenhouse business, however, continues to experience solid growth across core product lines serving the retail, institutional and car wash markets. Order backlog increased modestly in the quarter with January 2022 bookings driving backlog as of January 31, up 22% over year-end and up 34% over last January. Segment adjusted operating and EBITDA margin improved 120 and 90 basis points, respectively, over the third quarter despite revenue delays and additional inflation in key input materials through continued execution from lean enterprise initiatives, ongoing integration activities, successful efforts to optimize the supply chain, particularly in the sourcing of roofing systems and glass, business mix benefits and improvement in product margins. The margins were essentially flat year-over-year despite the 16.9% reduction in revenues, which demonstrates the work we've done during 2021 to improve the operating performance of this business. Going forward, we expect positive margin momentum to continue as we convert strong backlog and make additional system improvements and benefit from improved mix.

And let's move to Slide 9 to review our Infrastructure segment. Segment revenue increased 33.1%, driven by solid demand for fabricated products, given additional availability of funding and by acceleration in demand for non-fabricated products as customers caught up on projects deferred from 2020. We expect to see the impact of incremental government spending on infrastructure towards the end of 2022. Order backlog increased 12% to $47 million with solid demand moving into 2022. Segment adjusted operating margin was up 10 basis points as the benefits of 80/20 and favorable mix offset Q4 headwinds of structural and plate steel inflation and labor availability challenges in the manufactured products, along with the closure for over 100 days of a supplier due to Hurricane Ida, which affected higher-margin non-fabricated products. Adjusted EBITDA margin decreased 130 basis points as relatively fixed depreciation and amortization was a smaller percentage of higher revenues. We expect continued improvement in both the top and bottom line for this business in 2022 and expect to begin to see the impact of the federal Infrastructure Investment and Jobs Act towards the end of 2022.

Now let's move to Slide 10 to discuss our liquidity position. [We had] $40 million of cash from continuing operations in the quarter, which was lower than our original expectation as March compression impacted net income, and we expanded our investment in inventory to guard against continuing supply chain disruptions and ensure we have material to meet our customers' requirements. Working capital benefited from a substantial reduction in accounts receivable through cash collected, and we paid down $37 million on the revolver during the quarter.

On December 31, we had $369 million available on our revolver, cash on hand of $13 million and our net leverage was approximately 1/10 of a turn. We expect to pay the outstanding balance on our revolver during 2022 using cash flow generated from operations. We expect to return to more normal levels of free cash flow during 2022, driving strong liquidity for growth. Now I'll turn the call back to Bill.

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

Thanks, Tim. Let's move to Slide 11, and we'll give an update on our portfolio and our focus for 2022. So as I mentioned earlier, the fundamentals supporting our end markets remain robust, and we continue to build and strengthen our leadership position in each of our markets. Over the last 2 years, we have grown revenue in each business faster than the respective market growth rates.

It accomplishes through investment in organic growth initiatives and/or key acquisitions. Our growth is a result of solid market drivers, participation gains, price management and adding faster growing business to our portfolio. Since 2019, we've also simplified our residential, renewables and Agtech platforms, taking 18 different operating units and organizing them to 5 businesses going forward. Our simplification and focused effort, covered building and strengthening the organization, consolidating legacy companies, integrating acquisitions, new brand launches and executing day-to-day business during a challenging operating environment.

A lot of good work has been completed to strengthen the portfolio, our business systems and our organization. Our residential and infrastructure businesses delivered solid adjusted operating margin performance in 2021, while our renewables and Agtech adjusted operating margins were short of plan. These 2 businesses experienced industry-specific headwinds in 2021, but we continue to make investments and improvements during the year necessary to help us scale and deliver double-digit margin performance in 2022.

So let's move to Slide 12, and we'll discuss our key trends and initiatives for each business, and let's start with renewables. General market activity remains robust in the commercial and industrial market segment as developers anticipate industry supply chain disruption and inflationary concerns to subside as we move further into 2022. The industry and our customers continue to address panel supply in a variety of ways with the intent of lessening disruption to their projects. Customer order backlog remains strong and is up 27% to $167 million, reflecting general demand strength in the market.

Here's a quick summary of what is driving our ongoing panel supply concerns for the industry. First, the Withhold Release Order, WRO on silicon-based products made by Hoshine Silicon Industry, which is located in Zhejiang province. The WRO was issued by U.S. Customs and Border Protection back in June of 2021 as a reaction to allegations of companies in the province using forced labor. Hoshine Silicon Industry is a large producer of industrial silicon and other Chinese polysilicon companies use to make solar-grade polysilicon. The WRO currently banned any solar panel products containing Hoshine materials from entering in the U.S., but WRO is also starting to allow solar panel products to be imported if the importer can verify Hoshine materials are not contained in the products. Second, the anti-circumvention trade case recently filed with the Department of Commerce focused on preventing -- focused on preventing importers from circumventing import duties on solar panels. This is the second petition filed with the first petition being dismissed in November 2021. And an initial response to this claim is expected sometime in March. As both issues continue, we expect company sourcing panels to continue to evolve supply chain strategies, sustained compliance while finding more consistent sources of supply.

General inflation has been substantial in the solar industry over the last 12 months, effectively 2021 was the first year the industry has experienced inflation since its inception, creating quite a shock wave for everyone to absorb. The industry has struggled with a rapid and continuous acceleration of input costs the entire year. That being said, we have recently seen price declines in hot rolled coil steel, which is a positive development for the industry. We've also seen the rate of price increases for structural steel begin to slow. Although we expect commodity prices to remain elevated, the price stability we are seeing today allows the industry to plan and execute across projects more effectively. Finally, as it relates to ITC benefits, we do not expect any change in the current benefit structure during 2022, and we will follow policy discussions as they evolve. So to summarize, the solar industry continues to experience headwinds as we move into 2022, mainly panel supply and elevated input costs and while our customers are optimistic these headwinds will start to subside during the year, challenges similar to those we faced in the fourth quarter persisting in early months of 2022. We expect margins to step up considerably starting in Q2 and to continue for the full year, given the customer quoting activity is robust, backlog is solid and assuming more commodity price stability.

So it's critical we maintain our focus and flexibility and agility in this market and execute on our top 5 initiatives for the Renewables business. First, we must work closer with customers to understand potential supply chain disruptions earlier in the process and collaborate on supply chain solutions to optimize project management. We must continue to upgrade and scale our systems and process capability to deal with today's market and customer dynamics and inherently support the growth momentum we have. Third, we must continue the growth momentum of our TerraTrak tracker technology and drive margin improvement as we scale and gain experience. Fourth, we also must implement the TerraSmart acquisition cost synergies planned for 2022, specifically our insourcing and supply chain initiatives. And then finally, fifth, we must continue to optimize our go-to-market strategy, engaging customers earlier in the process, helping them to find the right solution set that delivers the best returns for their solar project investment.

Staying on Slide 12, let's now discuss the residential trends, our assumptions and some key initiatives for 2022. As with our other end markets, inflation has significantly increased input costs in the residential market and new home pricing has increased substantially. As a result, we have a relatively hot market, but inflation is not the only driver of the current situation. We also continue to see a supply shortage for single-family homes driving a favorable demand dynamic for new and existing homes as well, there is a relatively large inventory of homes aging out, in need of fundamental repair and upgrades over the next few years.

While we expect multiple and straight increases to have some impact on future investments, the fundamental support in the solid housing market remain positive. We exited 2021 with solid customer backlog and order activity in line with supporting a good start for the year. Our demand is supported by market growth, price management, participation gains and customer inventory management to mitigate potential supply chain disruption going into the second and third quarter is traditionally the peak demand quarters for the industry. We believe the industry is focused on preventing the type of supply chain challenges that experienced both in 2020 and 2021.

So there are 4 core initiatives for the residential business. One, continue to gain participation through new products and services for new and existing market segments and geographic expansion with customers in regions. Secondly, we must continue our price management initiatives and proactively partner with customers as market dynamics evolve. Third, execute our ERP system upgrade to further advance our digital capability with customers to support collaborative business system optimization. For us, driving efficiency and improving the cost of doing business with us is an important differentiator for our business and for our customers. And finally, fourth, accelerate 80/20 and automation projects to lower our labor input per dollar of revenue generated, particularly during our peak demand periods when we acquire additional labor in our facilities.

Let's move to Slide 13 to review the trends and our assumptions and key initiatives for both Agtech and Infrastructure segments. To start with Agtech, in Agtech, we expect investment in the produce industry to grow 7% to 8% in 2022, similar to the annual growth rate over the last 5 years. Commercial growers continue to invest in controlled environment agriculture for a number of reasons. First, the economics of large-scale high-tech controlled environment agriculture, which has been around for 30-plus years continues to be very attractive. Secondly, the ability to supply produce across a larger selection of fruits and vegetables year-round via multiple growth cycles is also inherently attractive to retailers. Third, the environmental footprint for controlled environment growing operations significantly reduces the land and water requirements versus traditional outdoor farming and fourth, the speed of innovation in both seed development and optimal growing solutions is moving at a rapid pace and expanding the market accordingly. We also expect our commercial business momentum to continue in both retail and car wash segments. In retail, we are expanding with a new customer and our exclusive partner for car wash structures continues to expand nationally. In cannabis, we expect after a year of delays and limited progress, licensing processes will accelerate for states that legalized cannabis back in 2020. And this should start to benefit the sector in these states in the second half of this year.

So we have 3 core initiatives for the Agtech business. First, now that we have worked through the lower margin customer backlog inherently with thermal acquisition, we must execute our new higher-margin produce projects and deliver margin improvement as planned. Secondly, we must execute the rollout of our greenhouse structures with our new retail customers and continue to scale and ramp expansion plans with our carwash partner; and third, strengthen our supply chain for roofing structures and glass to eliminate and/or minimize project disruption in the field and reduce overall project costs.

Switching to infrastructure, in our infrastructure business as the economy has improved, we expect state DOT budget funding to become more consistent and supported more predictable cadence. This, in turn, should also drive solid investment in surface protection for bridges, runways and structures, which we started to experience in the second half of 2021. Legislature's implementation of the infrastructure bill and directing its funding should drive additional demand starting later in the year. We also expect prices for structural and plate steel, both key commodities used in fabricating our joints and bearing products to remain elevated. We have 3 core initiatives for this business.

First, we must mitigate structural steel plate inflation by improving our quote-to-cash process with customers, [accelerate] 80-20 and optimizing our manufacturing footprint. Secondly, we expand our engineering capacity to support growing demand as the core market continues to recover and additional funding from the infrastructure bill makes its way to state DOT budgets. And then third, we need to continue to upgrade our systems, improve forward processes and manufacturing operations to maintain strong profitability in the business.

So now let's move to Slide 14, and we'll review our 2022 guidance. So as we enter 2022, our demand and order backlog is solid across the business and the robust long-term fundamental supporting our end markets remain intact. We expect the market environment to be dynamic as we move into the year as input costs remain elevated, labor, transportation and pandemic challenges remain. I'm confident given our learning experience in 2021 and the investments we made in our organization systems and processes, we have enhanced our ability to deliver full year growth and margin expansion in 2022 as we continue to execute towards our 2025 objectives. Our guidance for revenue and earnings for the full year 2022 is as follows: Consolidated revenue is expected to range between $1.38 billion and $1.43 billion compared to $1.34 billion in 2021. GAAP EPS is expected to range between $2.80 and $3 compared to $2.25 in 2021. And adjusted EPS is expected to range between $3.20 and $3.40 compared to $2.78 in 2021.

Finally, I just want to say thank you again to everyone on the Gibraltar team for their effort and resiliency in 2021. Frankly, a year unlike any -- most of us have ever experienced. Our learning in 2021 has created tremendous opportunities for us in 2022, and we really look forward to getting after it. So with that, let's open the call up and take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Daniel Moore with CJS Securities.

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

Maybe start with renewables. Pro forma revenue declined about 6%. What was the volume impact -- and what was the impact from pricing? And then we'll get into the details a little bit more.

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

Yes, Dan, there's obviously some pricing in there. It's not as large as some of the other businesses just because of the timing. But the volume push was really on just schedule slip, not on a reduction in demand from the market. It's just getting the projects queued up and going.

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

And when I look at the margin impact on a year-over-year basis, how much of it was supply chains, solar panel availability, schedule slip as you described versus price/cost timing of raw materials?

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

Yes. I sort of split it 60-40. 60% of the incremental costs we experienced related to the sort of schedule disruption in supply chain and 40% of it related to the material cost and really specifically the structural steel inflation.

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

And the 40%, when do we expect to get that back?

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

We've adjusted all the projects we have, and so there will be some hangover as we work through the rest of those projects. We think all of it's gone by the end of the second quarter.

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

Got it. And then the -- maybe same question quickly for resi, what was the kind of general breakdown of price versus volume and strong growth there as well as participation gains?

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

Yes. I think, again, the second half of the year was more price than volume in the resi. But we continue to get expansion, I called out, both geographically, we picked up some additional customers in the Midwest, and that's based on some work we started over a year ago when we sort of expanded our wholesale team to broader regions that we usually hadn't historically covered. And also, just some wins with both new and existing customers around -- in this instance, steel roofing products. And a bit of that is driven by the fact that we have supply. We can actually turning order in however many days and not everybody in the industry can do that. That's part of the reason we're carrying more inventory today than on a day's basis that we would have.

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

Got it. And maybe one more, and I can jump back. But the -- in terms of the guidance, the EPS and EBITDA generally in line, the top line implies about 5% growth at the midpoint -- sorry, for the redundancy in the questions, but how much of that is price given the ramp in raw material inflation and pricing actions we've seen and how much is volume, it just seems to imply a relatively low volume growth, given that dynamic relative certainly to your longer-term expectations? And any comments about the cadence of kind of volume growth throughout the year.

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

Yes. I think, Dan, if you look at -- Bill laid out on one of the slides, sort of the inflationary environment and called down sort of our outlook for 2022 material costs. And most -- to me, most notably cold rolled, hot rolled, which is the -- we use -- that's the commodity we use the most of. And that has declined a bit since it peaked during the fourth quarter. And so our plan anticipates some pricing adjustment to recognize that as that cost flows through our system. And it's not a one for one because obviously, transportation costs, labor costs are up, but we usually do adjust pricing when the raw materials moved significantly and so we baked some of that into the plan. So I think overall, you've got probably a little price reduction on the whole business, along with growth is really how you get to the sort of 5%.

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

So mid-single digit or higher volume growth implied at the midpoint, is that correct?

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

Yes, that's fair.

Operator

Our next question is from Julio Romero with Sidoti & Company.

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

So regarding the renewable segment, I appreciate the guidance and your expectation for double-digit segment operating margin into '22. What does that assume in terms of the field operation inefficiencies you're seeing now? And I know you mentioned the assumption that renewable supply chain disruptions related to the WRO should continue through 2Q I think one of your slides mentioned, but if you could talk about maybe the range of outcomes for that WRO issue and what's kind of baked into that assumption?

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

So the way that we've built our plan is more really around discussions with our current customers and what they have in hand as it relates to solar panel availability. And they don't have everything locked in, but we spent the last 6 months kind of working closely with them on projects flowing into this year, do you have those panels in country, are they in a warehouse somewhere, do you have access to them, et cetera. So we're trying to take some of that guess work out, which I think reflects in our backlog and some of the order activity, those things are kind of built around trying to mitigate project disruption, not only for them, but also for us. So that's one kind of input to think about.

The broader industry stuff I mentioned is going to go on for some time. And whether that's 3 months or 6 months, things can change pretty quickly. As an example, just last week, there were a number of panels that were released that were being held. So the industry is finding ways to navigate through some of these nuances that we've been dealing with the last year. And so supply chains have been evolving, it's taken time for that to happen and effectively to get panels through, you have to prove that you don't have those materials from Hoshine included in your panels and people adjusting where they're getting their polysilicon for those panels.

So that's starting to pick up, and that's why I think there's some optimism from folks in the field that they have a better way to navigate through that now than they did in the last 6 months or so because they're finding other options. So it's not perfect. It will take some time to work itself out. There'll be some additional choppiness and disruption, but we're starting to see some things percolate in a more positive way than what we've all had to deal with. And really Q3 and Q4 of 2021 was probably the most disruptive the industry has ever -- most disruption the industry has ever seen as it relates to supply chain. And people modifying -- having to modify projects on the run, in the field based on the panels that they were able to get or not get. And that really has the tail wagging the dog for the industry. And I think that will start to settle and then you'll start to hear more and more optimism about that, but it's still going to take some time to work through that.

When the WRO situation gets rectified, we don't know, but let's assume it stays in play for a while. There's a lot of polysilicon that -- polysilicon that is sourced in other parts of China that's not covered by the WRO which is important and people are starting to tap into that in a much more effective way than before. And then the anti-circumvention cases we'll know here in the next 30 days, whether or not the Department of Commerce takes this next one up or not. And if they do or they don't, the industry will deal with it accordingly. But people are -- have been anticipating these things to stay out there for a while, and everyone's been working a work around.

So that's where some of that optimism comes. It's the way we thought about it in terms of building our plan. But for us to sit down, go through with each customer, what do you have in hand on the projects we have and how do we mitigate some of the disruption. That's kind of the base of the plan going into 2022.

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

Got it. That's really helpful to understand kind of what's baked into your assumption there, it's more of what's in hand now with regards to panel supply than really you making a call on when WRO gets kind of resolved?

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

Yes. So we can't rely on something we can't control in that regard to your point. So that's the way we've tried to sit down and go through with every project and see what's there and what's not. So it's a constant -- it's just a constant battle of making sure that those things are line. And this is something, as I mentioned, the industry has never had to deal with. And so processes and systems across the entire industry really had to tighten up and that's what we've been working hard to try to do in the last 6 months. So just kind of chasing this.

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

My second question just staying on the renewable segment is, are you or your customers seeing any shortage of material inputs other than polysilicon?

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

Panel is obviously the #1 issue. I mean there have been -- there's been inflation across everything that's come in that's used in the field. I think panels are by far, the #1 issue on availability. I think there were some issues in 2021, it varied on particular components. I think those have been more [apt to being] worked out more so than the panel because what's happening to the panel supply is not just a basic supply-demand issue. It's got these other things going on with it. But I think those other items have been easier to navigate through. We don't see those as being near as impactful as the panels.

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

Okay. Understood. And maybe my last one here is just on the guidance, expecting free cash flow to normalize to -- back to about 10% of sales. Could you just talk about what that assumes from a working capital perspective? Does that assume working capital will be neutral for the year?

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

There is a slight improvement, a day or 2 days, not a huge improvement. And I think what we'd expect, again, as we built our plan, you'll actually see investment in the first half as we continue to build inventory for our busy season in the residential side of the business, and we're doing that maybe a little bit more than we have in the past because we've historically used a fair amount of temp labor, and that's harder to get hands on. So we've got larger full-time staff in those business. We're working to build a little earlier. And then just making sure we have enough to supply our customers.

And with the thought that there'll be some normalization as we move through the year, and we'll be able to improve -- reduce our days on hand. I wouldn't say back to levels that we had pre-pandemic by any means yet, but maybe just understand what the operating environment is and adjust to that. We're -- I would say we're conservative today because we do not want to not meet our customers' needs, and that's important to us.

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

I'd add, one other thing I'd like to add to that is if you look at our commodities, the one we have most concerned with on availability perspective is aluminum. So the last few months, we -- particularly in Q4 and actually as we went into this year, and this excludes any impact from the current issue with Russia and Ukraine given the amount of influence Russia has on the aluminum industry. But there's been an ongoing energy prices in Europe that has really impacted smelting capacity of aluminum.

So that's been offline for some time. And that's why you see aluminum start to come down and bounce back up. And so we've locked that in, which is good for us. And -- but we -- as a result, as Tim said, we brought that in earlier to ensure that we have the supply of that. So that's (inaudible).

Last year, we had multiple commodities that we were dealing with on both inflation and availability. This year, it's more around aluminum, less so much unavailability, less so much on steel.

Operator

We have reached the end of the question-and-answer session, and I will now turn the call over to CEO, Bill Bosway for closing remarks.

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

Again, I want to thank everyone for joining us today. We'll be presenting at the Sidoti Spring Conference in March, and we'll be able to speak with you again in a few months when we report our first quarter progress. So appreciate everyone calling in. Stay safe and healthy and look forward to our follow-up calls. Thank you.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.
