GMS Incorporated

Fourth Quarter Fiscal Year 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

David Manthey, *Baird*

Mike Dahl, *RBC Capital Markets*

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Brian Biros, *Thompson Research Group*

Kurt Yinger, *D.A. Davidson*

PRESENTATION

Operator

Greetings, and welcome to GMS Inc. Fourth Quarter Fiscal Year 2025 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone requires 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, Carey Phelps, Vice President, Investor Relations. Thank you. Please go ahead.

Carey Phelps

Thank you, Donna.

Good morning, and thank you for joining us for the GMS earnings conference call for the fourth quarter and full year fiscal 2025.

I am joined today by John Turner, President and Chief Executive Officer and Scott Deakin, Senior Vice President and Chief Financial Officer.

In addition to the press release issued this morning, we have posted PowerPoint slides to accompany this call in the Investors section of our website at www.gms.com.

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 filings with the SEC, including the Risk Factors section in 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 the fourth quarter of fiscal 2025 relate to the quarter ended April 30, 2025.

Finally, once we begin the question-and-answer session of the call, in the interest of time, we kindly request that you limit yourself to one question and one follow-up.

With that, I'll turn the call over to John Turner, whose discussion will start on Slide 3. JT?

John Turner

Thank you, Carey.

Good morning, and thank you all for joining us today.

I'll begin by reviewing our full year and fourth quarter performance, which overall, despite a continued challenging macro backdrop, came in at the higher end of the expectations we provided in March. I will then turn the call over to Scott to further review the financial results before concluding with an overview of our guidance and opening the line up for Q&A.

For the full year, net sales were $5.5 billion, up marginally compared to the prior year, driven by positive contributions from our recent acquisitions, including Kamco, Yvon Building Supply, R.S. Elliott and Howard & Sons Building Materials. Organic sales for the year were $5.2 billion, down 5.4% on a same-day basis compared to the prior year.

Net income for the full year was $115.5 million, inclusive of the $42.5 million noncash goodwill impairment charge we recorded in the third quarter. Adjusted EBITDA was $500.9 million, and free cash flow for the year was $336.1 million or 67% of Adjusted EBITDA.

Looking at the fourth quarter, which is highlighted on Slide 4, we delivered solid results even as we continued to face pressure across the business amid the ongoing macroeconomic challenges impacting our industry. We reported $1.3 billion in net sales. Organic sales declined 8.3% per day, which was slightly better than our expectations. Net income was $26.1 million, and Adjusted EBITDA was $109.8 million, coming in at the high end of our outlook.

Our cash flow generation continues to demonstrate our operational discipline through this down cycle with $196.8 million of cash from operating activities and $183.4 million or 167% of Adjusted EBITDA of free cash flow generated during the quarter. This was the highest level of quarterly free cash flow conversion in our Company's history with the exception of our fiscal fourth quarter of 2020 when COVID first hit, and we moved swiftly and extraordinarily to protect the business. Even against a challenging backdrop, Ceilings and Complementary Products saw volume improvement during the quarter. Ceilings performed particularly well given the continued benefits of the addition of Kamco, combined with our intentional strategic focus on architectural specialties projects, which have higher average unit pricing.

In Wallboard, the implementation of calendar 2025 manufacturer price increases came later than originally announced with only modest pricing actions realized in May. We continue to work diligently with our customers to affect these increases as we continue to focus on protecting our margins.

In steel framing, as our suppliers navigate the latest tariff actions, we have received notices of upcoming manufacturer price increases. Through the end of the fourth quarter, however, steel prices remain pressured. Beyond steel, we anticipate minimal direct impact from tariffs as most of our products distributed in the U.S. and Canada are sourced domestically. We believe that the primary risk to our business from trade policy is the potential negative effect on broader demand.

Looking at our end markets on Slide 5, we are cautiously optimistic that we are nearing the bottom of the cycle, although the intensity and duration of the downturn will vary by each market. Fourth quarter demand was down across both residential and commercial as economic uncertainty dominated the headlines. As a result, Wallboard industry volumes as reported by the Gypsum Association were down 10% in the first calendar quarter.

Stubbornly high interest rates and policy uncertainty remain the primary impediments to growth, both residentially and commercially. These factors are causing homebuyers to retreat to the sidelines, multifamily and commercial developers to pause or delay starts and regional banks to both increase their commercial lending requirements for new projects and lend less overall.

For residential, while single-family is experiencing softness, there remains a clear and fundamental need for housing in both the United States and Canada that continues to give us optimism for the eventual recovery of that sector. In the near term, given recent share gains and some regional strength, we expect to slightly outpace normal seasonal trends. Specifically, with Wallboard volumes expected to be flat to up slightly for our fiscal first quarter, we expect similar year-over-year growth in single-family volumes throughout the balance of our fiscal year.

In multifamily, rents have been stable or have continued to rise in most markets since COVID. Also, developers appear to be modestly optimistic about demand levels as the number of new starts has possibly bottomed and recently begun to increase. Once there is less uncertainty in the broader macro environment, we expect demand to return for this end market, hopefully, with year-over-year declines in our sales volumes ending by early calendar 2026.

Commercial activity continues to also be negatively impacted by high interest rates, the lack of available financing and again, general economic uncertainty, contributing to soft starts and mixed results among commercial applications early this calendar year. We expect this dynamic to continue but moderate with some recovery in our business towards the first half of calendar 2026. This assumes we see rates decrease as expected and generally improved confidence in the direction of the economy.

Within commercial, current category strength continues to come from larger projects and those that are not as dependent on private financing, particularly those in public education, healthcare and technology. Notably, we have a data center backlog that extends well into 2026, and there is no indication of these projects slowing down in the near term. Data centers continue to be an excellent offering for us as they utilize both our core and complementary products, often with higher-end specifications, helping to fill the gap left by the ongoing malaise in office activity.

As we look ahead, we expect that the near term will remain challenging for our business and the industry as a whole, given the rate environment and macroeconomic dynamics at play. That said, given our focus on our customers and exceptional service as well as the execution of our four strategic pillars to expand share in our core products, grow our complementary products, expand our platform and drive improved productivity and profitability, we expect to capitalize on long-term growth opportunities for the Company and value creation opportunities for our stakeholders.

operations with our volume and the market realities of today, setting us up for more efficient realization of growth through the next cycle. Notably, we've continued to execute on a significant cost savings program, through which we took actions to achieve another $25 million in annualized cost savings in our fiscal fourth quarter, higher than the $20 million we projected earlier. With these actions, we have implemented a total of $55 million of annualized cost savings during fiscal 2025.

We also continue to pay down debt and return cash to our Shareholders through repurchase activity. We reduced net debt by more than 10% during the quarter, leaving us within our target debt leverage range of 1.5 to 2.5 times with high confidence in our ability to continue generating excellent cash flow.

With that, I'll turn the call over to Scott.

Scott Deakin

Thanks, JT.

Good morning, everyone.

Starting with Slide 6, net sales for our fiscal fourth quarter were ahead of our forecast as market conditions recovered slightly after a particularly challenging winter. As compared with a year ago, net sales of $1.3 billion decreased 5.6% or 4.1% on a per day basis. Ceilings, which continued to benefit from project mix and Complementary Products, both saw volume growth during the quarter, while our other product categories experienced weaker sales than a year ago. Organically, sales decreased 9.7% or 8.3% on a per day basis as compared with the fourth quarter of fiscal 2024, coming in slightly ahead of our guidance.

As JT mentioned, given the ongoing uncertainty in the market and across the industry, we continued to implement additional cost reduction actions during the quarter, working to take out another $25 million in annualized operating costs, bringing our total to $55 million of cost reductions implemented during fiscal 2025. These savings reduced general SG&A expenses, which together with four-yard closures were principally realized through workforce reductions, leveraging efficiencies gained from our previous technology and process investments designed to better optimize our operational activities.

We estimate that we captured roughly a third of the quarterly run rate of our latest round of savings during the fiscal fourth quarter as much of the actions were implemented during the last half of the quarter. We expect to realize the full quarterly run rate of our fiscal 2025 cost actions during the fiscal first quarter of 2026.

Further supporting our cost reduction activity, we are continuing to consolidate our legacy subsidiary structure to drive greater efficiencies by leveraging ERP data standardization, removing redundancies and streamlining processes. As an example of the potential benefits, looking at the first division to implement this transformation, with the combination of four subsidiaries into one centralized division, redundant back-office operations were eliminated, disparate regional data was standardized and operational best practice deployment increased, resulting in reduced administrative costs, higher inventory turnover, lower DSO and decreased operating expenses. We look forward to our other U.S. divisions concluding similar efforts by the end of this calendar year. As a result of our cost reduction efforts, we are well positioned to exit this cycle as a better, more efficient operator.

Now before we proceed into the rest of the results for our fourth quarter, please note that we had one less selling day during this year's fourth quarter as compared to the prior year. First, on revenues. Looking at our U.S. markets, revenues for our single-family end market increased 4.5% on a per day basis as compared with the fourth quarter of fiscal 2024. Multifamily and commercial revenues, on the other hand, fell 32.4% and 10.1%, respectively, on a per day basis. Given the significant decline in multifamily, total U.S. residential revenues declined 6% per day as compared with the prior year period.

By product category, Wallboard sales for the quarter of $526.6 million were down 10.1% over the same period last year or 8.7% on a per day basis. Single-family volumes in the U.S. were down 1.9% per day, outperforming our expectations as we successfully picked up share during the quarter. U.S. multifamily Wallboard volumes were down 37.6% per day and commercial volumes were down 18.3% per day. Organically, fourth quarter Wallboard sales were down 12.5% compared with the prior year period or 11.1% on a per day basis, comprised of a 12.1% decrease in volume, partially offset by a 1% increase in price and mix.

Reflective of myriad capacity utilization and commodity dynamics influencing Wallboard manufacturing, pricing has remained resilient throughout the cycle. The average realized price for Wallboard for the fourth quarter was $478 per thousand square feet, down only marginally from the third quarter price of $479, all the result of the mix shift toward lower dollar single-family wallboard products. On a like-for-like product basis, Wallboard pricing, excluding mix, was up 1% sequentially for the quarter. Year-over-year, pricing was up from $475 in the prior year period. As JT mentioned, manufacturers launched small regional price increases in May, and we expect our team's work to implement these increases to continue at least through the summer. Due to the soft demand conditions and uncertainty in the macro environment, it is too soon to know how successful the adoption of these increases will be in the near term.

For Ceilings, sales of $201 million were up 6.4% compared to the prior year period or 8.1% on a per day basis, representing a 1.4% increase in volume and a 6.8% improvement in price and mix. Organic sales for Ceilings grew 2.9% in total or 4.5% on a per day basis for the quarter despite a 1.5% decrease in volume, given constrained commercial activity due to the macroeconomic and lending environment. Price and mix increased 6%, benefiting from both the normal cadence of regular price increases on Ceilings as well as a favorable shift towards architectural specialties products.

Steel framing sales of $189.2 million were down 14.2% for the quarter or 12.8% on a same-day basis versus the prior year quarter as volumes were down 2.6% and price and mix were down 10.2%. On an organic basis, steel framing sales were down 17.9% in total or 16.6% on a same-day basis with a 10.1% decline in volume and a 6.5% decline in price and mix. Recent tariff announcements on steel have indeed resulted in price increase announcements from our suppliers, and we do expect eventual higher pricing as a result. However, due to the continuing soft consumption levels in steel's primary end markets, including automotive, structural construction and appliances, the broader tariff activity has for now only set a likely bottom for pricing in our applications. As such, although still difficult to predict, while there could be upside, we are assuming relatively flat steel prices for our business in the near term.

Complementary product sales of $416.9 million for the quarter were nearly flat a year ago in total or up 1.4% on a per day basis, representing the 20 consecutive quarter of per day growth in this margin-accretive category. On an organic basis, sales were down 7.3% or 5.8% on a same-day basis. We continue to see Complementary Products as an attractive expansion opportunity and are targeting its growth at twice the rate of our core products. Similarly, as the broader sector has faced the pressure of recent macro challenges, this category has organically contracted more slowly than our core products.

Within Complementary Products, we are particularly focused on expanding our reach in tools and fasteners, given the fragmentation of its niche pro-focused market. Insulation as there is a real opportunity for pull-through organic growth within our current commercially focused footprint, and exterior finishes such as EIFS, stucco and siding, particularly through leveraging the capabilities from our recent R.S. Elliott acquisition. In total, these three product types grew 2% for the fourth quarter or 3.6% on a per day basis. With EIFS and Stucco firmly in our wheelhouse, we've also recently begun to include siding in our exterior finish offerings and have already captured work from some of the country's largest homebuilders.

Now turning to Slide 7, which highlights our profitability for the quarter. Gross profit of $416.2 million decreased 7.7% compared to the prior year quarter. Our gross margin of 31.2% was flat sequentially and in line with our expectations on stable price/cost dynamics, but down 70 basis points from the prior year, prior year period.

Selling, general and administrative expenses were $315.1 million for the quarter, down slightly from $315.5 million in the prior year quarter, despite a $14 million year-over-year inorganic increase related to our recent acquisitions. Separately, we saw a $4 million increase in rent expense, a $4 million increase related to higher insurance claim costs and $1.5 million in severance expenses. These expenses were fully offset by lower overall operating costs resulting from the structural cost reductions we took earlier this fiscal year, together with lower variable costs as a result of lower sales volumes. As a reminder, we expect to realize additional savings in our first quarter fiscal 2026 results from those actions implemented during the fourth quarter.

SG&A expense as a percentage of net sales increased 130 basis points to 23.6% for the quarter, up from 22.3% a year ago, but reflected a sequential improvement compared with the prior quarter's level of 24.7%. General operating cost inflation, including higher rent expense, drove 110 basis points of deleverage, the majority of which was offset by the previously announced cost-out actions. Accident claim activity contributed 30 basis points of deleverage and net product price deflation led by steel was unfavorable to SG&A leverage by 30 basis points. The remainder of the year-over-year difference was related to reduced absorption on lower sales, offset partially by the benefit of acquisitions.

On an adjusted SG&A basis, expenses as a percentage of net sales of 23.1% increased 130 basis points from 21.8%. All-in, inclusive of a 5.7% increase in interest expense, net income decreased to $26.1 million compared to $56.4 million a year earlier. Net income per diluted share of $0.67 decreased from $1.39 per diluted share.

Finally, relating to the P&L, Adjusted EBITDA of $109.8 million came in at the high end of our expected range for the quarter and compared to $146.6 million a year ago. Adjusted EBITDA margin of 8.2% was down from 10.4% in the prior year period. With improvement in demand and less uncertainty in the market, particularly given the recent operating cost reductions, we continue to expect that annual EBITDA margin will return over time to a range of 10% to 12% in a more normalized environment.

Now turning to the balance sheet on Slide 8. As of April 30, we had cash on hand of $55.6 million and $631.3 million of available liquidity under our revolving credit facility. Although we achieved a sequential reduction in net debt, our leverage ratio increased to 2.4 times Adjusted EBITDA compared to 1.7 times a year ago, primarily due to the year-over-year decline in Adjusted EBITDA.

Cash generation was a definite highlight in the quarter. Cash provided by operating activities for the quarter was $196.8 million compared to $204.2 million in the prior year quarter. Free cash flow was $183.4 million compared to $186.7 million for the same period last year, totaling 167% of Adjusted EBITDA. For the full year, we generated cash provided by operating activities of $383.6 million and free cash flow of $336.1 million, representing 67.1% of Adjusted EBITDA, slightly exceeding our full year expectation. Capital expenditures for the quarter were $13.4 million compared to $17.5 million a year ago. Looking forward, for full year fiscal 2026, we now expect capital expenditures to total between $40 million and $45 million.

During the quarter, we repurchased 348,600 shares of common stock for $26.4 million at an average price of $75.60 per share. At April 30, there was $192 million of share repurchase authorization remaining. For the full year, we repurchased 1.9 million shares of common stock for $164.1 million at an average cost of $85.27 per share. Looking ahead, we expect to maintain a disciplined approach to capital allocation as we balance stock buybacks with debt reduction while maintaining enough cash to pursue attractive M&A opportunities that expand our offerings and build on strategic priorities.

During this suppressed demand environment, we will continue to be tightly focused on managing operating efficiencies and cash, maintaining optimal financial flexibility to best position the Company for a still widely expected eventual return to improved economics.

With that, I'll turn the call back over to JT, who will start on Slide 9.

John Turner

Thank you, Scott.

We finished fiscal 2025 having undergone a period of macroeconomic difficulties that impacted our industry as a whole and will likely continue to do so for the remainder of calendar 2025. While we continue to expect recovery to be tied closely to mortgage rates and the broader macroeconomic environment, our team has been working diligently to service our customers and execute against our strategic priorities. Despite headwinds, we believe that there is a great deal of pent-up demand that will materialize when conditions improve.

Looking ahead, as Scott discussed, continuing business simplification efforts are on track to be finished by the end of this calendar year, leveraging standardized data sets, streamlining processes and reducing redundancies across our business units. Combined with the strong fundamentals of the business and our already implemented cost reductions, we believe our strategic approach should position the Company to capture demand when it returns as a leaner, more efficient operator.

Given this backdrop, let me turn to what our expectations for our product categories look like this next quarter. Starting with Wallboard on an organic basis and using our U.S. business as a proxy, we anticipate single-family volumes to be flat to up slightly year-over-year for our fiscal first quarter. Multifamily organic Wallboard volumes are expected to be down 25% to 30% for the first quarter and commercial organic Wallboard volumes are expected to be down low teens as compared with the prior year period. In total, including Canada, we expect first quarter organic Wallboard volumes to be down high single digits and total Wallboard volumes, including recent acquisitions, to be down mid to high single digits.

Although prices on a like-for-like product basis should be slightly higher year-over-year for Wallboard, including the impact of mix shifts, we anticipate our first fiscal quarter overall price and mix for Wallboard to be roughly flat with the prior year period. In Ceilings, a low single-digit decline in volumes is expected for our first fiscal quarter, reflective of the soft commercial end market conditions. In addition, the results of our Kamco business, whose acquisition was completed in March 2024, are now fully reflected in both the current quarter and the prior year period.

With a typical pattern of price increases anticipated, price and mix for Ceilings is expected to be up mid to high single digits for our first fiscal quarter. Steel Framing, which is also heavily impacted by commercial market conditions, is expected to be down high single digits in volume and low single digits in price and mix. While pricing does still have the potential to increase in subsequent quarters, given the lag dynamics from rolled steel through our manufacturing partners to us, we don't expect to see any significant improvement in the first quarter.

Concluding with Complementary Products, while we remain focused on growing this product category due to its exposure to the commercial end market, we expect for year-over-year sales to be down low single digits in the first quarter.

All-in, and as shown on Slide 10, we anticipate net sales for our fiscal first quarter to be down low to mid single digits in total and down mid to high single digits organically as compared to the prior year period. While gross margins are expected to be consistent with both our fourth quarter and the prior year period around 31.2%, we expect to see lower operating expenses year-over-year as a result of our cost reduction actions and lower sales volumes.

the first fiscal quarter, with margins in the 9.5% to 9.8% range. Cash flow generation should remain strong for fiscal 2026, likely 60% to 65% of Adjusted EBITDA for the full year.

Before I conclude, I'd like to take a moment to thank the entire GMS team for their continued commitment to delivering outstanding service and adding value for our customers during soft market conditions. I'd also like to thank our customers and suppliers for their continued partnership, working hard every day while navigating the same headwinds we are facing. As conditions improve, interest rates lower and uncertainty lessens, pent-up demand within the market should materialize and we believe our strong foundation will set us up for continued shared success.

Thank you for joining us this morning. Donna, we can now open the line for questions.

Operator

Thank you. The floor is now open for questions. If you would like to ask a question, please press star, one on your telephone keypad at this time. A confirmation tone will indicate that 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 the handset before pressing the star keys. We do ask that you please limit yourself to one question and one follow-up. Again, that's star, one to register a question.

Today's first question is coming from David Manthey of Baird. Please go ahead.

David Manthey

Thank you. Good morning. JT, you mentioned that sequential organic trends would be seasonally better next quarter. I think quarter-to-quarter trends have been running below expectations for about a year now. Maybe I didn't catch it. Did you outline why you feel that way?

John Turner

I think we referred specifically to the single-family market as that improvement. We're just experiencing that. We also have some share gain that we've achieved with some of our bigger customers that we will enjoy for the balance of this year, Dave. We're really speaking primarily from an improvement in the single-family for our business, maybe not so much the whole market, although recent commentary from Lennar and also Horton, you guys have read it, the sky is not falling in that respect.

We feel pretty good about where we are and how we've bottomed, and we're experiencing that normal seasonality and a little bit better, like I said, today in single-family primarily.

David Manthey

Okay. Yes, it looks like, based on your overall guidance, you're pretty much in line with normal quarter-to-quarter trends into the first quarter. Hopefully, that holds up. Then second, as you're thinking about the technology and efficiency optimization efforts and this $25 million in annualized savings, I think you said it was mostly EIFs (phon). But could you talk about the technology that you're implementing and if there's any additional digital benefits beyond what you've already outlined in savings?

John Turner

Yes. I mean we haven't done anything. We never slowed down our investment in digital at all throughout this entire cycle, depending on when you want to say the cycle started declining. We've continued to focus really heavily on our digital efforts and our customer portal and our e-commerce efforts and our automation efforts. Part of that success is why we were able to take out the amount of cost we have been simply from a volume perspective.

Our efficiencies have continued to get better on a year-over-year basis over the course of the last several years. We have no slowdown in investment in our e-commerce. We have some AI applications we're looking at that are going to automate order entry for us. This next year, we are continuing to advance the actual B2B and B2C capability of our e-commerce. Our portal gets better all the time, although it's fully functioning now. We're up to almost 20% of our accounts receivable being collected online through our portal. I mean that's a really significant number, considering we have a lot of large customers that naturally pay another way.

We're just constantly seeing the metrics associated with what we've invested in getting better, which allows us to be confident that even though we've taken the cost out that we have that we continue to deliver exceptional service, and we'll have that ability going forward.

Scott Deakin

David, also as I think you know, we've got a common ERP platform across our entire U.S. footprint. What's really nice about what we're doing as we clean up this data standardization is the ability to get better utilization out of those other technologies goes up. Not only do we get efficiencies in terms of working with that data, back-office efficiencies, et cetera, but some of those underlying tools that JT just mentioned actually become more effective with that cleaner data.

David Manthey

Perfect. Thanks, and good luck.

John Turner

Thanks, Dave.

Operator

Thank you. The next question is coming from Mike Dahl of RBC Capital Markets. Please go ahead.

Mike Dahl

Thanks for taking my questions. JT maybe just a follow-up on the single-family dynamic. I respect that some of the commentary has suggested things aren't necessarily crashing, but that's also coming in the context of the companies that you quoted reporting order trends that are still well below normal seasonality and some other commentary suggesting the bottom's a little bit elusive, and apply and that they're more vocally applying pressure to their partners.

I want to tie that back to your share gain because if I look at your single-family guide compared to single-family starts or under construction, it would imply a very healthy share gain. I think those numbers are still running down high single digits year-on-year. Help us understand the nature of the share gains, the categories and then when the builders are asking for the concessions, how you're balancing that share versus margin and price dynamic?

John Turner

Yes. I mean we're leveraging our scale to help our builder partners where necessary. Obviously, we're somewhat limited as the distributor, but we have wonderful relationships back throughout the supply chain, right on the supply side. We're working really diligently to help builders through this period of time part of this next quarter's guide we just talked about.

We know that we picked up some share gain recently. I think maybe we're just over performing a little bit. I wouldn't say dramatically. I'm guessing it's not quite as dramatic as you just rattled off there. I do think that we've done some things on a geographic basis to be better where builders are building. We have some regional strength. Some of our greenfield activity over the course of the last several years has been focused in and around where builders are focused on building as well.

I think that's helping us. Our acquisition track record here has been pretty good, too. I think we're picking up on the complementary product side. We're picking up some things that we otherwise—in the State of Florida, as an example, with R.S. Elliott, we wouldn't have had any of that EIFS and Stucco business to speak of. EIFS is really primarily multifamily. But if you think about stucco, the first level and still the second level in a lot of homes in Florida is stucco. We're much better as a result of that R.S. Elliott acquisition down in Florida. I think those are kind of the primary drivers.

Mike Dahl

Okay. Great. That's really helpful. Then just shifting gears to the margin dynamics, it's nice to see the OpEx coming back down and some of the cost outs starting to bear fruit, at least looking at the guide in particular. The comments about margins kind of 10% to 12% longer term, historically, you had seen that in the COVID years, which benefited a lot from price. Before that, you were slightly below. When you think about that margin target, how much would you attribute to being dependent on a market outcome versus, obviously you guys are doing a lot under the hood to improve the internal operations, cost efficiencies, data transparency, et cetera. Help us understand what's the self-help in there versus market dynamic?

John Turner

I mean, clearly, we still need the market to come back. I mean we need to put some volume through the machine to get to those kinds of numbers. I mean we have the ability today to do a lot more volume even after taking out the costs that we've taken out. All of that incremental volume across this cost structure means we're leveraging the fixed side, straight to the bottom line. Let me tell you, maybe half of what we think we can do is volume related, and the other half is just being leaner now going forward and the work that we've done both in our product mix.

We've talked about Complementary Products being accretive, and we continue to grow that side of the business, but then also our cost structure, we're just leaner going into this. Again, I would expect not to have the same degree of inflation that we all experienced post-COVID either, on the cost side of the business, I'm talking about.

A little bit of normalization in gross profit, a little bit of volume and leveraging our cost and product mix gets us right there.

Mike Dahl

Alright, thank you.

John Turner

Thank you. Appreciate it, Mike.

Operator

Thank you. The next question is coming from Matthew Bouley of Barclays. Please go ahead.

Hi, good morning, everyone. Thank you for taking the questions. I'm going to stick to the single-family guide. As Mike alluded to, I think we just saw single-family starts probably down about 7% year-over-year in the month of May. I hear you all on the share gain and partnering with your builder customers and all that. My question is really the visibility that you have into that end market to the extent you can look a little bit forward on orders. Just how do you think about or to what degree do you have visibility? Secondly, thinking about lag times and all that, just historically speaking, when would you see start activity end up flowing into your own shipments? Thank you.

John Turner

Usually about three to six months because we're really very production large builder focused. We have less of a customer. It's not really a focus as much as it's just the nature of the business. We don't have as big a custom homebuilder mix, although a couple of the big production luxury builders, we do pretty well with. Three to six months, Matt, is kind of the lead time there. Our visibility that we're very comfortable with is the quarter. That's why we give you a guide for a quarter.

Obviously, if starts just collapse going forward, then the outlook changes. But I don't think that's probably what we're going to see. I think it's going to be challenging here for a little period of time from starts. But I believe that you'll get through the summer months, and we'll start to see a little bit of uptick again and get prepared for next year's spring selling season. I mean, just again, if you go back, this is going to be the fourth year most likely now of declining single-family home starts and home starts really in total.

That's almost always, it's not a longer cycle than four years. Four years is usually the bottom, three to four years. It would be an exceptional situation to move into a fifth year with home starts down again. I don't see anything out there that says things are going to be exceptionally bad. Our expectation is things will kind of bottom here and then move up going into next year's spring selling season. I mean we're already halfway through the calendar year.

Matthew Bouley

Yes. Okay. Got it. Thank you for that, JT. Then, yes, I guess, great color around, I guess, streamlining the cost structure in terms of where you want to be if and when we do have that end market recovery. I guess just double-clicking on the SG&A savings, maybe that incremental $25 million. You obviously gave a lot of great color on what's behind that. But we always like to just check on, I guess, the permanence of a lot of these cuts and just trying to understand if and when you do have volume recovery, to what degree does some of those costs actually come back into the system versus to what degree do you think you've sort of permanently reduced the cost structure? Thank you.

John Turner

Yes. I mean we've historically always talked about our fixed variable being 50-50. I think between the investments we've made in our productivity capability, the current structure of the business actually has some upside in volume before we would begin adding back even some of the variable costs. But I would tell you probably over a long run of growth, 50% of the cost stays out and 50% is variable and might come back.

Matthew Bouley

Okay, got it. Thank you for that, JT. Good luck, guys.

John Turner

Thanks, Matt. Appreciate it.

Operator

Thank you. The next question is coming from Brian Biros of Thompson Research Group. Please go ahead.

Brian Biros

Hey, good morning. Thank you for taking my questions. I guess sticking on still the homebuilders and the single-family environment. Just I guess as the big homebuilders continue to be a larger share of the home starts, how does that impact, I guess, the distribution channel and your business? On the one hand, I can see big builders being able to take advantage of your offerings better than the smaller builders, but also maybe you lose some leverage when you have fewer customers there. Just curious to hear your thoughts on how the distribution channel and your Company specifically is adapting its go-to-market strategy here in the current environment.

John Turner

Yes. I mean in the near term, I think that's another tailwind to what we're guiding to here is the fact that those big builders are significantly more positive than the small builders. We've gained quite a bit of share with big builders over the last couple of years because of our service proposition, our national ability to service their business and really the quality of that delivery that ensures that in particularly in these times, no added cost going into their process as a result of them doing business with us. If anything, we should help them be more lean and more efficient by having the most professional delivery capability in the industry.

I think that's why we appeal to them. We're great partners with them. They are important customers, and we're going to work with them. We're going to help them through this period of time, and we're going to do everything we can on every side of our business to reduce cost, reduce product costs, reduce operating costs to help our builder partners through this period of time and keeps us going in the near term. Then in the long term, I really think there's going to be some significant growth in that channel when all this pent-up demand gets released. I think we saw some article yesterday, there's a million millennials that are either living together as roommates or back in their homes again through this down cycle. That's millennials. That's not young people. I mean that's people that are ready to form households and start buying houses. We've got a million people sitting in that environment right now. That alone says there's a lot of pent-up demand out there. Yes, we're better with national builders because our service proposition and partnering proposition really fits that business model.

Brian Biros

Got it. Then I guess if you could talk about what you're seeing across the return to office movement here. We were at NeoCon earlier this month. Return to office trend there seems to be kind of slow and steady pace, actually happening, but nothing to get too excited about currently. I guess how do you guys think about that going forward? What are you seeing in the market today? Thank you.

John Turner

Yes. I mean, longer term, it's a really nice opportunity. In the very near term, right, we're not touting it because it's not happening to the extent that yet is driving a ton of TI work and that tenant improvement work is what's so important for us. Equally important trend is the conversion of all of this office space to residential, particularly in some of the major metros would be very good for us. New York City is an example. I think we just saw a forecast in New York. There's like 14 buildings that have now been approved and permitted to be converted. That's really good business for us as well. I guess we are cautiously optimistic, but I wouldn't put that in a 12-month view for us.

back, though that's really good for us. I mean that prior to COVID was a huge part of our business, and we were the best at it. I think we're still pretty damn good at it. When it happens, it will happen for us. But again, too far out into the future still to get too excited about it.

Operator

Thank you. Our final question today is coming from Kurt Yinger of D.A. Davidson. Please go ahead.

Kurt Yinger

Yes, great. Thanks, and good morning, everyone. I just wanted to go back to Wallboard pricing. Hopefully, you guys could give maybe a little bit more color around high level, the timeline in terms of what you're absorbing in terms of some of those regional price increases? How you're thinking about maybe success and what would be required for that from a demand perspective? Maybe ultimately, how that ties back into Wallboard price cost for GMS going forward?

John Turner

Yes. I would tell you that our guide incorporates basically the ability to pass through limited price increases and/or work backwards and take that cost out of our business. It's the magnitude of what we're going through now and experiencing is nothing like we experienced a year ago when everybody thought things were going to be better and the prices all went in. Then two, three months later, things start to fall apart from a volume perspective. I think everybody understands the environment we're in today. All of our partners understand where we are, and we're all working through it together from a cost perspective. Then we're pushing through where we have to push through. It's pretty limited, quite frankly.

Kurt Yinger

Okay. That's helpful. Then if we look at some of the numbers that the Gypsum Association has in terms of expected industry capacity and layer on a more challenged volume scenario this year, it's not hard to see industry operating rates fall back to a mid to high 70s level this year. I guess, how do you think about that in terms of the resiliency of pricing sustaining? Maybe any other high-level thoughts around the industry's ability to hold pricing with that operating rate environment?

John Turner

I mean there's still a lot of inflation on the manufacturer side on the inputs with the synthetic and natural gypsum situation, all the capital that's been invested to handle that situation. I would guess that through a short period of time, which we're looking at here three months, maybe nine months, with an outlook into calendar 2026 that looks like it's more of a recovery, I think things can stay pretty resilient. If you were going to go into a significant downturn, recessionary type situation, well, then things could be different. That's not what I'm expecting.

Scott Deakin

Particularly for an extended period.

John Turner

Yes, particularly for an extended period. I mean we're not expecting a deep recessionary environment. But obviously, if that happens, it's a different situation and everybody has to act differently.

Kurt Yinger

potential for 2026 and the unlikelihood of that. But if we were to think about demand just being pretty stagnant again and maybe some competitive forces coming back into the market, is that a scenario that concerns you? Or do you really need to have demand deteriorate further for some of those more negative scenarios around pricing or price cost to really materialize in your view?

John Turner

We'd say, does it (phon) concern me? I certainly would prefer not to have another year of muted demand all the way through '26, not as much fun as a better economy. I don't really know what to tell you from a price perspective if we got into a full year of, let's say, 75% utilization of capacity. Could there be some erosion in price? Yes. I mean, there could be, I guess, if you got a full year of 75% utilization rates again into '26. But I also do believe that there's still a lot of pent-up inflation that these manufacturers have eaten. There's still a lot of investment to be done. I mean the whole industry is not completely ready to go away from synthetic yet and synthetic continues to go away. There's still that challenge.

Kurt Yinger

Okay, that's very helpful for perspective. Thank you.

John Turner

Thanks, Kurt.

Operator

Thank you. Ladies and gentlemen, this concludes today's question-and-answer session and today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your day.

John Turner

Thank you.