THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ROCK - Q4 2015 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 18, 2016 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

David Calusdian *Sharon Merrill Associates - IR*

Frank Heard *Gibraltar Industries - President and CEO*

Ken Smith *Gibraltar Industries - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

Ken Zener *KeyBanc Capital Markets - Analyst*

Dan Moore *CJS Securities - Analyst*

Michael Conti *Sidoti & Company - Analyst*

Al Kaschalk *Wedbush Securities - Analyst*

Walter Liptak *Global Hunter Securities - Analyst*

Yilma Abebe *JPMorgan - Analyst*

Clark Orsky *Alcentra - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries fourth-quarter 2015 earnings conference call. Today's call is being recorded and webcasted. My name is Bob and I will be your coordinator today. At this time all participants will be in a listen-only mode. We will be conducting a question-and-answer session towards the end of the conference call.

I would now like to turn the call over to your host for today, Mr. David Calusdian from Investor Relations firm, Sharon Merrill. Please proceed.

David Calusdian - *Sharon Merrill Associates - IR*

Good morning everyone and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the investor info section of the Gibraltar website, Gibraltar1.com.

During the prepared remarks today, management will be referring to presentation slides that summarize the Company's fourth-quarter and year-end performance. These slides also are posted to the Company's website. Please turn to slide two in the presentation.

The Company's earnings release and slide presentation contain forward-looking statements about future financial results. The Company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings which can also be accessed through the Company's website. Additionally, Gibraltar's earnings release and remarks this morning contain non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

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

Frank Heard - *Gibraltar Industries - President and CEO*

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

Gibraltar closed 2015 with a strong fourth quarter capping a successful year relative to the progress we're making with our transformation strategy. Nearly a year ago we laid out that strategy at our first ever investor day conference. Since then, our results have exceeded our expectations in these early days of our journey to transform Gibraltar.

The highlight of the fourth quarter was our bottom-line performance where we reported adjusted EPS of $0.29 compared with just $0.02 last year. We reported $1.09 per share in adjusted EPS for 2015 beating our latest guidance of $0.90 to $0.95 and more than doubled the $0.47 per share we reported in 2014. This is not only the result of good accretion from RBI, but also the success of our operational excellence initiatives within our base businesses.

I will speak more about our strategic progress after Ken reviews our financials. Ken?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Thank you, Frank, and good morning. I will start by referring to slide four in the presentation, our consolidated results. As Frank pointed out, fourth-quarter revenues were up 40% year-over-year. RBI acquired in June 2015 with its solar tracking and commercial greenhouse businesses, added 45 percentage points to the net revenue increase while organic sales decreased 5%. In subsequent slides I will describe the segment's performance but the consolidated results on this slide are noteworthy from two important perspectives.

First, the contribution of accretive earnings from RBI. And second, the profit contribution of the base businesses which are all the businesses except the acquired RBI entity.

Regarding RBI, it contributed $0.17 to adjusted earnings per share in the fourth quarter coming from the continued demand for solar and greenhouse projects and we continue to be very pleased with the growth and profitability of it.

Regarding the base businesses, their collective success in driving bottom-line improvements was derived from focused operational improvements and better than expected traction in our first year of our 80/20 simplification initiative and we are expecting continued momentum into 2016.

Turning to slide five, you can see the degree of outperformance of our base businesses compared to prior periods. Our base businesses in aggregate had an expected net decline in revenue of 5% for the fourth quarter as growth in residential products was more than offset by the continued double-digit decline in sales within our industrial and infrastructure segment. Nonetheless and most impressively, operating income and operating margin improved for our base businesses.

We overcame the loss of contribution on the net revenue decline and reported a triple-digit increase in adjusted operating income for the quarter. The profit increases came from incremental efficiencies and margin improvement initiatives including the initial benefits of our 80/20 simplification efforts. And for the full-year 2015, our consolidated adjusted operating margin increased 25% compared to 2014 despite the slight net decline in annual sales.

Next I will talk about each of our three reporting segments. We will start the segment discussion with slide six, the Residential Products segment.

We continued to have favorable demand for this segment's products. Demand from new construction plus orders for remodeling led the revenue growth despite a negative 2% decline from the effect of translating foreign currencies. This segment's margin expansion was impressive, up 510 basis points as a result of volume leverage and again the benefit of operational efficiencies and targeted margin improvement actions, including the 80/20 simplification projects launched during 2015.

Turning to slide seven, the Industrial & Infrastructure Products segment. Revenue in this segment continued to be unfavorable to 2014 by double digits as expected, a result of the downturn in the oil and gas and related upstream energy markets and the collateral effect on other markets we serve. Here again this segment's focus on margin improvement resulted in a stellar operational performance for the quarter and the year despite the macroeconomic headwinds. Adjusted operating income and operating margin both increased double digits in basis points in the quarter due to strong cost management and the initial results of its 80/20 actions.

As we look at this slide for all of 2015 compared to 2014 on an annual decrease in revenues of more than $50 million, operating income rose meaningfully and the operating margin expansion was impressive.

Now turning to slide eight, our third of three reporting segments, the Renewable Energy and Conservation segment. As described in this morning's earnings press release, this newly named segment contains only the results of RBI which Gibraltar acquired in mid-June 2015. And this segment name-change better reflects a broad description of strategically-vetted new market verticals which we are interested in adding to Gibraltar's portfolio. Specifically now the performance of this segment's RBI business.

The double-digit sales growth continued on strong demand for RBI's ground-mounted solar racking products and also growth of its market-leading commercial greenhouse offering. And while international revenues also increased compared to 2014, RBI's strongest element of its revenue growth came from the US market for ground-mounted solar arrays.

Like our base businesses, we are assisting RBI with operational improvements and it began with Gibraltar's supply chain assisting it with its procurement of raw materials and transportation which are beginning to show up in RBI's profitability.

At this point Frank will provide an update on our four-pillar strategy which is beginning to have the desired effect on our financial performance. Please turn to slide nine, "Continued Progress on Value Creation Strategy".

Frank Heard - *Gibraltar Industries - President and CEO*

Thank you, Ken. When you appreciate how our initial progress on the four-pillar strategy contributed to our solid performance in 2015 compared to the unsatisfactory results in 2014, you can see the potential of Gibraltar's fundamental transformation.

The first of these four pillars is operational excellence. We have been working to reduce overhead, price our products more strategically, better support our partners, consolidate facilities, improve our raw material sourcing and increase efficiencies across the businesses.

The Gibraltar team at every level has embraced the cultural change we are making very quickly and that has resulted in some excellent results in these early days.

In leveraging the work we are doing in 80/20, we are taking a more strategic look at customers and end markets to evaluate our portfolio in terms of best use of our financial and human capital. We continue to realign our talents and expertise to be closer to our customers and redeploy capital to enhance these partnerships. As a result, all our businesses are becoming more valuable.

During the first year of our 80/20 initiative, we derived $11.2 million of year-over-year profit improvement compared with a target of $5 million that we developed midyear.

We also reduced inventories during 2015 by over $20 million, significantly surpassing our initial target of a $12 million reduction.

Our portfolio management initiative leverages the work we are doing in 80/20 by taking a more strategic look at our customers and end markets as we allocate leadership time, capital and resources to the highest-potential platforms and businesses. As a result, we are spending less capital in 2016 compared to historical levels with a much higher expected rate of return.

We anticipate capital expenditures in a range of $16 million to $19 million in 2016 compared with a CapEx of $12 million in 2015. We continue to see four of our product platforms as key areas for greater product innovation. They are centralized mail and parcel delivery, residential air management, transportation infrastructure and renewable energy including green technologies.

In centralized mail and parcel delivery, we have made some excellent progress with our Express Locker having nearly 150 installations as of the end of 2015. For residential housing, we are developing an energy efficient whole house fan and higher efficiency smart vents that self-regulate as environmental conditions change.

Additionally, we are launching a new metal roofing installation system that has been tested to withstand hurricane force winds. Many in the roofing industry see this as a potential game changer.

Innovative products which we define as products with patent protection introduced within the past three years, represent 4% of revenues for 2015. Our objective is to approach 10% of revenues by 2020 driven by acquired product lines as well as internal product development.

Our fourth strategic pillar is acquisitions. We are focused on making strategic acquisitions in five key markets, postal and parcel solutions, residential air management, transportation infrastructure, water management and renewable energy. RBI is an ideal example of the type of acquisition we are focused on. In 2016, we plan to close on further acquisitions in target markets that offer higher returns on investment than we have realized in the past.

Now I will talk about our guidance for 2016 referencing slide 10. While none of us have a crystal ball we do believe that Gibraltar should fare pretty well in 2016 since we are less exposed to the most serious global challenges than some other companies. 85% of our 2015 revenue came from the continental United States, one of the largest developed markets in the world and one that has a comparatively healthy economy today.

Looking at our segments specifically, demand for our Residential Products is generally tied to residential housing starts and renovation activity which both have positive outlooks. We expect middle to single digit growth in the US residential market as the gradual recovery to mid-cycle housing starts continues.

We expect that these improving market conditions will partially offset a decline in revenue from centralized mail receptacles due to the December 2015 completion of a specific customer's two-year contract. As a result, we expect Residential Product revenue will decrease by approximately 15% for the year.

Our Industrial & Infrastructure sales have already been affected by the industrial slowdown including the severe energy downturn. We believe that that has flattened out so we are cautiously optimistic for 2016.

Looking at transportation infrastructure products sold by this segment, the newly signed Federal Transportation Appropriation is a helpful development for states allowing Departments of Transportation to plan larger scale projects. In 2016, these states will start issuing RFQs and awarding initial contracts. We expect this will meaningfully benefit our backlog by the end of 2016 and our revenues in 2017 and beyond.

In this segment we are expecting equivalent revenues to 2015 with lower level demand for key industrial markets such as upstream oil and gas continuing.

In Renewable Energy & Conservation, we see a continuing tailwind for growth in the solar market over the next few years supported by the recent five-year extension of the U.S. Federal Investment Tax Credit. This also bodes well for the next several years as solar installations are expected to increase across the U.S. And, Solar accounted for nearly 20% of our consolidated revenues in 2015.

This segment's 2016 revenue should increase over 2015 led by higher market demand for renewable energy. For 2016 as a whole, we expect consolidated revenues to range between 1.060 billion and 1.080 billion, up approximately 3% from 2015.

Regarding profitability in 2016, we expect consolidated adjusted earnings per diluted share in the range of $1.30 to $1.40 up substantially from the $1.09 reported in 2015. The expected improvement in earnings comes from the additional cost efficiencies benefiting from the 80/20 simplification initiative plus the incremental accretive earnings from RBI.

For the first quarter of 2016, we expect revenues to increase nearly 15% and adjusted EPS in the range of $0.12 to $0.15 compared with $0.06 for the first quarter of 2015. EPS benefits from the accretive income from the RBI acquisition in June 2015 plus the contribution of other profit improvement initiatives across our base business.

In summary, Gibraltar is well on track for a strong 2016 and we are fully committed to achieve three goals. First, increasing adjusted earnings. Second, making more efficient use of our capital. And thirdly, delivering higher shareholder returns than we did in 2015.

At this point we will open the call for any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good morning, gentlemen. I am going to ask two questions. It is going to be really impacting for Solar and for mail. Frank, if you can just comment, obviously you outlined FY16, your thoughts there but in Residential, the fact that A -- and I am not sure -- Canada, I believe they canceled some contracts. So if you could -- or not canceled but kind of changed their view on the centralized mailbox system. If you could without citing specifics kind of highlight if that changes your view on how the cluster mailbox market might grow or if you just see it as lumpy? If you could add some comfort there that would be my first question. Because you guys obviously have a lot more visibility on that but it obviously impacts you in FY16?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes, I think as we have said in the past, we see -- centralized mail will continue to grow with new housing starts on both sides of the border. The lion's share of new developments get centralized mail so that is the underlying part of the transformation that year-over-year that is a growing market, an expanding market and because we hold a large share position, we do quite well there.

The one-time contract, two-year contract that we had falls in that element of governments looking at existing home delivery and trying to transform it into a centralized mail solution to drive 50% of their losses out as first class mail declines at 20% year-over-year. That is as much a business decision on their part as probably a political decision. And as we described it in the past, we see that transformation continuing throughout our lifetime and that is something that has to happen but probably going to happen in more of a stair-step type of manner. And despite us having the benefit of one government's transformation efforts, we still see a continued improvement in that centralized mail piece year-over-year and despite not having a similar level of business in 2016, we expect to make more money in 2016 in that segment than we did in 2015.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And then Solar, it is a relatively new business to Gibraltar. There are different components of it so roof top, the ground mount that you are in and then the larger utility market. Given that Nevada had changed some of their regulatory issues, there has been a lot of volatility. Could you give us comfort on a couple of elements around Solar for example, the visibility you have in terms of how backlog works for you? Just put some of the different context in of how Nevada's actions might impact Residential different than the 1 to 5 gigawatt market that you are in.

And then talk about the prospects of perhaps internal initiatives in 2017 offsetting 2016's growth rate given that the federal incentives while extended now, 2016 seems like it is a higher year than 2017. If you could just give us comfort around your visibility on those elements please.

Frank Heard - *Gibraltar Industries - President and CEO*

Maybe I will just set some context and I will ask Ken to jump in as well. As you know, our solar racking business, we are number two in one of four segments, commercial ground mount, and that represents pretty much the lion's share of our business so as we move forward in that space, we look to expand our presence in some of the other three areas whether it be residential rooftop, whether it be commercial rooftop or some of the large tracker sites that are probably the most affected by the extension of the federal tax credit where without it probably would have dropped 65% to 75%. For us it would have affected us year-over-year from 2016 to 2017 maybe 15% in market activity and similar rates in Residential.

So a lot of the press that people read is generally attached to the residential space where we have little exposure today but at the same time we still see that as a growing market so regulatory changes in various states today don't affect our year-over-year strategies or performance as it relates to our core business, the commercial ground mount today.

Ken, you may want to jump in and spin that into how that affects our backlog going forward.

Ken Smith - *Gibraltar Industries - SVP and CFO*

RBI does have increased backlog and as we enter 2016 compared to where we were in any point during 2015, and that generally reflects about three to four months of revenue, Ken, so we still need to book a lot of orders and deliver those in 2016 to achieve the revenue element of what our guidance includes for RBI.

Specifically to Nevada, where state net credits were adjusted downward, RBI had very little revenue derived from that state during 2015. Most of the actions that are in that state related to, affected residential installations which is, at least domestically, not a strong element of RBI's U.S. derived revenues.

So right now we still continue to think it is going to be a very good year for 2016 and certainly as you cited the extension of the investment tax credits for meaningfully for another five years bodes well for periods beyond this year.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you. If I could ask one more, gentlemen, it is kind of a follow-up on the Solar. Since you said Nevada was a small portion, is there a way you could give us a sense if you are perhaps over indexed to certain areas like let's say California? If you could give us maybe just some sense of where the sales are?

Talking about backlog, Ken, I think is very useful for Solar so I suggest somehow if you guys could kind of repeat that, that might help massage some concerns that are out there.

And then for metal, since it is such an important piece, how have you guys been balancing the deflation in steel and how much has it been helping you? Thank you, guys.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well on the regional concentrations for solar installations certainly are weighted to California as being the top U.S. state where there is promotion and a high degree of acceptance and a high number of installations. But once moving off of California, the southwestern states in the US are strong state markets for RBI as well as selected states in the East and Northeast. And then we also have international markets where our largest one is over in Asia-Pacific for installations of RBI's ground mounted arrays. I forgot the other aspects of your question, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

I am sorry. It just was the metal benefit.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Certainly it has benefited virtually each one of our segments as lower costs have come down. And it has gone into kind of corresponding values that we undertake with our key customers so we have many of our businesses adjusted pricing to take into account the benefits we are having with lower raw material costs. We are not keeping all of that ourselves, we try to maintain and improve the value offering that we have with our customers.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you, gentlemen.

Operator

Dan Moore, CJS Securities.

Dan Moore - *CJS Securities - Analyst*

Good morning. Maybe Ken and Frank, switch gears to industrial. When will we lap the most significant impacts of the declines in energy on topline growth? And when might we expect to begin the top line to grow again in that segment? By H2 or is it a little too early to tell?

Frank Heard - *Gibraltar Industries - President and CEO*

I think our general sense Dan, at this point is based on what we see in our related businesses that we are bouncing around the bottom now in terms of market activity. And depending on the projects that are out there in process and relative to our backlog, that is kind of a fixed number as an opportunity now. Now it becomes a question of how aggressive our people become relative to some of the cost management programs they have been working on through the 80/20 process and how they want to leverage those benefits in terms of growing share.

To some degree, it is within our control and from a planning process, I guess our thinking is let's not count on a tailwind in the early days of 2016 and kind of work within the context of it is kind of a flat market and running along the bottom. Ken, do you want to add something to that?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Just supplementally, we will probably have our strongest unfavorable comparisons here in the first half of 2016.

Dan Moore - *CJS Securities - Analyst*

Very helpful and maybe just switch gears for one more, forgive these baseball analogy. But you have had really material improvements in margins and ROI returns given the 80/20. Maybe talk about what innings we are in with regard to the overall impact on the core legacy businesses of the 80/20 improvements? Have we gotten two years of benefit already, where are we in that continuum? Appreciate it.

Frank Heard - *Gibraltar Industries - President and CEO*

I think we are obviously feeling pretty good about the progress the team is making. The level of engagement and the quality of work that is being done and how quickly it is translating into some real benefits, not just from a financial improvement but just a lens that people are now looking through as they make decisions about how to lead their businesses going forward, markets to pursue and how to approach customer relationships and so on and so forth. And then that translates into our back-end costs.

I think we are in about the third inning, fourth inning. I think we are a little bit ahead of the curve in terms of our five-year target, certainly on the income statement, I think with the surprising progress in the fourth quarter on the balance sheet that was meaningful. And we see similar types of or proportional progress I think in 2016 as we head into our senior leadership meeting in late February where we will have our top 75 people, 80 people there working our way through the next phases from a training perspective. And I think we have an enthusiastic group so we see this as continuing. We are not done yet.

Dan Moore - *CJS Securities - Analyst*

Thank you.

Operator

Michael Conti, Sidoti & Company.

Michael Conti - *Sidoti & Company - Analyst*

Good morning. I guess just a couple of questions in regards to the RBI solar. Did we I guess see a perhaps a pull forward inspect and the ITC didn't get extended? What exactly played a role with the 50% increase year-over-year in sales?

Ken Smith - *Gibraltar Industries - SVP and CFO*

In 2015 to 2014?

Michael Conti - *Sidoti & Company - Analyst*

In the fourth quarter, yes.

Ken Smith - *Gibraltar Industries - SVP and CFO*

They just continued strong demand domestically certainly but also internationally for developers and contractors who wanted to complete projects in the calendar year. So there was one extra request upon RBI's workforce to make sure that we have got materials delivered and installations completed to the greatest extent possible.

Frank Heard - *Gibraltar Industries - President and CEO*

And, Michael, what I would add to that is in addition to the market, the rising tide of the market and the demand, I think the other thing is that we hold a solid number two position in commercial ground mount with a very unique value proposition where we design, we engineer, we manufacture, we install and we kind of stand alone in terms of that complete value proposition. So when people are looking for a complete project management team, RBI is the natural choice and they've got a strong reputation of delivering on budget and on plan through all elements of that value proposition where some of the competitors in the marketplace have to work with various other third parties to deliver the same results.

So I would argue that in addition to the market activity, we are growing share.

THOMSON REUTERS

Michael Conti - *Sidoti & Company - Analyst*

Okay. Is that typical to see I guess an influx of orders in the fourth quarter before year-end?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I think specifically their seasonally highest periods have been June through the end of November. And so that certainly encompasses two months of the fourth quarter but they also had a strong Q4 2015 compared to prior periods as well. So maybe just nature of where customers do want to complete projects before a calendar year closes out.

Michael Conti - *Sidoti & Company - Analyst*

Okay. And the margins on RBI, pretty solid but are there any opportunities for the 80/20 within RBI solar?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes, I mean as we looked at this business, as we look at all of them, one of the aspects in our acquisition filter is whether or not we see opportunities to improve it in terms of margins through the 80/20 process. And we certainly identified opportunities in terms of make versus buy decisions, operational excellence as it is related to sourcing of raw materials and freight management. But also the 80/20 simplification process. And we just acquired them in 2015 and as you can see the top line, they've been growing like crazy and we've been getting some pretty good flow through. We've just initiated the beginning of the training process for -- my understanding I think we trained 40 people in the early part of this year and we will follow up with another group late February.

So we've started to see some of the benefits in the obvious areas of raw material and make versus buy decisions by investing some capital equipment, bringing some business inside and also freight management. But the 80/20 process, we are just about to start and the feedback I got we had a lot of positive comments around from the 40 people who were involved in that training in terms of opportunities going forward.

Michael Conti - *Sidoti & Company - Analyst*

Okay, sure. And then with the contract termination on the Residential side, can you give us an idea what is in the pipeline to maybe replenish that gap? What is the typical lag time between negotiation process and then when that can really hit your statement?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well a few variables including the drive within postal authorities to particularly convert existing door to doors to centralized and how that changes within their operating regions over time can vary. So one region here in North America undertook a concerted effort for an initial two-year period which we are fortunate enough to be able to secure the contract and complete it here at the end of December 2015.

When those resume and to what degree remains part of the choppiness/lumpiness of how we think growth will continue to be in this particular vertical.

Michael Conti - *Sidoti & Company - Analyst*

Okay, great. Thank you.

Operator

Al Kaschalk, Wedbush Securities.

Al Kaschalk - *Wedbush Securities - Analyst*

Good morning, guys. I want to try and maybe focus on the Residential side. I guess I'm struggling on the 3% growth where -- or at least on the guidance which you provided topline considering the 15% decline on the postal side, what is driving that? Is that price, is it some new wins? Help us appreciate that 3%.

Ken Smith - *Gibraltar Industries - SVP and CFO*

The 3% is made up of the three segments having different comparisons to 2015. So in the case of Residential with this completion of a key contract last year, for that particular Residential segment we do think revenues are going to be 15% unfavorable compared to last year.

In the second of the three segments, the Industrial Infrastructure, we are expecting somewhere to be equivalent to maybe up small single digits compared to 2015.

And then on our third and newest segment, which is the Renewable Energy including RBI, we are going to have 12 months of revenue in 2016 compared to only having 6.5 months of its revenues in 2015.

So getting to that plus 3% which is net of all three elements combined, the Residential decrease is being slightly offset by what we are going to be getting from essentially the RBI segment, Renewable Energy segment, which is both the incremental 5.5 months of revenue that we did not enjoy in 2015. But overall, calendar 2016 for RBI is going to be up probably about 10% compared with the 12 months of 2015 revenues.

Al Kaschalk - *Wedbush Securities - Analyst*

Sorry if I may have been not very articulate in my question. But if I look at Residential and I extract the contract loss or the completion, let me rephrase that. Is the Residential business showing some growth? And if that growth is coming from price or is it more volume based on some of the 80/20 refocused on prior potential market growth opportunity?

Ken Smith - *Gibraltar Industries - SVP and CFO*

We do have single-digit improvements that are coming from a combination of volume and mix in 2016 that partially offset the impact of the completion of that one contract which nets us out to about 15% overall revenue decline on that segment 2016 to 2015. And if I still haven't answered your question, I'm not sure I understood it again even the second time you asked it.

Al Kaschalk - *Wedbush Securities - Analyst*

I can follow up on that, not a problem. Switching gears to 80/20, Frank, I don't know to what extent you are able to help us through it, I know you have a big meeting coming up at the end of the month in early March. But as you take a step back, the P&L is showing the progress on the margin which is good. It sounds like there is very good momentum through 2016. But from a product SKU perspective, what have you, where are you at in terms of the process of determining and having customer conversations about products that maybe you don't want to keep in-house or you will be reducing the footprint such that when we look forward we can see what the organic growth of the business really is?

Frank Heard - *Gibraltar Industries - President and CEO*

Yes, I think that we worked our way through the 80/20 process in a way that just to give you some high-level numbers. In 2014, we would have had close to 30,000 part numbers. We have reduced upwards to north of 7,000 part numbers and if you look at customers - and this is Gibraltar, across the Gibraltar portfolio excluding RBI.

If you look at it from a customer perspective, we probably reduced customers in terms of the quantity in the area of about 1,700. This is a legacy portfolio business that really hasn't had an 80/20 viewpoint in the last decade and a half. So its culture has been 'all things to all people' and supported by 'we are going to make it all'. So a lot of low hanging fruit. And I will be honest, a lot of customers that as our people started to work through this and the related inventory and fixed assets attached to it, most of those part numbers weren't very important to any of our A customers or even our B customers.

So there has not been a lot of difficult conversations. In actual fact, I think as we have gone back to our customers with some of our action plans which we always do, we just don't do it autocratically, I think the lion's share of those conversations are quite positive because we've got very sophisticated customers and understand that the complexities has been hurting sort of our ability to service in a consistent manner in terms of price, service and quality.

And they are seeing refined pricing from a partnership perspective, they are seeing service levels that are improving dramatically in the building product space. On A customers with A products, we have gone from mid-60s to high 90s and it is allowing those customers to consolidate and partner with people like ourselves instead of having three and four different types of suppliers which creates a lot of work for them, duplicate inventory and less sustainable kind of service to the end contractor.

So I think our customers, you will see this as a tremendous improvement in terms of Gibraltar's past 12 months and are looking forward to seeing it refined a little bit more in 2016.

So it has been a good news story I think right across the board.

Al Kaschalk - *Wedbush Securities - Analyst*

My final question if I may, thank you for the color. You have had some balance sheet improvements, we have talked in the past about the importance of cash flow. How much more benefit do we have either on the working capital side -- I know you have given the guidance on the 6% growth I think for free cash flow as a percentage of net sales about 6%. But how much do we have on the working capital side still in your back pocket to come out in 2016?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, we are not expecting the same degree although we are hoping that the 80/20 and further simplification will bring further reductions out of working capital in 2016 and at this point, we are unsure what that whole amount was but there is more. But I would like to say that our net working capital days for 2015 went down six days compared to where we were in 2014. We are now down at 57 days of working capital. That includes -- most of that reduction was in inventory although we did reduce our DSO, receivables. So we are in really good territory at 57 days of net working capital investment.

Frank Heard - *Gibraltar Industries - President and CEO*

Maybe I will just relate back to where we are inning wise. I said we were in the third or fourth inning in this but certainly the progress we have made in the income statement is better than we expected and we expect to see that continue through 2016 especially as we bring on the second tier businesses that we couldn't get to in 2015 and also bring on RBI, which is a material opportunity for us.

THOMSON REUTERS

The later inning stuff to be quite honest, I think we made some nice progress, you hear Ken on days working capital and a big part of that is some early gains and that $20 million drop in inventories driving that. But we are really just getting started on the balance sheet in terms of working on reconfiguring the back-end of our businesses in terms of manufacturing and supporting the A products for our A customers and looking at alternative service approaches for the balance of those products.

So structurally we are just going to start working on that in 2016 and quite honest my experience is on the balance sheet that is where the money is. So in the context of the balance sheet, I would say we are just coming out of the first inning at this stage.

Al Kaschalk - *Wedbush Securities - Analyst*

Great. Thanks a lot.

Operator

Walter Liptak, Global.

Walter Liptak - *Global Hunter Securities - Analyst*

Congratulations, guys. Especially you, Frank, on good first year. I wanted to ask about kind of a follow-on to the last one with PLS. And in the 2016 guidance, how much product line simplification did you factor in as kind of a negative impact on the top line growth?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I would say, I would answer that as not very much because we are, as Frank earlier cited, we are seeing that with the improvements in on-time deliveries, complete orders, on time performance improving substantially to key customers that we are actually seeing a really nice impact that people want to buy more from us even though on lower volume products, we are finding other ways to deal with those. And it would affect the top line. So I would say very little.

Frank Heard - *Gibraltar Industries - President and CEO*

Just to support that, Walter, remember a year ago there were just a couple of people in this organization who had really any experience in the 80/20 simplification process that we are trying to build a team both internally and externally and then ultimately bring a group of people together to start a training process in late February, have that translate into hopefully a level of engagement and then go out in the fields and start to work through and develop various work stream teams and projects.

I would say we didn't expect to get any real projects that would materially move the needle until late third quarter to be quite honest. We got them earlier, we got more meaningful ones earlier and the level of engagement and the work that has been done was a lot more meaningful. So instead of getting the $5 million, we came in around $11.2 million in terms of benefit.

And so with that in mind, we really didn't believe that there would be much topline impact in 2015. And I think I would concur with Ken's comment in a couple of areas where we made some real progress quickly, the response from our A customers and their ability to consolidate purchases back to us that may be historically we didn't benefit from really in actual fact those businesses grew on the topline despite the work. So I think we kind of netted out in 2015.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay. Good. Kind of looking at your slide nine and thinking about the portfolio management, I was thinking that you are referring here to kind of PLS and allocation of capital. But if you are not losing revenue because of PLS, are you thinking about divestitures? And I guess more specifically, are there some businesses that are not earning their cost of capital where it is better just to exit and is that part of the plan for this year?

Ken Smith - *Gibraltar Industries - SVP and CFO*

What has been really nice at the moment beginning in 2015 and continuing this year is every one of our businesses are improving their profitability and quality of earnings. And as we think about whether any assets are more or less strategic, we are trying to improve before reaching final conclusion, we are trying to get our values up before considering other alternatives. And so at this point we are really looking forward to continued momentum into 2016 and improving the values of what we have got.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, that sounds good. As another follow-on to someone's question on RBI, the revenue looked great during the quarter but when you look at the incremental margin, it looked like it levered at about 10% and it sounds like you are still early stages with implementing the 80/20 strategy there. Ultimately where do you think margins go in the RBI business and what kind of operating leverage do you get?

Frank Heard - *Gibraltar Industries - President and CEO*

I think just as a general comment and I will let Ken add some color, whenever we look at an acquisition, our target within our acquisition filters look for a potential of 3 to 5 points of margin improvement over three years of ownership, future ownership. RBI falls within that range.

Ken Smith - *Gibraltar Industries - SVP and CFO*

I would agree with that.

Walter Liptak - *Global Hunter Securities - Analyst*

And then maybe just as a last one, the weather conditions I think for construction both residential and commercial were pretty decent during the fourth quarter and I wonder if more mild winter this year has had much of an impact on any parts of your businesses?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I don't think there's any -- certainly it may have been favorable in certain parts of the country here in the US, Walter, but I think on our consolidated top line for quarter to quarter I think it is relatively modest as it was warmer by 10 degrees for a longer period of time that previous periods.

Frank Heard - *Gibraltar Industries - President and CEO*

Yes, I think it goes to kind of the diversity of the portfolio to some degree. Some of the businesses actually do quite well in harsher weather and we prefer that whereas a business, some of the larger scale businesses in another vertical are allowing them to extend the season to do more installations, for example in the solar racking side versus residential roofing and rain management product.

So at the end of the day, I think it balances out in our portfolio whether it is good, bad or indifferent.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, fair enough. I will get back in queue.

Operator

(Operator Instructions). Yilma Abebe, JPMorgan

Yilma Abebe - *JPMorgan - Analyst*

Thank you. Good morning. My question is in the context of acquisitions, can you remind us the Company's financial policy with regards to balance sheet leverage?

Ken Smith - *Gibraltar Industries - SVP and CFO*

We currently have -- let me start where we ended 2015 at least in my view relatively low and easily managed leverage of essentially gross leverage of around 2 times. And I think as we look forward to deploying new capital particularly to accelerate growth via acquisitions, into the 3s, mid-3s, even high 3s I think would be easily managed by us. Also premised on during diligence, we'd know ways to identify way pre- any closings of how we would benefit from cash flows after closing to bring our leverages back down.

So I would characterize that would be the range of what we currently think about new capital being put to use and its effect on leverage.

Yilma Abebe - *JPMorgan - Analyst*

Thanks very much. That is all I had.

Operator

Dan Moore, CJS Securities.

Dan Moore - *CJS Securities - Analyst*

Thank you again. Along those same lines, Frank, you mentioned in your remarks that you did expect to close deal or deals in 2016. Has the pipeline or activity increased materially over the last few months? Are you seeing more opportunities and anything you might share in terms of which segment of your acquisition targets you think might be bubbling up a little bit more?

Frank Heard - *Gibraltar Industries - President and CEO*

You know, Dan, a good question. A big part of our transformation is continuing to try to make thoughtful acquisitions like we have with RBI. And certainly as we enter new spaces, we would like to reinforce the space that we entered. So certainly we continue to look and consider different opportunities in that space while at the same time our corporate development team is looking at our current spaces as well in partnership with each vertical's president.

We have probably proactively over the course of 2015 looked at somewhere north of 11 or 12 potential targets and all the way down to level of management meetings. And the nice thing about our position is we only have to buy one or two to move the needle so to speak, not just in terms of our financial progress but also balancing the right type of portfolio that will allow us to provide sustainable value to our shareholders.

So we're trying to be thoughtful about it and we are pretty confident that as we move through 2016 that the right opportunity as we look like in 2015 through 10 or 12, we will come across the right one. And the pipeline is improving as our people are kind of getting their feet under them and being a little bit more proactive prospecting versus reacting to prospects coming through the corporate office.

Dan Moore - *CJS Securities - Analyst*

Thank you very much.

Operator

Clark Orsky, Alcentra.

Clark Orsky - *Alcentra - Analyst*

Can you tell us what tax rate you have assumed in your guidance is?

Ken Smith - *Gibraltar Industries - SVP and CFO*

We have assumed a 38% effective tax rate.

Clark Orsky - *Alcentra - Analyst*

Okay. And for cash taxes?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I would say the same.

Clark Orsky - *Alcentra - Analyst*

The same. Okay. Thanks. Are there any remaining cash restructuring costs that will be paid out in 2016?

Ken Smith - *Gibraltar Industries - SVP and CFO*

That we have accrued at the end of 2015?

Clark Orsky - *Alcentra - Analyst*

Yes.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Yes, some but I would also complete my answer by saying that as we go through 2016, I am anticipating that there will be additional projects that are going to be coming forth from our project teams in the various businesses on additional actions to take. And during 2015 or 2016 rather, I would expect that we're going to continue to have restructuring charges that will overall improve our longer-term margins and the amount of that restructuring could rival what we incurred in 2015 which is I think $8 million or $9 million.

Clark Orsky - *Alcentra - Analyst*

Okay, thank you.

Operator

Walter Liptak, Global.

Walter Liptak - *Global Hunter Securities - Analyst*

Just as a follow-up on the RBI, Ken, the $188.5 million of revenues that you guys reported for this year, what was the annualized number if you include that extra 5.5 months? What is the base run rate as we start this year?

Ken Smith - *Gibraltar Industries - SVP and CFO*

Well, the 12 months December 2015 revenues for RBI was about $270 million.

Walter Liptak - *Global Hunter Securities - Analyst*

$270 million.

Ken Smith - *Gibraltar Industries - SVP and CFO*

Yes, 270.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, good. And the mail contract, what was the annualized number there that is rolling off?

Ken Smith - *Gibraltar Industries - SVP and CFO*

I think we have enough Ouija pieces in our guidance that you can determine that impact. But given specific contracts, we are not going to disclose that detail.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, fair enough. And given your view on the market I would imagine that there is not another requisition out there from the customer or is there?

Ken Smith - *Gibraltar Industries - SVP and CFO*

We are pursuing all commercial opportunities in each of our verticals.

Walter Liptak - *Global Hunter Securities - Analyst*

Okay, fair enough.

Operator

Thank you. At this time we have reached the end of the Q&A session. I would now like to turn the conference call back to Mr. Heard for any closing comments or additional remarks.

Frank Heard - *Gibraltar Industries - President and CEO*

Thanks, operator, and thank you everyone for joining us today. We look forward to speaking with you on Friday, May 6, when we expect to report our first-quarter results. Thank you again and this concludes our call.

Operator

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