

GMS, Inc.

First Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Noah Merkousko, *Stephens*

David Manthey, *Baird*

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PRESENTATION

Operator

Greetings. Welcome to the GMS, Inc. First Quarter 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 should require Operator assistance during the conference, please press star, zero on your telephone keypad.

Please note this conference is being recorded.

I will now turn the conference over to Carey Phelps, Vice President of Investor Relations. Thank you. You may begin.

Carey Phelps

Thank you. Good morning, and thank you for joining us for the GMS earnings conference call for the first quarter of 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 we issued this morning, we've posted PowerPoint slides to accompany this call in the Investors section of our website at www.gms.com.

Starting with Slide 2. 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 statement 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 to these non-GAAP measures are provided in the press release and presentation slides.

Please note that references on this call to the first quarter of fiscal 2025 relate to the quarter ended July 31, 2024.

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

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

John Turner

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

For our first quarter, we reported net sales of \$1.45 billion, 2.8% higher than a year ago, driven by volume growth in all four of our major product categories, primarily the result of recent acquisitions. Organic sales declined for the quarter on softening demand in multifamily and commercial end markets, and steel price deflation, partially offset by year-over-year growth in single family demand. All of our end markets were weaker than we expected, particularly in July.

Gross margin was 31.2% for the quarter, down 80 basis points from a year ago due to the mix impacts of both steel price deflation and declining commercial and multifamily deliveries. Wallboard margins were also constrained by slower price realization amid weakening demand.

Inclusive of a 17% increase in interest expense and a \$3.2 million prior year one-time tax benefit, net income of \$57.2 million compared to \$86.8 million a year ago. Adjusted EBITDA was \$145.9 million compared to \$173.3 million in the prior year period.

Looking at our end markets, although certain subsectors of commercial activity, including healthcare, education, data centers and those projects buoyed by governmental incentive programs such as the CHIPS and Inflation Reduction Acts, saw demand during the quarter, high interest rates continued to create a broadly challenging financing environment elsewhere. As a result, commercial demand slowed considerably during the first quarter with several sizable projects postponed or canceled, particularly impacting our activity in July. Multi-family too slowed more than we expected, although pockets of activity do remain as regional backlogs are worked through.

For new single family, while activity levels were higher than a year ago, builders have pulled back from a double digit year-over-year starts rate earlier in the calendar year. Most recent July print was exceptionally soft. However, indicative of myriad mixed economic signals, just last week we saw new home sales post a strong month on an annualized basis. All considered, most forecasts now call for low single digit growth for calendar 2024 starts. We believe that any new near term recovery momentum for this end market will largely depend upon the timing and extent of interest rate reductions.

view is one of significant pent-up demand for housing, and there are numerous indications of improving public support for housing development. This all provides confidence to the medium to long term. More broadly, while somewhat constrained in the near term, we anticipate that easing interest rates will trigger recovery in all of our end markets. With rates widely expected to start declining in September, we believe that the single family market will lead any recovery, likely followed by commercial and then eventually multifamily. We should know the extent of any single family recovery by the end of the first quarter of calendar 2025 as permits starts and sales reported by that time will indicate the likely pace for the balance of calendar 2025.

Additionally, by that time, we will be looking for improvement in the Architectural Billings Index and continued strength in the Dodge Momentum Index, as well as other commercial construction indicators. We'll likely have to wait until mid-2025 and into 2026 for a bottom and subsequent recovery respectively in the multifamily market, while in the interim we shift a declining backlog of units under construction. This dynamic end market backdrop brings to light the benefits of our balanced customer base with a revenue mix that is roughly equally weighted between commercial and residential. Our scale, operational capability and flexibility along with our diversified mix of customers provide us with a solid foundation as the end market dynamics continue to evolve.

In terms of pricing, we are encouraged by the resilience in wallboard pricing and our ability to realize like-for-like improvements. While not easy to capture price increases in a softening market, we continue to pass through manufacturer increases. This is a structurally changed industry that with relatively modest improvement in demand should again face tight capacity conditions. As coal fired power plants, which are the primary source of synthetic gypsum, are being shut down or curtailed, manufacturers are turning to more natural gypsum, which must be sourced, then shipped to local facilities and then processed before it can be used to create wallboard. This dynamic, along with other inflationary costs impacting manufacturers and distributors, has kept wallboard pricing stable, and we believe prices will continue to be resilient before ultimately rising upon a return in demand, particularly in the single family market.

Given this challenging near term market climate, with pressures that we believe will likely persist over the next several quarters, we are taking decisive actions to implement a \$25 million annualized cost reduction program, with focus on simplification and efficiency optimization made possible by prior investments in technology and process improvements. Specifically, we have reduced backup house overhead, our leveraging centralized and automated procurement, we've streamlined picking and loading processes in our yards, improved the routing efficiency of our fleet, and we have consolidated a few yard locations, setting us up to better service our customers from other more strategically located operations.

I would like to thank the entire GMS team for their continued dedication and commitment in an environment that is ever changing. As a result of their efforts, we continue to deliver outstanding service and value for our customers through the execution of our four strategic pillars, which are highlighted on Slide 4.

Even as demand has temporarily slowed, industry and manufacturer data confirmed that we maintained or grew our share across our core product categories during the second calendar quarter, and we are growing complementary products. With total category growth of 4.1% for the fiscal first quarter, our three focus areas within complementary products, insulation, tools and fasteners, and eaves and stucco, collectively grew a total of 9% over the same period a year ago.

We are also excited by our recent acquisition successes. Yvon in Canada, which closed in July, and R.S. Elliott, a leading regional distributor of exterior cladding building products, which we announced today. R.S. Elliott is a well scaled, highly respected complementary exteriors platform that distributes stucco, plaster, siding, eaves, and related construction supplies, servicing markets across Florida. Adding R. S. Elliott to GMS and our existing exteriors business in Florida demonstrates our commitment to the continued execution of our strategy, including expanding our platform to better serve our customers and growing our complementary product offerings.

R.S. Elliott generated net revenues of approximately \$70 million for the 12 months ended June 2024, with EBITDA margins that are expected to be nicely accretive to GMS and to our complementary business. We are excited to bring R. S. Eliot into the GMS family of brands, and we intend to continue focusing on expanding our footprint, scale and product offerings with an active M&A pipeline.

Finally, we continue to make notable strides driving improved productivity and profitability by leveraging our scale and employing technology to deliver a best-in-class customer experience. We are encouraged by the continued ramp of our digital tools and automation for both customers and GMS, in parallel with focused complexity reduction. In particular, we are simplifying our subsidiary structure to reduce organizational complexity and improve the efficiency of our business. We are now roughly 18 months past the completion of our first such divisional project.

In addition to productivity in the areas I referenced earlier as we reduce costs in our business, working capital progress has been meaningful as well. In this division, DSO are down 17%, while total inventory turns improved more than 10%, with wallboard turns increasing from the mid 14s to nearly 16 times. We are using this consolidation as a template to drive additional efficiencies, profitability and cash generation across the organization, while also improving our ease of doing business, ultimately providing greater value to all of our customers.

With that, I will turn the call over to Scott.

Scott Deakin

Thank you, JT. Good morning, everyone.

Starting with Slide 5, net sales for our fiscal fourth quarter increased 2.8% to \$1.45 billion, as volume growth across our major product categories, driven in large part by recent acquisitions, helped to offset an estimated \$40 million negative impact from steel price deflation, assuming current year volumes have been sold at prior year prices.

Organic sales were down 2.2%, primarily impacted by this steel price deflation, together with soft Canadian single family residential activity, which resulted in lower than expected complementary product sales, particularly in roofing and lumber.

As JT noted, commercial and multifamily activity levels slowed during the quarter more than we had expected. While single family was also somewhat constrained relative to our prior expectations, the sector recorded its second consecutive quarter of year-over-year growth in demand.

From a U.S. end market perspective, across all product lines, commercial sales dollars declined 1.7% as compared to a year ago, while multifamily sales dollars declined 3.1%. In contrast, U.S. single family sales dollars improved 2.2% year-over-year.

Wallboard sales dollars of nearly \$588 million were up 3% over the same period last year, with roughly flat commercial volumes, multifamily volumes down 2.3% and single family volumes up 4.1%. Organically, first quarter wallboard sales were up 1.1% compared with the prior year period, comprised of a 0.9% increase in volume and a slight benefit from price and mix. During the quarter, we realized improved pricing for wallboard products, up sequentially from our fiscal fourth quarter. However, as expected, a heightened mix shift towards single family construction and thus lower priced board resulted in roughly flat year-over-year average pricing for this category.

Specifically, for our first fiscal quarter, the average realized wallboard price was \$477 per 1,000 square feet, up from \$475 in the fourth quarter and up less than \$1 from a year ago. Given the commercial and multifamily slowdown and resultant mix shift later in the quarter, the average quarter end wallboard price for the month of July was also \$477 despite modest progress in equivalent product pricing over the

pronounced mix shift resulted in average wallboard prices that were slightly lower than we had anticipated for the quarter.

For ceilings, which benefited from acquisitions and a seasonal bump in school related remodeling activity, sales were \$207.2 million in the first quarter, up 18.2% with strong increases of 8.9% in volume and 9.3% in price and mix. Organic sales for ceilings grew 5.7% for the quarter, including a 1.1% increase in volume and a 4.6% increase in price and mix.

First quarter steel framing sales of \$209.9 million were down 11.4% as price deflation was even worse than the low teen decline we had anticipated, driving a 16.8% decline in price and mix as volumes improved 5.5%, also largely on acquisition growth. Organically, steel framing sales were down 15.3% with a 14.7% decline in price and mix and a 0.6% decline in volume, reflecting the slower conditions in commercial and multifamily end markets.

As we said earlier this summer, until we see some recovery in the commercial remodeling space, steel volumes will likely continue to be less predictable as new larger projects with a higher mix of end market applications are driving a greater portion of our commercial activity than has been true historically. Prices for steel framing products, which have proven to be the most difficult to forecast given the influence of market demand outside of building products, were down 16% compared to a year ago and down 7.3% sequentially from the fourth quarter of fiscal 2024.

Complementary product sales of \$443.5 million for the quarter grew 4.1% year-over-year in total, representing the 17th consecutive quarter of growth for this category. But they declined 2.7% on an organic basis, principally as soft single family demand in Canada heavily impacted our roofing and lumber sales there. Our teams remain focused on driving growth in the complementary products, particularly for eaves and stucco, which grew 10.2% in the quarter, tools and fasteners which grew 9.1%, and insulation which grew 8.4% as compared to the prior year quarter.

Now turning to Slide 6, which highlights our profitability for the quarter. Gross profit of \$451.6 million increased \$1 million or 0.2% compared to the first quarter of fiscal 2024. Gross margin was 31.2%, down 80 basis points as compared to 32% a year ago, primarily due to the mix impacts of continuing steel price deflation, price cost dynamics in wallboard and a shift from commercial and multifamily to single family wallboard deliveries, all of which were more pronounced than expected and contributed to us recording gross margin below our previously communicated outlook.

Selling, general and administrative expenses were \$315.2 million for the quarter, up from \$286.8 million in the prior year period. Of the \$28.4 million year-over-year difference, approximately \$16 million related to recent acquisitions. The remainder of the variance was primarily due to inflationary and activity-based employee compensation and warehouse costs.

SG&A expense as a percentage of net sales increased 150 basis points to 21.8% for the quarter compared to 20.3%. Operating cost inflation and activity based increases impacted SG&A leverage by approximately 85 basis points, while steel price deflation contributed approximately 55 basis points of deleverage. Costs associated with recent acquisitions in greenfield openings negatively impacted SG&A leverage by the remaining approximately 10 points. Adjusted SG&A expense as a percentage of net sales of 21.2% increased 140 basis points from 19.8%.

As a result of our near term outlook as J. T. mentioned earlier, we have recently implemented cost reduction actions, which are expected to save an annualized \$25 million. All in, and inclusive of a 17.4% increase in interest expense and a \$3.2 million one-time tax benefit in the prior year quarter, net income decreased 34.1% to \$57.2 million or \$1.42 per diluted share compared to net income of \$86.8 million or \$2.09 per diluted share in the first quarter of fiscal 2024.

compared to \$105.2 million or \$2.49 per diluted share in the prior year period. Adjusted EBITDA of \$143.9 million decreased 15.8% or \$27.4 million as compared with a year ago, and Adjusted EBITDA margin decreased to 10.1% compared to last year's first quarter level of 12.3%.

Before moving to our balance sheet, please make note of a couple of items. First, for the purposes of calculating adjusted net income to make the Company's financial presentation more consistent with other public building products companies, we are now including adjustments for all non-cash amortization expense related to acquisitions. Past practice included adjustments for non-cash amortization and depreciation for only certain larger transactions. Please refer to this morning's press release and the appendix to our slide presentation for comparisons of adjusted net income and EPS using both the new and the legacy methods.

Second, while our normalized tax rate of 26% for the quarter was consistent with the expectations we previously provided, for the remainder of the year, we expect the rate to tick higher to the 26.5% to 27% range as our mix of sales has shifted slightly to higher rate jurisdictions.

Now turning to our balance sheet, which is highlighted on Slide 7. At July 31, we had cash on hand of \$53.2 million and \$565.3 million of available liquidity under our revolving credit facilities. Following our acquisition of Yvon in July, net debt leverage was 2.1 times as of the end of the quarter, up from 1.5 times at the end of the first quarter of fiscal 2024.

As mentioned previously earlier this week, we also acquired R. S. Elliott, a leader in eaves, stucco and other exterior products. The aggregate purchase price of this transaction was \$90 million and was funded with cash on hand and with borrowings under our revolving credit facility. We are very pleased to welcome the R. S. Elliott team to GMS.

As JT mentioned, R.S. Elliott generated approximately \$70 million of net sales for the 12 months ended June 30, and is expected to be accretive to EBITDA margin. The multiple pay was consistent with our track record of acquiring at or below GMS's market multiple and we are excited by the opportunities we believe exist to expand the R.S. Elliott platform with complementary offerings across the Southeast.

As is often the case for our fiscal fourth quarter, cash from operating activities and free cash flow or uses of cash for the quarter were \$22.9 million and \$31.9 million respectively, compared to an uncharacteristically strong first quarter of fiscal 2024, with cash generated by operating activities of \$6.6 million and a free cash flow use of \$6.9 million.

Capital expenditures of \$9 million for the quarter compared to \$13.5 million a year ago. We now expect that for the full year fiscal 2025, capital expenditures will be approximately \$50 million. Leveraging the typically favorable cash flow generation of the distribution business model in softening markets, we expect full year free cash flow generation to be approximately 60% of adjusted EBITDA.

During our fiscal first quarter, we repurchased another 538,000 shares of stock for \$46.2 million and had \$154.3 million of share repurchase authorization remaining at July 31. Looking forward, we expect share buybacks to remain a critical component of our capital allocation strategy as we balance those repurchases with continued investment in our business and attractive M&A opportunities. Our capital structure and solid balance sheet with no near term maturities provides what we believe is an effective foundation for the continued execution of our strategic priorities.

With that, I'll now turn the call over to JT. He'll start on Slide 8.

John Turner

Thank you, Scott.

positioned with the expertise to service both commercial and residential customers, along with a broad mix of products to address shifts in end market demand as they occur. We are encouraged by recent positive movements in certain external indicators, such as the 30-year mortgage rate and higher than expected new home sales in July. But given the unknown timing of rate reductions and other macroeconomic uncertainties, we are expecting conditions to remain choppy with relatively low levels of visibility beyond our fiscal second quarter.

Given this reality, let me go through our expectations for our fiscal second quarter. Starting with organic wallboard growth, using our U. S. business as the proxy, as compared to the prior year quarter, we anticipate single family volumes to be up mid-single digits for our fiscal second quarter, multifamily wallboard volumes to be down low double digits and commercial wallboard volumes to be down high single digits. Considering all of these end market dynamics for the entire product category, we are expecting our consolidated organic wallboard volumes to be flat to down low single digits and total wallboard volumes, including our recent acquisitions up low single digits.

The resilience we saw in wallboard pricing during fiscal 2024 continued into our fiscal first quarter and is again proving out the new realities we see in the wallboard industry. While we expect to continue to realize like-for-like product pricing in our second quarter, our expected mix shift will likely hold the total category pricing to just up slightly year-over-year as compared with the second quarter of fiscal 2024.

In ceilings, we expect second quarter organic volumes to be up low-single digits year-over-year, inclusive of recent acquisitions, we expect this to be up low double digits, with flat to up low single digit improvement for price and mix.

For steel framing, we expect organic volumes to be down mid-to-high single digits year-over-year, reflective of the current financing environment and slowdown in many active projects, including recent acquisitions, steel volumes are expected to be up low single digits with prices which softened more than we expected in our fiscal first quarter, down about 2% sequentially, which indicates prices that will be down low teens year-over-year. Finally, net sales for our complementary products are expected to grow at mid-to-high single digits.

All in, as shown on Slide 9, we anticipate net sales for our fiscal second quarter to be up low-to-mid single digits as compared with a year ago, with organic sales down low single digits with the continued negative impact of steel price deflation. Gross margin is expected to improve sequentially to a range of 31.6% to 31.8% for our fiscal second quarter, as we continue to pass through previously announced wallboard price increases. All in, we anticipate Adjusted EBITDA to be in the range of \$163 million to \$168 million for our fiscal second quarter with EBITDA margins of approximately 11%.

As we go forward, it is important to note that in this cycle, if the next few quarters are indeed the bottom, this will be a relatively moderate slowdown in comparison to previous cycles. This supports the notion that housing is undersupplied and that new and exciting trends like AI, reshoring and infrastructure investment are capable of creating sustained construction demand, while our more traditional end market applications stabilize and then recover in a lower interest rate environment. We remain confident in the value of our business model and are well positioned to navigate the waters ahead.

Thank you for joining us today. Operator, we are ready to open the line for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. 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 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 key. As a reminder, we ask that you please limit yourself to one question and one follow-up question.

Our first questions come from the line of Trey Grooms with Stephens. Please proceed with your questions.

Noah Merkousko

Good morning. This is Noah Merkousko on for Trey. Thanks for taking my questions.

John Turner

Hi, Noah. Good morning.

Scott Deakin

Good morning, Noah.

Noah Merkousko

Good morning. First, I wanted to talk about the gross margin. I think you'd previously talked about staying around the 32% range for the rest of this fiscal year. With your guide for 2Q, you're clearly below that in the front half. Just any updated thoughts on how the gross margin will shake out in the back half of the year? I know there's a few moving pieces with differing demand trends and what you're doing on the wallboard price. Just any help there.

John Turner

Yes. Most of the outlook is being lower than 32% as a result of us trying to claw back the price increases. It's just taking us longer to get them. We are getting them very slowly. As we just indicated, like-for-like pricing was up in the quarter. I think we're definitely facing headwinds when it comes to volume helping us. I do think that we'll keep getting it. All that being said, when we'll really get it is when we start to see some turnaround in the single family market. That could be again we're not talking much beyond Q2 at this point because we really the interest rate environment is uncertain. We haven't seen great starts numbers yet. Single-family starts numbers, the sales numbers obviously in July were much better than I think people thought considering how bad the starts release was. Maybe we'll see builders react to the expectation of lower rates, maybe they're seeing buyers come in, maybe they're going to accelerate the starts. If that happens, then I think we'll be able to get our price back faster. All that being said, over time, I do think in the long run we're 32% plus gross margin company, and we're working to get back there.

Noah Merkousko

Okay, got it. That's helpful. Then maybe on my follow-up, switching gears to SG&A here. I had thought previously that if you've got with the weakness in commercial, I would have thought there was maybe some SG&A relief there just from that mix shift. But are you seeing that and that's just being overshadowed by the steel deflation? Then again, just any thoughts on for how long steel deflation will be a headwind here to the SG&A?

John Turner

Let me talk about steel first. First thing to your question is, yes, steel deflation is offsetting what would be the normal course. The other thing we're seeing right now is commercial volumes were flat. We're not seeing this huge rapid shift into the single family end market. It's just this slow rollover of the market, similar with multifamily where there is a decent sized backlog out there. It's rolling over, but it's rolling over slowly.

commercial projects. As we switch from commercial to residential, there will be a natural reduction in the total cost of delivery. That's true. But steel price deflation is basically masking that at the moment and hopefully that ends. But all that being said, there's a reason we're taking \$25 million in cost out of the business and that is that volumes in the near term are expected to continue to be challenged. We need to take that \$25 million in cost out until there's an indication that we're going to need more support to grow our business. We don't see that for a few quarters right now at a minimum. That's the SG&A question.

Steel, my crystal ball, again it was wrong last quarter. We thought that sequentially we'd be down 2%, 3%, 4%, they're down almost 8%, year-over-year down 17% or 18% organically, I think we just said. That's significantly more than we thought we would be down in the quarter. Now we're talking about maybe sequentially going down 2% this quarter. There's a lot of work in our industry, particularly around trying to not let pricing continue to decline. There have been price increase announcements made by the key performers, the coil prices themselves, both the major producers of coils have announced price increases.

Certainly, there's some new noise in and around tariffs. I would be very surprised regardless of what administration comes in if we don't see additional tariffs on Chinese products. Today, it's a very small amount of the overall steel that comes in, but there is steel that moves around the world from China that ends up coming in here. I do think we'll expect to see a tariff environment in and around steel. Canada has just announced 25% tariffs on Chinese steel. I hope 2% sequentially, hope is not the best strategy in the world. But from all of our best guess is 2% sequential decline is where we've got it for the next quarter. Beyond that, I hope that it flattens at that point or begins to slowly increase.

Noah Merkousko

Got it. That's all really helpful color. I'll leave it there. Thanks for the time.

John Turner

Thanks, Noah.

Operator

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

David Manthey

Thanks. Good morning, everyone. My question is on the pacing of the \$25 million cost cuts. JT, when you were listing out the focus areas, you're speaking mostly in the past tense. I'm wondering how much of the benefit will we already see here in the second quarter? Then when will those reductions be fully realized on a quarterly basis?

John Turner

This quarter we'll get about half of what you'll see in a normal quarter and by the third quarter we'll be getting it all.

David Manthey

Okay. Thank you. Then you made some comments here about steel and I did notice that last quarter you said the major steel mills had already announced price increases and it actually got a little bit worse. You said there's some other price increases potentially in the channel. But if steel prices just maintain the

because of the year-to-year comps?

John Turner

In the next fiscal year, I know that. I don't have it off the top of my head. Maybe we could send you that information specifically because we'll have to just forecast it out for you. But I know it's beyond this fiscal year, Dave.

David Manthey

Yes. Still more before we (multiple speakers).

John Turner

Yes.

David Manthey

Ye. Okay. All right. That's it. Thank you.

John Turner

Thank you.

Operator

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

Keith Hughes

Thank you. A question back on steel. You're now lapping some pretty substantial declines in price from last year. We've never seen anything quite like this. What's happened in the market that's so difficult to get price increases pushed through?

John Turner

Well, there is no price increase in steel. (Multiple speakers).

Keith Hughes

Stabilization, let's say.

John Turner

Well, I think the reality is that it's a little oversupplied at the moment in our space. We're still selling at roughly double pre-pandemic prices. This is where we thought we're a little below what we thought the bottom might be, to tell you the truth. I think we thought we'd be selling maybe 10% higher than we're selling today at the bottom, but we haven't found the bottom yet. I think we're just oversupplied at the moment. As automotive and appliances and just general steel, the larger consumers of steel, they're just all stagnant. It's just too much supply right now.

Keith Hughes

multifamily. How weak was July? Any specific reason why it got weaker in that month?

John Turner

No, I just think it got here faster than we thought by a quarter or two. I think we've been talking about an air pocket eventually developing. If you believe in the ABI ever and you've seen now the annualized rate of put in place construction in the key categories that matter for us are down about 3% over the course of the last three or four months. I think it just got here a quarter or two earlier. Again, we're talking about flat commercial volumes. We missed by a point or two in volume expectation in wallboard. That's the degree of the miss and the degree of the slowdown. I think we just feel like things are going to, like volume wise flatten from here as we go forward and that seasonally we're not going to see much of an increase this next quarter. That's where you get our guide now, Keith, of down 9% and down 10% and in those ranges for both multifamily and for commercial. It's just lapping a good period.

Keith Hughes

Well, your guide for the second quarter in volume has multifamily commercial down. It has multifamily down more than commercial. Is that a trend you think will hold for several more quarters in the future at least directionally?

John Turner

I do. I think it's going to hold until middle of '25.

Keith Hughes

Okay. All right. Thank you.

John Turner

Yes, if you just look at starts numbers, obviously, you would say it's going to be pretty difficult, but there is such a big backlog, still 870,000 units under construction out there. It looks like we're only eating about 15,000 units a month, completions versus starts right now. While it's going to come down in that range, I think it's just going to be a slow bleed into middle of '25 before we get recovery.

Keith Hughes

All right. Okay. Thank you.

John Turner

Yes. Thank you.

Operator

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

Chris Claude

Hi. It's actually Chris Claude on for Mike. Just to follow-up on that last point. In terms of timing of the peak year-over-year headwinds expected in multifamily, when do you expect those to see improvement on a year-over-year basis for that end market?

Not until the back half of '25 for that end market. Calendar year-over-year.

Chris Claude

Okay.

Scott Deakin

Yes, calendar '25, I would expect that.

John Turner

We certainly hope single family is going to ramp up with rate reductions. That was always the premise is, we would start seeing much better single family activity to offset the multifamily decline. I still believe that's going to happen. I'd be very surprised with rate reductions if we don't see any pop in single family activity by that point in time.

Chris Claude

Understood. That's helpful. Then just on wallboard pricing, is your expectation that in the back half of your fiscal year that you're going to continue to see like-for-like pricing gains on wallboard net-net?

John Turner

Until we get back everything we've been absorbing, the answer to that is yes. I think that it's going to take us two more quarters to get it. We indicated in this gross margin guide, really all the improvement in the gross margin guide from this quarter to next quarter is in wallboard price. I think we'll keep getting it. I also think the industry is coming back for more price as soon as single family recovers meaningfully unless there's some big, big commercial offset. I think we'll all be in this environment come spring of next year, it's probably going to be inflationary again.

Chris Claude

Got it. Barring any incremental increases, another sequential increase in 3Q and then flattening out from there?

John Turner

Yes.

Chris Claude

Got it. Okay. Appreciate the color.

John Turner

Absolutely.

Operator

Thank you. Our next question come from the line of Jeff Stevenson with Loop Capital Markets. Please proceed with your questions.

Hi, thanks for taking my questions today. Then following up on the wallboard price cost question, thanks for the color about taking two more quarters. But could you talk about the successes you had during the quarter passing along incremental pricing to offset the manufacturer increase from earlier this year compared with your expectations last earnings call, how successful was it and how much do you have to go?

John Turner

Well, 20 basis points of the 30 basis point miss was price cost in wallboard. We did not hit our expectation. All that being said, we did see some sequential improvement, most of it in the residential space. Commercial is taking a little longer to get just because of the nature of the projects and the length of some of these projects. Don't have as much remodel business in commercial as we historically would with the office conditions the way they are. Those projects tended to be more short-term projects, so price is a bit easier to get. But most of it came from single family residential. We do expect commercial to improve, but that's quoted work, and we have to negotiate that and that will come over time.

Jeff Stevenson

Okay. No, that makes sense. Then you reported another healthy quarter of ceilings organic volume growth. That said, I was a little surprised of the wide variance between your wallboard commercial volume expectations being down high single digits while ceilings is expected to be up single digits. Just wondered if you could talk more about what gives you confidence that ceilings volumes will continue to grow at a low single digit rate in a choppy commercial environment?

John Turner

Sure. We actually were a little lower in ceilings, believe it or not, than we expected. If you go back, I think we guided into the double-digit volume range in total and came in around 9% or 10%, including acquisitions. All that being said, it's still good. That market is still good. The reason for that is the types of commercial projects that are going well, data centers, healthcare, education, dormitory, schools, etc., they're good users of ceiling tiles and ceiling grid. The data centers have fully offset the loss of office, which is fantastic. Thank God for data centers right now. That's really the issue. The general commercially, things like warehouses that are slow, retail that's a little slower, etc., those are not big users of tiles, but obviously use a lot of wallboard and a lot of steel.

Jeff Stevenson

Okay, great. Thank you.

John Turner

Sure.

Operator

Thank you. Our last question will come from the line of Steven Ramsey with Thompson Research Group. Please proceed with your questions.

Steven Ramsey

Hi, good morning. I wanted to get make sure I understood on the commercial slowness. Maybe first, how good May and June were and then the drop off in July? Then also, how would you describe the slowing

are slowing versus those big projects?

John Turner

May and June was fine for commercial, not what we thought we would do in this quarter, quite frankly, a couple of points of growth. July was just soft. The July 4 holiday things just shut down. It's been a general malaise, let's say, after that, even through August, we're talking about right now. It just hasn't really rebounded dramatically off of the holiday. It's soft.

I think what you're seeing is large projects that are interest rate dependent are being pushed. We have a whole list of those that we talked to our team about out in the field that have been pushed and or canceled. Nobody really knows now when they push them, whether they're going to be canceled or delayed. They usually start by being delayed and then sometimes they'll move to be canceled.

You've seen big things. Recently, we thought we would probably be providing a lot of product in a Ford battery plant. But Ford announced the postponement of that. Several other big EV-related projects around the country that have been pushed. That's not really interest rate sensitive. That's just the reality of the EV demand being less than everybody thought. But those are big projects, very big projects that have been pushed.

A lot of mixed use multifamily commercial projects being pushed, probably because of the multifamily concerns. Again, I think a lot of what we're hearing supports the premise that reduced interest rates will be really good for the entirety of our end markets with single family responding right on a more immediate basis. But certainly, the interest rate sensitive commercial projects, when you look at FMI or you look at Dodge, you look at anybody, I think they're thinking two to three quarters of some difficulty and everybody's pricing in this reduction in rates. I think they think end of '25 could be pretty good, back half of '25. Calendar '25, I'm talking about.

Scott Deakin

Commercial typically follows a single family rebound as well. That should be a positive as a follow on from single family on top of just the general rate relief for that space.

John Turner

I certainly think that this cycle would be like a normal cycle in commercial, in particular, if we didn't have the support of CHIPS Act, the Infrastructure Act, etc. Those big mega projects are still out there. I think the manufacturing put in place construction forecast is still very strong for the balance of this year and into next year. Those projects will continue to create demand around them. I think the bottom—as I mentioned, I think the bottom here isn't as bad as we would historically have felt because of all of that support.

Steven Ramsey

Yes, very helpful perspective. Then wanted to hear more on the divergence within the complementary products. I get Canadian roofing and lumber with single family starts in that geography, but the other key products that you focus on showed very strong growth and seem to be well above all end markets. Maybe talk to why those outperform so much and did those take a step back in July?

John Turner

No, everything was still relatively similar in July when it came to complementary products actually. We're gaining share across the board in complementary products. There are still many markets where we're in our infancy. We really do have a focus in on those very particular areas. The R. S. Elliott acquisition, as

lot of optionality with that business to expand our business throughout Florida and then beyond that in those product categories. I think some of it's just the targeted investments we've made over the years as well, Jowl Lumber in Vancouver. We rolled over a lot of that.

But each time we acquire these complementary products businesses, Blair Building Materials up in Toronto, we get good at filling those products across other GMS locations. Tanner Nut and Bolt, New York City, etc. A&W out in Phoenix, those were all complementary product acquisitions. Part of that strategy is to help other parts of GMS be better at selling complementary products as a result of their knowledge and their capability. I think we're doing an okay job of moving that across the business.

Scott Deakin

Generally, complementary weights a little bit more to commercial. There is a little bit of that same headwind there that we're seeing in some of the other commercially related products, but the outperformance in those key product lines are really about the focus that we're putting into them.

Steven Ramsey

That's great. Maybe one add on there. Gaining share in those products, can you talk to who you're gaining share from now and if it's the same source of share gain as the prior couple of years or even pre-COVID as this was a focus for you?

John Turner

Yes, it's the same people depending on the product. Tools and fasteners is a really widely distributed business. That comes from a lot of small players when we gain share. That's really our customer base relying on us more for the products that previously they would have gone to a specialty shop for. That's really how tools and fasteners is working.

Eaves and stucco for us is more of moving both acquisitions now in particular with R. S. Elliott, but really moving it to be better at that product, which is traditionally distributed by our types of businesses, just being better at it, across the board and selling it in more markets. Then insulation is just a dedicated focus on getting to the insulation installers. Remember, it's mostly commercial in insulation. Many of our wallboard commercial contractors carry that contract, but they don't do the install themselves. They sub it to another contractor. For us, getting to that second contractor level has been a dedicated focus, and I think we're seeing some success there.

Steven Ramsey

That's excellent. Thank you.

Operator

Thank you. We have reached the end of our question-and-answer session. With that, that does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.