GMS Inc.
Fiscal Fourth Quarter 2019 Earnings Conference Call, June 27, 2019

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John C. Turner, *President*

Lynn Ross, *Interim Principal Financial Officer, Corporate Controller & CAO*

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Matthew Bouley, *Barclays*

Trey Grooms, *Stephens*

Keith Hughes, *SunTrust*

Michael Wood, *Nomura Instinet*

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PRESENTATION

Operator:

Greetings, and welcome to the GMS, Inc. Fiscal Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Ms. Leslie Kratcoski, Investor Relations. Thank you. You may begin.

Leslie Kratcoski:

Thanks, Michelle. Good morning, and thanks everyone for joining us today. I'm joined today by Mike

Callahan, CEO, John Turner, President, and Lynn Ross, Chief Accounting Officer and Interim CFO. In addition to the press release issued this morning, we have posted presentation slides to accompany this call in the Investor Relations section of our website at gms.com.

On today's call, Management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters that are subject to risks and uncertainties, many of which are beyond our control and may cause actual results to differ from those discussed today.

As a reminder, forward-looking statements represent Management's current estimates and expectations. The Company assumes no obligation to update any forward-looking statements in the future. Listeners are encouraged to review the more detailed discussions related to these forward-looking statements contained in the Company's SEC filings, including Risk Factors sections and the Company's 10-K and other periodic reports.

Today's presentation also includes a discussion of certain non-GAAP measures. The definitions and reconciliations of these non-GAAP measures are provided in the press release and presentation slides.

Please note that references on this call to fourth quarter and Fiscal 2019 relate to the quarter and fiscal year ended April 30, 2019.

With that, I would now like to turn the call over Mike Callahan. Mike?

Michael Callahan:

Thanks, Leslie. Good morning, and thank you for joining us today. I will begin today's call with a review of our operating highlights and some market commentary, and then turn it over to John for a few remarks on his early days here at GMS. Lynn will then cover our financial results in more detail. We will then open the line for your questions.

Turning to Slide 3, we are very pleased to deliver a strong finish to Fiscal 2019 with record net sales and Adjusted EBITDA for our fourth fiscal quarter. Organic sales growth of 7% during the fourth quarter reflected higher volumes and pricing across all of our product groups, including over three points of volume growth in wallboard, as a result of the strong activity in the United States. Our strong growth of organic revenue for the quarter was broad-based across each of our product lines with 3.8% growth in wallboard sales, 13.7% growth in ceilings, and 8.3% growth in steel framing. Other product net sales were also up 7.8% organically, and they continue to be a key part of our growth story.

On the profitability front, we also generated record results, with a nearly 50% year-over-year increase in Adjusted EBITDA to $73.5 million for the fourth fiscal quarter. The increase reflected contributions from the Titan acquisition, growth in our base business, our continued focus on operational improvements and favorable lease accounting.

I'd now like to spend a few moments sharing our current view of our end markets in both Canada and the United States. In our fourth quarter, our business in Canada continued to be impacted by some softness in the Canadian single-family residential market. Coupled with challenging weather conditions earlier in the quarter, the Canadian business experienced a high single-digit year-over-year sales decline on a constant-currency basis, with further impact from about a 4% depreciation in the Canadian dollar year-over-year. And based on the current forecast, we believe it will take some time for this sector of the Canadian market to normalize.

Nonetheless, the fundamentals contributing to long-term Canadian housing demand remain sound, including strong household formation, and population and economic growth. Also, on a positive note, the commercial activity in Canada remains solid, and Titan continues to be accretive to our consolidated operating results. Our long-term strategic rationale for the acquisition of the largest distributor in Canada remains very compelling, including increased scale and footprint in North America, geographic expansion into the highly attractive Canadian market, and creation of a well-balanced platform for growth. We firmly believe that our investment thesis for this attractive acquisition of strategic importance remains strong.

On the organizational front in Canada, we are very pleased to announce that Travis Hendren, most recently Vice President of Corporate Development at GMS, will be joining the Management team in Canada as Executive Vice President reporting to Doug Skrepnek, President of WSB Titan. Travis was an integral part and leader in our acquisition of WSB Titan in June of ’18, and his appointment to this new role reflects the strategic importance of our Canadian operation and is part of our ongoing succession planning. As part of the succession plans for Titan, Travis will work closely with Doug over the balance of ’19 as Doug transitions to a consulting role remaining engaged in the business. After Doug moves into the consulting role, Travis will assume the position of President of WSB Titan.

In the United States, we continue to be quite encouraged by activity levels and other leading market indicators. The organic daily sales volume improvements we have seen in each month in the fourth quarter and continuing into the first quarter of ’20 further validates that view. As it pertains to residential construction, while single-family starts so far in Calendar ’19 have remained perhaps softer than anticipated, we have seen mortgage rates and home price appreciation moderate, and indicators of seasonal demand are generally positive. Employment and income growth remain at very healthy levels, and many of the major markets in the U.S. continue to have limited housing supply as building remains below historical averages, all of which bodes well for the long-term outlook.

On the commercial front, which represents the majority of our business, most indicators and estimates point to continued growth against a backdrop of a healthy economy. We are seeing this in our own business with strong backlogs and quote activity. In recent visits to many of our locations in multiple geographies, I have continued to hear from our own people and key commercial customers that pipelines are very robust through Calendar 2019, and quotes are going into Calendar ’20 and beyond.

GMS generated strong free cash flow in the quarter of $83 million which enabled us to continue to execute on our balanced approach to capital allocation, including reducing our net leverage in the quarter to 3.6 times pro forma Adjusted EBITDA, while at the same time expanding our business through acquisitions and greenfield investments and repurchasing $5 million of our common stock.

During the quarter, we closed on the acquisition of Commercial Builders Group in Southern Louisiana, and opened four greenfield locations in Carrollton, Texas, Fredericksburg, Virginia, Harrisburg, Pennsylvania, and Portland, Maine.

Subsequent to the end of the fiscal fourth quarter, and as announced earlier this month, we acquired Hart Acoustical and Drywall Supply in South Texas. As evidenced by all of these actions, we are executing on our capital allocation strategies of debt reduction, disciplined growth through acquisitions and greenfields and opportunistic share repurchases.

Turning to Slide number 4, I'd like to provide a recap of the highlights for the full Fiscal Year 2019, which was a very important year for GMS, both operationally and strategically. We made significant progress on several fronts.

First, we surpassed $3 billion in net sales through both organic growth and acquisitions. We completed the acquisition of WSB Titan in Canada, which extended our leadership position in North America with materially expanded scale and footprint. We significantly improved overall profitability expanding Adjusted

EBITDA margins by 160 basis points year-over-year to 9.5%. We generated $175 million in free cash flow, and as I just noted, we deployed a balanced capital allocation strategy, including reducing our net leverage by 0.6 times since closing of the Titan transaction a year ago, investing in two additional acquisitions and eight Greenfield expansions and repurchasing $16.5 million of our common stock.

As we previously announced, I will be retiring in August after a 26-year career at GMS. Since this is my last earnings call, I wanted to take a few moments to reflect on the growth of GMS that I have seen, not only throughout my career here, but also since the Company's IPO in 2016.

Since my joining GMS in 1993, we have grown from about 50 branches to over 250 locations, and expanded from 17 states to 43 states and Canada. Our annual sales at the time I joined were $236 million, and in just the last three fiscal years, since the IPO, we have increased our sales by almost 70%, more than doubled our Adjusted EBITDA, completed 17 acquisitions with 59 branches, and opened 13 greenfield yards. It has definitely been a very fast pace and rewarding time here.

Now, having the opportunity to work alongside the talented and dedicated GMS team has been my greatest privilege and the highlight of my entire business career. I am extremely proud that together we have built the number one North American specialty distributor of interior building products and developed a unique corporate culture over the years that continues to be very, very special. I've also appreciated working with many of you on the call today, and I thank all of our shareholders for their continued support.

Going forward, I know that GMS has the right team in place to build upon the Company's strong track record. John, who joined us as President in May, and will assume the CEO role upon my retirement, brings to GMS nearly 30 years of distribution and manufacturing industry experience, and a broad range of expertise in operations, sales, customer service, distribution and logistics, as well as strategic planning in M&A. Having gotten to know John through our extensive travel and meetings over the last few months, I'm absolutely confident that with his leadership, GMS is well-positioned to achieve its next phase of growth and success in the years ahead. I look forward to continuing to work closely with John until my retirement, and also look forward to seeing what he and the team accomplish to raise GMS to even greater heights in the future.

I'll now turn it over to John.

John C. Turner:

Thanks, Mike, for that kind introduction, and for your service to GMS over the past 26 years. It's great to be here today to speak with our analysts and investors. I've enjoyed speaking with some of you since joining GMS and look forward to engaging with more of you in the near future.

Let me start by saying how excited I am to be part of the GMS family. I was first attracted to GMS by its leading market position, specifically the strength of its North American network, combined with local expertise and commitment to service excellence. In the short time I've been here, I've already been impressed by the talent and enthusiasm of the team. I've been welcomed by great people who are clearly dedicated to the company, its customers, and each other. Together, we are working hard to execute on our plans and build on our existing momentum.

Looking ahead, the opportunities for growth are significant. I look forward to leading the Company and capitalizing on those opportunities, as well as further strengthening our customer relationships, supplier partnerships, product offerings, and overall value proposition as we position GMS for its next phase of growth and success.

Since joining, I've been spending time in our facilities, as well as with our customers and suppliers. I'm here to build on an already strong foundation, and I'll be working with the team to identify ways we can enhance every aspect of our business, and we will be sure to keep you updated on our progress. I look forward to transitioning into the role of CEO later this summer and working with you all in the future.

With that, I'll now turn it over to Lynn to provide more details on our financial results for Q4.

Lynn Ross:

Thank you, John, and I would also like to thank you all for joining us today.

We were pleased to deliver a solid fourth quarter, highlighted by record net sales and Adjusted EBITDA performance and strong free cash flow generation.

Turning to Slide 5, we grew net sales 22.7% to $780.1 million. We are especially pleased with a 7% increase in our organic sales, compared to the fourth quarter of last fiscal year. Our sales of wallboard were up by 15% to $322.3 million in the fourth quarter, compared to the same period last year. This increase was driven by acquisitions, higher organic volumes, and pricing. The increase included a 3.8% growth on an organic basis, which included an increase in volume of just over 3% and about a 1% increase in pricing.

Our fourth quarter ceiling sales increased by 17.4% year-over-year to $112.2 million. Higher organic volumes resulting from increased commercial business, along with benefits from acquisitions and pricing improvement, drove this increase. The 13.7% organic increase was comprised of price increases of approximately 9%, as well as higher volume of approximately 5%.

Our sales of steel framing increased during the quarter by 16.3% year-over-year to $124.5 million, driven by the positive impact of acquisitions, higher organic volumes from greater commercial business, and pricing. The 8.3% organic increase included gains of approximately 4% each for pricing and volume.

Sales of our other products, which consist of insulation, joint compounds, tools, stuccos, EIFS, and various other complementary products continues to grow rapidly, totaling $221.1 million, and up 44.4% compared to the fourth quarter of last year.

The addition of Titan has broadened our product offerings and, at the same time, our nearly 8% increase in base business sales of other products further reinforces the continuing success of our efforts to grow this highly profitable product category.

Gross profit in the fourth quarter increased almost 25% to $257 million. This was the result of both higher organic sales and the positive impact of acquisitions, as well as pricing improvements. Gross margin of 32.9% improved 50 basis points from 32.4% a year ago, due to contributions from the Titan acquisitions, including purchasing synergies and favorable price/cost dynamics. And, on a sequential basis, gross margin also improved 50 basis points from the third quarter and exceeded the 32.2% guide we indicated in our last call.

While we benefitted from some favorable price/cost dynamics and mix in the fourth quarter, we do maintain our gross margin guide of 32.2% moving into Fiscal '20.

Turning to Slide 6, we improved our leverage of fixed costs, reducing our adjusted SG&A as a percentage of net sales by 100 basis points year-over-year to 23.6%. This year-over-year reduction was less than we had previously estimated on our Q3 Earnings Call. Let's walk through the details. While we did recognize the full benefits of our strategic cost reductions and lease accounting changes, these benefits were partially offset by some headwinds, including unanticipated insurance costs, increases in certain corporate expenses, related to timing differences, as well as lower sales and operating leverage from Titan. Finally, we have continued to be impacted by significant inflationary wage pressures, as we've discussed on previous calls.

As a reminder we've now lapsed the year-over-year benefits from our change in lease accounting and will do so with respect to our strategic cost reductions after the first quarter of '20.

Moving along to Adjusted EBITDA, we delivered $73.5 million of Adjusted EBITDA in Q4, up 46.9% year-over-year. Our Adjusted EBITDA margin was 9.4% as a percent of sales, or 8.7% excluding the impact of leases, which was up 80 basis points, from 7.9% a year ago.

Turning to Slide 7, during the fourth fiscal quarter, we generated $83 million of free cash flow, a significant increase from $15 million a year ago. The increase is due to a $40 million reduction in networking capital, $24 million of higher net income after adjustments for non-cash items, and $5 million of lower capital expenditures. We used this free cash flow to reduce our net debt by $66 million, as well as repurchased $5 million of our common stock, and complete the acquisition and greenfield transactions that Mike talked about.

At the end of the quarter, our net debt-to-LTM pro forma Adjusted EBITDA was 3.6x, which was down from 4.2x at the end of the first quarter of Fiscal '19, and down from 3.8x at the end of the third quarter. We intend to continue to de-lever through strong free cash flow generation.

Our balance sheet remains quite healthy, with $47.3 million cash on hand and $314 million available under our ADL facility, resulting in substantial liquidity. Additionally, of our total long-term debt, approximately 80% is not due until 2025.

Before turning the call back over to Mike, I'd like to touch on a few more outlook items for Fiscal '20. For Fiscal '20, we expect cap ex to be in the range of $20-25 million and interest expense to be in the range of $70 million to $75 million.

Now, let me turn the call back over to Mike before we open the line for questions. Mike?

Michael Callahan:

Thank you, Lynn.

Just a few additional comments before we open the line for questions. Again, we are extremely pleased with our strong finish to the year, and are confident in the team's ability to continue to take advantage of our multiple levers to drive success: organic growth, greenfields, M&A, and operating leverage. We continue to leverage our market-leading position in the distribution of interior building products, our balanced product portfolio, and our diversified exposure across commercial and residential new and R&R construction markets. And most importantly, our great network of dedicated GMS colleagues in both the U.S. and Canada continue to embrace our strong, entrepreneurial culture to drive outstanding performance and service for our customers and our suppliers.

Operator, we are now ready to open the line for questions.

Operator:

Thank you. We will now be conducting a question-and-answer session. In the interest of time, we ask that you please limit yourself to one question and one follow-up.

If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment please while we poll for questions.

Our first question comes from the line of Matthew Bouley with Barclays. Please proceed with your question.

Matthew Bouley:

Good morning. Thank you for taking my questions and congrats to Mike and welcome to John. I wanted to, I guess first ask about the free cash flow of obviously impressive in the quarter. I think you ended up with about $175 million for the full year of ’19. Is there anything that, you know, you could call out that—anything that particularly drove this strength in the quarter there, and how should we think about what free cash flow could look like in Fiscal ’20?

Lynn Ross:

Yes, sure, Matt. In terms of what drove the free cash flow in the quarter, some of that was driven by about a $35 million increase in accounts payable that we do not expect to experience going forward. That kind of brings our expectations down to somewhere between 40% to 45% of Adjusted EBITDA going forward. And, the $35 million of the increase in accounts payable was simply driven by changes in the timing of purchases.

Matthew Bouley:

Okay. That’s perfect. Thanks for that. And then, secondly, the gross margin. I think you said price/cost was favorable, which drove the strength in the quarter, and if I heard you correctly, I think you said 32.2% was the expectation for Fiscal ’20 still. So, I guess, what are you expecting with price/cost and mix that is driving the margin to subside of it? Thank you.

Lynn Ross:

Yes, so we believe that the 32.2% is a prudent guide going forward given the uncertainty around the pricing environment. Obviously, you should construe that 32.2% as a floor. We hope to do better.

Matthew Bouley:

All right. I’ll I’ll leave it there. Thanks very much.

Michael Callahan:

Thanks, Matt.

Operator:

Thank you. Our next question comes from the line of Trey Grooms with Stephens. Please proceed with your question.

Trey Grooms:

Yeah, good morning. I want to echo…

Michael Callahan:

Good morning, Trey.

Trey Grooms:

…the last comment. Congrats, Mike, on your retirement. It's been great working with you, and John, we look forward to working with you going forward.

John C. Turner:

Thank you, Trey.

Michael Callahan:

Yes, same here, Trey. I've enjoyed it.

Trey Grooms:

So I want to touch on a couple of things. One, so, you know, your wallboard pricing slid just a little bit sequentially. The manufacturers' February wallboard increase failed and it seems to have continued to slide a little bit at the manufacturing level, at least according to the PPI. Can you guys talk about, you know, what you're seeing there, more real-time, and have you seen any stabilization in the pricing, or how should we be thinking about that? Especially, you know, U.S. specifically.

Michael Callahan:

Well, I mean I think, you you touched on it. I think the price increase in February definitely was lethargic coming out of the gate and we really did not—we just didn't get much realization, to say the least. I think right now, just supply and demand conditions are such that, until that kind of alters a bit, I think the price outlook going forward is going to be kind of—remains to be seen at this point. So, but I would say that, in general, I think the pricing environment is stable right now, if I had to kinda give a characteristic to it today. But clearly the…

Trey Grooms:

Okay.

Michael Callahan:

…the increase did not did not hold.

Trey Grooms:

Yes, okay. But seeing some stabilization currently, I guess is the key takeaway.

Michael Callahan:

Yes. Yes, that'd be my take.

Trey Grooms:

Okay, and then my follow-up is around Canada. I just want to make sure I understood your comment. So, volume down high single digits. Was that just on the single-family side, or is that overall, including some of the positive impact from commercial? Just some clarity around that comment.

Michael Callahan:

That would be on a consolidated basis. That would be in total. And really, on the single-family front, that, for the most part is confined to single-family low-rise. I mean, if you look at the high-rise activity, the, you know high-rise condo and apartment, as well as commercial, the fundamentals of those segments are still very sound. The real area is focused on that single-family low-rise, and frankly, a lot of that just has to do with a lot of the regulatory pressures that have been brought to bear in that segment of the market up there. So, you know long-term, we continue to be optimistic about where it's going to develop, but right now, there is definitely some noise in that segment of the market.

Trey Grooms:

And, just if I can, just to get a little bit more, kind of back on the pricing within that Canadian market. I know it's been tight there, you know, just wallboard has been tight there over the last few year. Now, with that kind of, you know, I guess, loosening up a little bit, what's the thought around pricing in that market kinda going forward? Does that usually—I know it's a totally different market than U.S., so forgive me if this is an elementary question, but historically, what has that generally done in times of, you know, when things start softening up a little bit, understanding it still a, you know, quite a bit of imports coming into that market?

Michael Callahan:

You know, up there, I would say, and again, my historical reference is somewhat limited to, having just bought the company a year ago, but I would tell you that, based on the limited numbers of suppliers up there, I mean it's not as if like in the States where you've got, you know, seven manufacturers you can pull from. There is really only only two or three, depending on which part of the country you're talking about to pull from, so I don't see any big alterations necessarily in terms of the pricing environment, and frankly I think the production would be adjusted based on demand levels anyway, kind of like we do here, so I don't I don't see any big price adjustments necessarily taking place up here.

Trey Grooms:

Okay, thanks for taking my questions. I'll turn it over. Good luck.

Michael Callahan:

Yes, take care, Trey. Thanks.

Operator:

Thank you. Our next question comes from the line of Keith Hughes with SunTrust. Please proceed with your question.

Keith Hughes:

Thank you, and my congratulations to you, Mike, and good luck. I'm sure the golfing industry will see its rounds go up once you head into retirement here.

Michael Callahan:

Thanks, Keith.

Keith Hughes:

Just building on a couple questions that have come in. Specifically turning to the ceilings industry, you have got some very strong numbers here. Very similar to what we saw, better volume than we saw out of Armstrong. I guess my question is, as the specialty business ramps up in ceilings, they and USG and others have been doing that, can you tell us how that benefits GMS? Is there any of that business you missed because it sold direct? Or how, how does that work out for you?

Michael Callahan:

The specialty side?

Keith Hughes:

Yes, specialty (inaudible) business.

Michael Callahan:

You know that—and we've talked about this a little bit before. I mean, if you look at the growth subjects, there's always this conversation around the commodity product and what's the long-term growth prospects of that, but the reality is is that we've seen very significant growth in the specialty, you know, wood, metal ceilings, the accouterments to open plenum ceilings, for example, with the acoustical clouds and things such as that, and so, I think—and I really have to tip my hat to our guys in the field who've dedicated a lot of resources and energy behind those segments of the business, because it requires, you know, technical expertise, it requires a lot of product knowledge, and in many respects, we've become kind of the consultants for even architects as they're trying to design a lot of these more sophisticated spaces. So, you know, we've committed a lot of resources to that segment, and I think we're yielding the results of that.

The AS products are a key part of the growth story. And, the other part of it is too is just the fundamental R&R side and the fact that you've got that annuity factor built in because of the, you know, replacement of either tiles that are damaged due to a water pipe failure, or somebody that's building out three new floors. So, there's just kind of a—there's an ongoing activity level, particularly given the relative strength of commercial right now. So, it's kind of a combination of factors, but the specialty side, the architectural specialty side is definitely a growth area for us.

Keith Hughes:

Okay, and switching to Titan. Do you think the next couple quarters, will you see your Titan business bottom out, or would there still be some downside in business as you try to search for a bottom in Canada?

Lynn Ross:

Yes, sure, Keith. On the bottom in Canada, a couple of things. First of all, our exposure there is 22% of the demand is single-family, is new single family. We certainly hope to see things turn in the next two or three quarters. One thing that's starting to turn already, Canada, I think you guys know, has a higher lumber business than the U.S. businesses do, and we've already started to see some of the lumber prices start to turn around. So, don't know where the bottom is. We hope that it's now and fully expect to see things start to turn around, however, it will take a little bit of time for the factors that we discussed related to single-family to iron themselves out.

Keith Hughes:

Okay. Final question on SG&A, now that you've owned Titan for a year. Do you think there'll be more—as you go into year two of ownership, would there be more SG&A savings/leverage, and would we see that tick down for the whole Company on synergies, or are we are we kinda past that?

Michael Callahan:

Well, I mean, I think on the synergy front, that's an ongoing effort. You know, it's kind of like we had our first bite at the apple, so to speak, but as we continue to grow our businesses together, we find more opportunities to purchase cross border from the same manufacturers, or even new manufacturers. We're going to find more opportunities to find synergies, and I think frankly, as the revenue and expense mix improves, as single-family comes back, then I think you're gonna see more opportunities for SG&A leverage in the future, but, you know, that's a TBD there, but I—you know, I'm fundamentally optimistic, and I would reiterate, as I said earlier, the acquisition of Titan was and is a very, very sound and strategically significant investment for us, so, while there's some short-term hiccups in the business, long-term, it's accretive now, and it will continue to grow and be accretive in the future.

Keith Hughes:

Okay, thank you very much, and good luck again.

Michael Callahan:

Thanks, Keith. Appreciate it.

Operator:

Thank you, our next question from the line of Michael Wood with Nomura Instinet. Please proceed with your question.

Michael Wood:

Thanks. Mike, it's been a pleasure working with you, and congratulations on a well-deserved retirement.

Michael Callahan:

Yes, thanks, Mike. Appreciate it.

Michael Wood:

First, I wanted to get some, just more SG&A details if you wouldn't mind. The wage inflation, maybe, where exactly that's coming from, if that's an industry phenomenon or GMS-specific, and maybe some of the timing of the corporate expenses in terms of, you know, details on what's driving that, and when that might come down.

Lynn Ross:

Yes, sure. On the first question you asked with respect to the wage inflation, it's a real thing across the industry. It's driven by labor shortages that are pretty significant in construction. It's not just a GMS thing. Most of the economies in which we operate are full-employment economies, so we're seeing that primarily in logistic, but also in other costs.

Related to your question on the timing, really nothing ominous, just simply year-over-year timing of certain expenses, as well as some unanticipated and unexpected insurance claims that took place the last quarter of the year. The last—actually, in April.

Michael Wood:

Thanks, and on the favorable price/cost that you called out, can you just give us some details on that, perhaps quantify, you know, your cost inflation, where that was running, just in terms of the gross margin impact?

Lynn Ross:

No, we're not—we can't really quantify the impact of the favorability of price/cost. We did have some nice tailwinds from the purchasing synergies as a result of the Titan acquisition, so really I think the remainder of the increase was due to price/cost in the mix.

Michael Wood:

Okay, but just to understand the sustainability of the low double-digit EBITDA conversion margins that you achieved, which is in line with your long-term expectation. Is that something that you think is sustainable going forward? You know, I'm trying to just understand the price/cost was sort of like a one-time benefit that that benefit might wane.

Lynn Ross:

Yes, so moving forward, we fully expect to be in the 10% to 15% range for incremental Adjusted EBITDA. And, we think that that's very achievable, so we do believe that that is sustainable.

Michael Wood:

Okay, thank you.

Lynn Ross:

Yes, just qualify that with, of course, that depends on the pricing environment and on Titan's performance as well.

Operator:

Thank you. Our next question comes from the line of Mike Dahl with RPC Capital Markets. Please proceed with your question.

Mike Dahl:

Good morning. Thanks for taking my questions, and Mike and John, congrats to you both.

Michael Callahan:

Thanks, Michael.

John C. Turner:

Thank you, Mike.

Mike Dahl:

So I wanted to pick up on the Titan conversation with the first question. You know, I think the business was run rating something around $460 million and 15% EBITDA margins on an LTM basis when you bought it. Clearly some moving pieces since then. Can you just help us size up what the current run rate on sales and profitability is for the business?

Lynn Ross:

Yes, sure. Sales is 15% of the total, and in terms of level of detail, as we've discussed on previous calls, we’re not prepared to provide that level of detail.

Mike Dahl:

Got it. Okay, shifting gears, wallboard pricing. Mike, you mentioned that you’re seeing stability in the market today. I guess, and just looking for a little clarity on that if you could, provide a little more detail on, you know, the pricing intra-quarter, and is there anything we should be thinking about in terms of exit rate on pricing that’s different from the $324 for the quarterly average?

Lynn Ross:

Can you reframe the question?

Michael Callahan:

Yes, we have…

Mike Dahl:

Sure. So, I think the comment suggested that there’s been sequential stabilization in pricing. But I guess the PPI data’s kind of continued to move lower sequentially for the manufacturers so that your quarterly price was $324. I'm just wondering if the exit price, you know, if we should be thinking that the price was kind of falling through the quarter, so that even if we’re stabilizing today, we could see another downtick in the quarterly price next quarter. I just want to make sure we’re on the right page there.

Lynn Ross:

Yes. It’s a possibility. Again, there’s a lot of uncertainty with respect to, like we talked about, with respect to the pricing environment.

Michael Callahan:

And it also depends on the mix because that's based on—you know, that's aggregate numbers too. You know, I would say that there is no big moves that we're seeing that are apparent right now, and I think based upon the supply and demand predictability right now that we're—that pricing is generally stable. But trying to handicap that going forward is pretty difficult to do at this juncture.

Mike Dahl:

Okay, got it. If I could get one last question in just on SG&A. Lynn, I think you highlighted in both the comments in the presentation, just the unanticipated costs and timing of certain other costs. Can you quantify how much of an impact that was in the quarter, and kind of how to think about, and you know, you're lacking some of the benefits as you mentioned in early Fiscal '20, but just how to think about what to expect for SG&A moving forward?

Lynn Ross:

Yes, in terms of the mix of the—so, we got 100 basis points of leverage. We would've—we forecast to get 200 basis points of leverage year-over-year. The 100 basis points of, like let's call it "miss," was half and half due to Titan, A) not being as big of a portion of the business, and B), not having the ability to leverage its own fixed costs to the extent that we had forecast. And, the other half being the insurance costs and the timing of the corporate expenses that we talked about.

Going forward, we certainly hope to get some leverage. How much under our current run rate it is is really dependent on wage inflation, as well as on Titan performance.

Mike Dahl:

Okay, makes sense. Thank you all.

Michael Callahan:

Thanks, Mike.

Operator:

Thank you. Our next question comes from the line of David Manthey with Baird. Please proceed with your question.

David Manthey:

Thank you. Hi, and Mike, congratulations and good luck.

Michael Callahan:

Thanks, Dave.

David Manthey:

The question—to get at these one-timers another way here, maybe, could you just give us the magnitude of the insurance and the timing of other costs, sort of year-over-year what the magnitude of that impact was? And, then, I assume what you're signaling here is that we should get relief on both of those as we move into the first quarter. They were sort of periodic to the fourth quarter. Is that correct?

Lynn Ross:

Yes, that is…

Michael Callahan:

Yes.

Lynn Ross:

…correct.

Michael Callahan:

Yes.

David Manthey:

And, in terms of magnitude, basis points or dollars, any—can you give us an idea of what they were?

Lynn Ross:

Yes, sure. Fifty basis points was the insurance costs and the timing on certain corporate expenses, and 50 basis points was the Titan impact.

David Manthey:

Okay. All right. Got it.

Michael Callahan:

Give or take…

Lynn Ross:

Yes…

Michael Callahan:

…yes.

Lynn Ross:

…give or take.

David Manthey:

Okay. That sounds good. And then, second, on pricing, it sounds like you were sort of signaling maybe flattish wallboard pricing in Fiscal 2020. But could you talk about the ceiling prices? Will we see another strong quarter coming up here? I'm just trying to get an idea of the timing when you'll lap the prior price increases, and I assume, at some point, you'll revert back to, sort of, the 3% to 5% norm there. And then, I know this is a long question, but just mainly ceiling pricing and timing, and then second is steel prices. Is it possible you could actually see a drag from steel prices this year?

Michael Callahan:

Well, as it relates to wallboard, I mean, I'm not smart enough to project out that the entire year '20 will not see wallboard increases, so, I mean, I don't want to go on record as having said that. Again, a lot of that has to do with demand-supply conditions and just overall activity levels, so that certainly could have an influence as to, you know, longer term wallboard pricing.

You know, on the ceilings front, you know, everything that we're seeing in terms of quota activity and backlog and the general attitude of our folks out in the field, is that we're gonna continue to see growth in ceilings going forward, just based on the current volumes, and as we've discussed on previous calls, I mean, there is pretty much kind of a built-in price increase relative to ceilings year-in and year-out. I mean, you get two increases a year and it fairly predictable. So, I mean, I think our outlook on the ceilings front and our growth and, frankly, our investments in people and resources to grow that business, you can see the fruits of those efforts already, and I would see that continuing into the future.

David Manthey:

And then on the steel, Mike?

Michael Callahan:

Yes, steel, I tell you, Dave, steel is—it's really slipped. I mean, we've seen some slippage downward. You know, it's obviously prices have fallen and I think when you look at the current market, relative to scrap, and the availability to ship scrap, you know, off-shore is limited, I would say that, our view is that steel prices—and I'm talking specifically now about the steel, the structural side, I think we're probably going to see that continue to probably drop in terms of price as we go forward.

David Manthey:

Okay, thank you.

Michael Callahan:

Thanks.

Operator:

Thank you. Our next question comes from the line of Kevin Hocevar with Northcoast Research. Please proceed with your question.

Kevin Hocevar:

Hey, good morning, everybody, and congratulations as well to Mike and John.

Michael Callahan:

Thank you.

Kevin Hocevar:

Wonder if you could comment on usage expectations here in 2020. It seems like debt pay down is the priority, but obviously still doing acquisitions and a little bit of share repurchases as well, so you can kind of frame up for us your expectations there, and where do you think you can at net leverage? It looks like you took off 0.6 from, what, 4.2 to 3.6 I think this year. How much further down do you think you can draw that in Fiscal ’20?

Lynn Ross:

Yes, we’ll continue to operate using our balanced capital allocation approach. Debt pay down remains a priority. You know, we've talked about our target of 3.0. The exact timing of that 3.0 obviously depends on the generation of Adjusted EBITDA. If you look from where we were right after the Titan deal, at 4.2, you know, really, we’re halfway there now, so we’ll continue to do that.

In terms of the share repurchases, we will continue to be opportunistic about share repurchases, and we’ll continue to be selective about strategic acquisitions. We think that’s an important part of our growth story.

Michael Callahan:

Yes, I would add to that, Kevin, if you look at this quarter, to me, I think it’s kind of a perfect example of this balanced strategy that we’re approaching. I mean, you—it’s not an all-or-nothing proposition. You know, we’ve got to have the right balance between de-levering, which we clearly understand is a priority. But, at the same time, as opportunities present themselves, whether it’s Commercial Builders, whether it’s Hart, or whether it’s greenfields, you know, we have to continue to run the business long-term strategically, and, as things present themselves from a stock price standpoint, we capitalize on that as well. And that, I think this is a really good picture of how we can do that and, at the same time, continue to drive down that debt level. So, you know, that’s gonna be the strategy going forward.

Kevin Hocevar:

Yes, okay. Great. And then, Mike you mentioned the strength you saw here in the fiscal fourth quarter carrying forward into May and June, just kind of curious if you can comment on that specifically. Are you seeing pretty similar growth rates? Are you seeing any accelerations or decelerations? Just wondering if you can elaborate that—on that a little bit.

Michael Callahan:

Well, I mean, I think just as a general statement, there’s a solid level of momentum certainly going into May. You know, June is kind of early to tell because we haven’t, you know, wrapped up all the numbers obviously, and that kind of thing, but just in talking with the field, and meeting with the customers and looking at, frankly, a lot of the larger commercial folks who are completely booked out for ’19 and going into ’20, you know, our view is the overall activity level is solid there, and even with some of the softness, if you wanna call it that, in single-family, we’re still stocking an enormous number of units of housing right now in multi-family. So, you know, pretty much broad-based. I have to say the activity level and the outlook is just very positive. Is it—you know, it’s not like a hockey stick or some massive growth, but it’s just real solid environment right now and I think the outlook is very positive.

Lynn Ross:

Yes, I’ll just add to sequentially, during the quarter, and continuing into May, we saw sequential increases in our sales per day, so we’re pretty positive about that. A little bit too early to tell on June, since we’re still in the month.

Michael Callahan:

Right. Right.

Kevin Hocevar:

Gotcha. Okay. Thank you very much.

Michael Callahan:

Thanks, Kevin.

Operator:

Thank you. Our next question comes from the line of Matt McCall with Seaport Global Securities. Please proceed with your question.

Reuben:

Thanks. Good morning, everybody. And, it's actually Reuben on for Matt. Congrats Mike and John, to you both.

Michael Callahan:

Thanks, Reuben.

Reuben:

Most of my questions have been answered. Just one follow up, if I could. You mentioned still targeting kind of 10% to 15% EBITDA contribution margins going into this year. Is there—clarification: does that include, kind of, any pressures that would result from WSB declining? I assume that's a higher margin business. Probably has higher contribution margins. Does that include any pressure from there that's maybe offset by some synergies and/or any maybe savings if there were to be continued pressure in the Canadian business?

Lynn Ross:

Yes, sure. The 10% to 15% incremental EBITDA contribution does include our forecasts with respect to Titan.

Reuben:

Okay, great. And that's all I got. Everything else was answered. Thank you, guys.

Michael Callahan:

Thanks.

Operator:

Thank you. Our final question comes from the line of Truman Patterson with Wells Fargo. Please proceed with your question.

Truman Patterson:

Hi. Good morning, everybody. Thanks for squeezing me in here. Mike, let me add my congratulations. I hope you enjoy retirement.

Michael Callahan:

Yes, thanks, Truman. I appreciate it, bud.

Truman Patterson:

Yep. First off, on the wallboard volumes, you know, up in the 3% range. Seems like that's a pretty good result, given what's going on with Canada's, you know, housing starts decline, the U.S. starts are down, so a pretty good result. I guess, how do you guys think about your market share there? Have you guys been maintaining it, or even picking up a little bit of market share here in the U.S.?

Michael Callahan:

I would say, as a general statement, we feel like we're kind of holding—we're holding our share position. If you look at cyclically on a 12-month run rate relative to GA numbers and kind of where we see our numbers coming in, you know, so the growth rates we're very happy with on the organic side. You know, frankly, it was also some deferred work that got pushed out. You've heard and seen all the things about weather and this and that. The reality is there was deferred work that we really picked up on as well going into this quarter. So, it's kind of a combination of factors, but we're confident that our share position we're pretty much holding firm.

Lynn Ross:

Yes, I would just echo that and say that kind of our read-through of the Gypsum Association data, which, obviously has a lot of noise in it, we actually think we might have seen some positive movement on share, so we're pretty positive about that.

Truman Patterson:

Okay, okay, great. Thanks for that. And then looking at your greenfields, you guys opened four during the quarter, seems like you guys are picking up that activity a little bit over the past year. Could you just walk us through the economics of opening a new branch and, you know, kind of, the timeline of revenues and cash flows until, you know, break even and performing in line with, you know, more established branches?

Lynn Ross:

Yes, so, in terms of greenfields, we still think that they—that the 6 to 8 guide is a generally good guide. We did have eight this year. I think it's reasonable to expect that in '20 we'll have that number. In terms of the economics of it, it's a fairly nominal capital investment. There is a period of ramp that's, say 12 to 24 months.

Truman Patterson:

Okay. Is there any way we can think about, you know, kind of the revenue ramp, and you know, how long it takes to get a greenfield branch to, you know, kind of the average overall branch level?

Michael Callahan:

That would 24 months. A little bit over 24. I mean, the reality is is that most of these greenfields, as you know, we've talked about before Truman, they're extensions of existing platforms where we might shift x percent of volume from an existing operation to a greenfield, so I would say, you know, it's a minimal amount of capital investment. You're probably good getting to a normalized run rate of a couple of years, maybe two and a half years, get it on a full run rate basis as a standard branch, so to speak.

Truman Patterson:

Okay, great…

Michael Callahan:

But you're also, in the near term, you're picking up logistical benefits because of obviously opening up a new location and not transshipping or going to long distances and that kind of thing.

Truman Patterson:

Okay, thank you.

Operator:

Thank you. There are no further questions at this time. I would like to turn the call back over to Mr. Callahan for any closing remarks.

Michael Callahan:

Thank you. Well, thank you all for joining us today. Again, I've really appreciated working with many of you since our IPO in 2016, and I thank all of our shareholders for their continued support at GMS. I wish John and the GMS team all the best in the future, and I look forward to seeing them bring GMS to its next phase of growth and success. Thanks very much for being with us today.

Operator:

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.