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Q4 2018 NCI Building Systems Inc Earnings Call

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**James Shane Metcalf** *NCI Building Systems, Inc. - Chairman of the Board & CEO*

**K. Darcey Matthews** *NCI Building Systems, Inc. - VP of IR*

**Shawn K. Poe** *NCI Building Systems, Inc. - CFO & Executive VP*

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## PRESENTATION

### Operator

Greetings, and welcome to NCI Building Systems Fourth Quarter and Full Year Earnings Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Darcey Matthews. Thank you. Please go ahead.

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### **K. Darcey Matthews** *NCI Building Systems, Inc. - VP of IR*

Thank you, Brenda. Good morning, and thank you for your interest in NCI Building Systems. Joining me today for the call are Jim Metcalf, our Chairman and Chief Executive Officer; Shawn Poe, our Chief Financial Officer; and Don Riley, the Chief Executive Officer of the NCI Business Unit. Please be reminded that comments regarding the company's results and projections may include forward-looking statements that are subject to risks and uncertainties. These risks are described in detail in the company's SEC filings, earnings release and supplemental slide presentations. The company's actual results may differ materially from the anticipated performance or expressed -- results expressed or implied by these forward-looking statements.

In addition, management will refer to certain non-GAAP financial measures. You will find a reconciliation of these non-GAAP financial measures and other related information in the earnings release and supplemental presentation located on our website.

NCI's fourth quarter 2018 earnings were released this morning. A copy of both the press release and our supporting supplemental presentation can be found in the Investors section of our website. Additionally, Ply Gem's third quarter unaudited results were also released today in an 8-K. On the call this morning, Don will make a few comments about NCI's fourth quarter and full year results. Shawn will provide some details on NCI's financials, Ply Gem's third quarter and discuss the cadence of the company going

forward. And then Jim will conclude with some commentary about the market and our priorities going forward before we open the call up to your questions. And now, I'd like to turn the call over to Don.

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**Donald R. Riley *NCI Building Systems, Inc. – CEO of Commercial Business Unit***

Thanks, Darcey. Good morning, everyone. I'm pleased with NCI's fourth quarter results, which were in line with our internal expectations and demonstrated our continued ability to perform in an environment of increasing input costs, material weather events and slowing market trends. Led by commercial discipline, NCI was able to offset the inflationary pressures in material, freight and labor. And while our gross profit margin was essentially flat versus last year, we were able to expand gross margin in our Buildings and IMP businesses versus the fiscal prior year.

NCI's consolidated external revenues were up 17% year-over-year to \$574 million for the fiscal fourth quarter, reflecting solid performance in our Buildings and IMP segments, which were partially offset by weakness in Components volumes.

The extreme wet weather had a disproportionate effect on our Components business due to the geographical significance of Texas and the Southeast to that business segment. Our fourth quarter was anchored by strong performance in our Buildings and IMP segments, which is driven by the increased bookings and backlog levels we saw earlier in the year.

NCI continues to execute on the 3 key areas around cost efficiency, including advanced manufacturing, continuous improvement and back-office consolidation, and around our growth strategy focusing on the segment's ability to drive adjacent products across our legacy distribution channels. We continue to expect these initiatives to deliver \$40 million to \$50 million of incremental profitability through 2020.

For 2018, a key element of these initiatives was the installation of an automated frame line for the Buildings business, which is fully operational.

As mentioned previously, the remainder of our cost efficiency initiatives will occur in 2019 and 2020. From a growth perspective, sales of IMP and commercial roll-up doors through internal distribution channels and our Buildings and Components segment continued to increase double digits as we executed on our adjacency strategy. And for the fourth quarter, IMP represented 39.5% of NCI's consolidated EBITDA.

I want to close with a thank you to the NCI team for their continued efforts and a strong finish to our fiscal year and to our customers for their ongoing support.

I will now turn the call over to Shawn to comment on our financial results.

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**Shawn K. Poe *NCI Building Systems, Inc. - CFO & Executive VP***

Thank you, Don. Good morning, everyone. As Darcey mentioned, I'm going to discuss a few key highlights from NCI's fourth quarter results, which ended on October 28, 2018, and then share

comments on Ply Gem's third quarter results, which were issued in an 8-K this morning for the quarter ended September 29, 2018. Then I'll conclude with some information about our financial reporting calendar going forward.

On the NCI side, as Don noted, NCI's consolidated external revenues were up 17% year-over-year to \$574 million for the fiscal fourth quarter of 2018. Driven by commercial discipline and the pass-through of inflationary costs, for the full year 2018, NCI achieved \$2 billion in sales and \$202 million of adjusted EBITDA or 10.1% of sales.

Fourth quarter consolidated gross margin of 23.2% was within, but on the lower end, of the guidance range, driven primarily by lower manufacturing efficiencies in the Components business from the weather disruptions previously discussed.

NCI's operating margins were largely in line with last year's fourth quarter. Headwinds from cost inflation and rising steel prices were successfully offset by commercial discipline, the effective pass-through of these costs and controlling and leveraging our engineering, selling, general and administrative costs through our cost-reduction efforts over the past several years.

For the year, NCI invested approximately \$48 million in capital expenditures or 2.4% of sales, as NCI continues to invest and execute on its advanced manufacturing, continuous improvement and adjacency initiatives that Don highlighted. And now, I'll turn to a couple of key highlights from Ply Gem's third quarter results. I would remind everyone that for the year-over-year comparison, the 2017 third quarter figures do not include the acquisition of Atrium, which was completed in April of this year. Additionally, Ply Gem's third quarter figures do not reflect any contribution from the purchase of the Silver Line windows business, which we completed during the fourth quarter of the year.

On a consolidated basis, Ply Gem's third quarter 2018, which ended on September 29, delivered net sales of \$684 million, an increase of approximately \$120 million or 21.2% as a result of the merger of Atrium into Ply Gem earlier this year.

Ply Gem's gross profit margins for the third quarter were 24.6% as compared to 23.4% in the prior period. Adjusted EBITDA for Ply Gem in the third quarter was \$101.1 million or 14.8% of sales.

Following this reporting period, the new combined company will be moving to a calendar year reporting schedule. Consolidated results for the transition period from October 29 through the end of the year will also include Ply Gem's results from the closing date of the merger. The combined results will be reported in February 2019.

With the new calendar periods, I would like to remind everyone of the cadence and seasonality of the company going forward. The second and third quarters will be the strongest quarters of the year, in line with the construction cycle, followed by the fourth quarter and the first quarter that historically is the seasonally slowest period for the construction industry.

And now, I'd like to turn the call over to Jim Metcalf for closing remarks

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**James Shane Metcalf *NCI Building Systems, Inc. - Chairman of the Board & CEO***

Thank you, Shawn. Good morning. As Shawn said, on November 16, the merger of NCI and Ply Gem was completed. We believe this is a -- this is transformational for both companies, creating a leading exterior building products company. We're excited about the broad portfolio of building solutions and products that we now bring to our customers. Today, what I'd like to do is provide a brief update on some of our early initiatives for the combined companies, our capital allocation and our view on 2019. As the overall market has shown recent softness, our focus on cost and margin expansion are a major emphasis. They include our inflight cost plans within both NCI and Ply Gem as well as the deal synergies totaling approximately \$180 million by 2020. We have line of sight to achieving our targets and have put in place a rigorous process to ensure that our cost initiatives are met. A majority of these actions are already underway and will be realized in 2019. This includes our ongoing commitment to automation investments, reduce G&A expenses and leverage lean manufacturing to further drive operational excellence across our entire organization.

Now that the transaction is closed, we've also launched a cross-selling team to identify short- and long-term opportunities to leverage our broader portfolio to our customers. Some immediate initiatives include our Ply Gem decorative stone product line into our NCI commercial building's business and also marketing residential metal roofing to Ply Gem customers. This ability to cross-sell has been a core competency of each company, which we have shown within the growth of NCI's insulated metal panels and door businesses as well as Ply Gem's exterior products into various customer channels. Cross-selling represents additional revenue opportunity, but it's not incorporated in any of the synergy initiatives I just mentioned.

With the combined 2018 sales estimated to be in the range of \$5 billion, we expect to generate significant cash flow. Our capital expenditures will be in the range of 2% to 2.5% of sales per year. We also remain committed to deleveraging business through our base earnings growth, our synergy realization and cash flow generation, which is also supported by a covenant-lite balance sheet.

Finally, as we look at the market demand, there will be -- there's going to be areas of softness as I mentioned earlier. With the recent pullback over the last few months in residential, we do expect that to continue into 2019.

In the commercial segment, we project low-rise starts to grow in the mid-single digits, but the addressable markets for our NCI commercial business will now be in the low single digits, and we have moderated our projection. R&R, which is 1/3 of our overall business, has shown some pause, but still remains solid in the mid-single digits for 2019. We believe our company is well positioned as we enter 2019 even with a slowdown in the overall market demand. Our diversification and our end use market and procurement as well as our broad customer base are key strengths going forward. We'll focus on our customers and provide them with innovative products, pull our cross levers to drive margin expansion

and have a relentless focus on our balance sheet.

I want to thank all of our customers, our employees and associates and our investors for your support. And I wish everyone Happy Holidays.

And with that, we'll turn it over for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is coming from the line of Matthew Bouley with Barclays.

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### **Matthew Adrien Bouley *Barclays Bank PLC, Research Division - VP***

First, I wanted to start just thinking about the combined company and the framework, Jim, that you just gave on market growth expectations for next year. Has anything changed in the \$680 million combined EBITDA projection? Is there any fine-tuning on that?

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### **James Shane Metcalf *NCI Building Systems, Inc. - Chairman of the Board & CEO***

We have looked at pullback in the market, but we still believe that the combined business is going to have double-digit EBITDA growth into next year as well, with the poor inflight with our cost reductions both on the NCI and the Ply Gem side as well as the projections that we have for synergies on the new co. So we're still very optimistic. There has been some pullback. I think we do have an advantage with having the 1/3 residential, commercial and repair and remodel. So diversification, but we're still optimistic about our strategy.

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### **Matthew Adrien Bouley *Barclays Bank PLC, Research Division - VP***

Okay. That's helpful. And then just on the leverage side, do you have any update on the leverage targets? I think if I look at free cash flow and, please correct me if I'm wrong, but if -- I think my math suggests that the combined businesses maybe did around \$40 million on a LTM basis. So is there any kind of framework you can add to what you said about CapEx for next year, just around how to think about free cash flow and then the leverage targets?

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### **James Shane Metcalf *NCI Building Systems, Inc. - Chairman of the Board & CEO***

Yes. On the CapEx side, we said 2% to 2.5% of sales and that's going to be kind of our run rate. Our CapEx is really focused on the advanced manufacturing that Don and Shawn mentioned. We have some very good projects on automation. As everyone knows, labor is very tight in the market, overall with our customers and ourselves. So we think there's some great opportunities for low-risk, nice return CapEx projects. We have said that our focus is deleveraging the balance sheet as we put the deal together, we're coming out around 4.4, and we think with the free cash flow, we'll be able to get approximately a turn year. We're still focused on getting our debt to that 2% to 3% over the next 2 to 3 years and that's a -- that remains a focus.

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**Shawn K. Poe** *NCI Building Systems, Inc. - CFO & Executive VP*

I think that covers, Jim. I don't think that really anything has changed and our targets for leverage being in that -- getting to that 2x that and nor has really anything changed in that respect.

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**Matthew Adrien Bouley** *Barclays Bank PLC, Research Division - VP*

Okay. Appreciate that. And if I could squeeze one more in just on the legacy Ply Gem. The 3% organic growth that I think you disclosed. I think in the proxy you talked about some heightened competitive actions, both siding and windows earlier this year. So is there any color you can give on how volume and price are breaking out in that 3% and just what you're seeing on the competitive front with that side of the business?

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**Shawn K. Poe** *NCI Building Systems, Inc. - CFO & Executive VP*

Sure. Yes, Matt, as you know, we are the leader in the U.S. on both the siding segment of the business as well as windows now with our acquisitions. We've been the price leader. This year, we led the market on our price increases, and we did that and stood by those price increases. And I would tell you that we have seen margin expansion, specifically in our siding business. Matt, you maybe recall during the -- during 2017 we saw some margin compression and I would -- I'm pleased to say that we delivered on what we told you we would do, and we've seen margin expansion. That probably has come at the expense of some share relative to our competitors, but not significant, Matt. So no significant share change overall, but down probably a little bit.

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**Operator**

The next questions are from the line of Lee Jagoda with CJS.

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**Lee M. Jagoda** *CJS Securities, Inc. - Senior MD & Analyst*

So can you start just by giving us some of the financial metrics around the Andersen business that was acquired and then including the Andersen business, can you update us on sort of the beginning balance sheet and the capital structure details?

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**Shawn K. Poe** *NCI Building Systems, Inc. - CFO & Executive VP*

Yes, the -- I'll start with the -- it's the Silver Line business is what we acquired, Lee, and that business is not quite \$450 million top line, about \$440 million. The EBITDA in that business is in that -- call it that low to mid-20 range, presynergies. We do expect to ultimately realize about \$20 million in synergies from the acquisition, which will bring that -- the Silver Line business more in line with where the Ply Gem business has performed. One of the -- I think, one of the positives on that is Ply Gem has a deep relationship already with a number of Silver Line key customers, including The Home Depot. So that is a nice step for us, and we think that will ultimately be a good acquisition for us. And frankly, the size of the acquisition doesn't really change our overall capital structure materially, Lee.

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**Lee M. Jagoda** *CJS Securities, Inc. - Senior MD & Analyst*

Okay. And then I assume -- given the \$20 million of additional synergies, I assume that's the difference

between the \$180 million that you referenced a few minutes ago and the \$150 million to \$160 million?

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**Shawn K. Poe** *NCI Building Systems, Inc. - CFO & Executive VP*

That is largely the difference. That is correct, yes. I would say to Jim's point -- to that point, it is primarily the difference, but as Jim said, we're highly confident in those synergies. And frankly, they are all trending in the right direction. So that's why it's now at \$180 million.

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**Lee M. Jagoda** *CJS Securities, Inc. - Senior MD & Analyst*

Got you. And one more just on the legacy NCS Building business. So can you go through sort of the dynamic in terms of what transpired on the Metal Components volumes and IMP volumes in the quarter? And why they sort of moved in different directions and whether there's some cannibalization or some other factor moving those around?

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**Donald R. Riley** *NCI Building Systems, Inc. - CEO of Commercial Business Unit*

Sure, Lee. The simple part of the story is there is not cannibalization going on. We continue to get great penetration in the insulated metal panel business of wall systems. We did get good growth from that as we highlighted in my comments through the Buildings and Components channels. But we had a really strong quarter for Buildings. We had a really strong quarter for the Insulated Metal Panel business. And the reality for the Components business was they were hit especially hard by the weather that we encountered in the -- along the East Coast, Southeast, South Central and a lot of -- there is a pretty heavy impact also in the South Central area. And it probably had a material impact to their bottom line, but it really -- the other businesses continued to power through in the other regions in the country. And so we expect that business to bounce back and to continue to perform and move forward. So all in all, really pleased with how the quarter did and how the pieces balanced out.

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**Operator**

Our next questions are from the line of Matt McCall with Seaport.

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**Matthew Schon McCall** *Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst*

So maybe I'll start with the low-rise outlook. Jim, it sounded like you took the outlook down a little bit, at least for your addressable market. Can you talk about the drivers of that decision? Is it something you're seeing now, is it the macro, is it just the market weakness, is there -- just wondering what the specific drivers were for that decision.

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**James Shane Metcalf** *NCI Building Systems, Inc. - Chairman of the Board & CEO*

Yes. As we said, the commercial market, your mid-single-digit but the legacy NCI commercial business has always been in that 6 stories or less 500,000 square feet. That's always been trending below the overall commercial market. We've taken it down slightly in the ag business. There's some slowness in the ag business because of macros and tariffs. But all in all, it's just there's been some pause, weather did relate to it. But it's a small reduction, but we just wanted to earmark it that the addressable market, which we said is low single digits, we're just taking it little further down on that addressable market.

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**Matthew Schon McCall Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst**

Okay. That's helpful. I guess similar question, the residential -- the pullback in residential, I think, you said you expect that to continue. Can you put a little bit more -- few numbers behind that? And specifically, I'm wondering about the -- maybe the customer differences growth -- from a growth rate perspective and looking at that from a price point perspective. So are you seeing more weakness with higher-priced builders or -- and better strength from lower-priced builders? Just some of the underlying trends from a residential perspective?

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**James Shane Metcalf NCI Building Systems, Inc. - Chairman of the Board & CEO**

Well, I think it's what everyone's reading in the paper and what we're seeing with some of the consensus numbers. You see overall, consensus is coming out about -- for next year in the low single digits, 1% to 2%, with really the multi-families being either 0.5 or 1 point down going into 2019. So really if you look at total housing starts, multi-families is projected by consensus. Again, this is a lot of different groups, NAHB and people looking at the industry. Labor is an issue. Affordability, you look at interest rates, I don't think I'm telling you anything you aren't reading, but we would rather look at the macros. They are going to be what they're going to be. We're going to create our own success with cost reductions and leveraging new products. We just want to make sure that we aren't overly optimistic on what's happening. If you look at it regionally, year-on-year, the 2 regional areas that have been hit the hardest had been and Don mentioned the Midwest with Components, with weather. If you look, the Midwest starts on single family have been choppy all year and actually, the numbers that came out in November were down in the Midwest and also the West. If you look at -- those were the 2 regions out of the United States that are really trending down. And with our business, there is a lag. And I want to turn it to Shawn to talk about the customer side.

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**Shawn K. Poe NCI Building Systems, Inc. - CFO & Executive VP**

I wanted to touch on that. And Matt, I think, you know this from following the Ply Gem side, but maybe for others on the call. On the new construction residential side, our products, siding and windows typically go on the home 90 to 120 days following the start of the home. So if you look at single-family housing starts that will generally be a pretty good proxy for what's going to drive demand for our -- the new construction -- residential new construction piece of our business. So you can do the math in about 90 to 120 days. From a segmentation standpoint, windows, we're pretty much everywhere in the U.S. Where siding, it has regional preferences. It dominates in the Northeast and upper Midwest and Mid-Atlantic. So we -- you can tend to focus on those markets. But as Jim said, I think, there's -- and as you -- I think everybody reads in the various papers that there's been some pullback really in latter part of the third quarter and maybe early fourth quarter. And I think everybody's waiting to see how that plays out as we go into 2019. Does that help, Matt?

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**Matthew Schon McCall Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst**

Yes. It does, it's very helpful, Shawn. And then my final question linked to an earlier question. You talked

about expectations of double-digit EBITDA growth next year. I know you've got synergies and you still got some cost saves with NCI and for Ply Gem independently of the synergies. But what -- maybe quantify those, what the expectations are for those 3 buckets in '19. And then what would be the assumed incremental or decremental margins for each of the 2 broad businesses?

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**James Shane Metcalf NCI Building Systems, Inc. - Chairman of the Board & CEO**

Yes, let me -- I'll talk about the 2019 synergies and then turn it over to Shawn and talk about the individual businesses. If you look at 2019 for NCI, we're projecting approximately \$25 million, Ply Gem is around \$50 million. The combined synergies, as you do the build-up, as I talk to the run rate of \$180 million, the combined will be approximately \$15 million will be in our 2019 numbers. If you look at the run rate, NCI would be between \$40 million and \$50 million. Ply Gem run rate would be between \$80 million and \$90 million and the combo of the new company would be between \$40 million and \$50 million from a overall run rate. And as we said, we want to -- this is between now and 2020. So the numbers of 2019 are \$25 million, NCI; \$50 million, Ply Gem; and \$15 million for the new business.

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**Shawn K. Poe NCI Building Systems, Inc. - CFO & Executive VP**

And on top of the synergies, Matt, I would say that -- we do have expectations of improved margin on the residential side in 2019, really driven by the pricing initiatives and the -- combined with the synergies that really have occurred over the course of 2018 and really is a tailwind for '19, which will be good to have given that there has been some market pullback as I think everyone is aware.

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**Operator**

The next question comes from the line of Sam McGovern with Crédit Suisse.

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**Samuel Thomas McGovern Crédit Suisse AG, Research Division - Research Analyst**

I was hoping you can discuss a little bit more about where you think leverage should be over the course of the cycle, where leverage should be mid-cycle versus late cycle, et cetera?

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**James Shane Metcalf NCI Building Systems, Inc. - Chairman of the Board & CEO**

Sure, sure. Our target is around 2%, Matt, as we've stated publicly and that is really our focus. Depending on where you view the cycle, whether it's in the mid or getting later into the cycle, obviously, the lower or closer to that 2x target would be better. But I would say that this -- the combined businesses, one of the -- and we said this on some of our previous calls, NCI and Ply Gem shared some common characteristics and one of the, I think, the keys is that both businesses generated significant and substantial free cash flow. So while we are focused on deleveraging, I'm very comfortable with the cash flow generation of the combined business and as -- where we're at today and frankly, as we go through whenever that cycle may turn out, I remain confident and comfortable with that. But with that said, our focus is deleveraging.

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**Samuel Thomas McGovern Crédit Suisse AG, Research Division - Research Analyst**

Got it. With your comment in terms of the deleveraging coming both from EBITDA growth and then also debt reduction, how do you think about term loan repayment versus buying back bonds at a discount?

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**James Shane Metcalf *NCI Building Systems, Inc. - Chairman of the Board & CEO***

Yes. Well, I know which side -- typically, we -- the nice thing about the term loan, Sam, is that we -- there's not a premium to pay that down and as you know that is -- Ply Gem paid down \$200 million voluntarily in the past of our term loan. So we've demonstrated not only ability, but the willingness to delever, not just from a growth of the EBITDA, but also from lowering the overall debt level. But those are things that we'll evaluate when that time is appropriate. The other point I would make on our debt structure since you brought up the bonds as well as that we are a covenant-lite and our debt structure is pretty solid with a no near-term maturities. In fact, our first maturity isn't until 2025.

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**Operator**

Our next questions are from the line of Scott Schrier with Citigroup.

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**Scott Evan Schrier *Citigroup Inc, Research Division - Senior Associate***

I wanted to ask on backlog. Given the amount of steel price that's in there, it looks like it's fairly muted. I know you talked about a pullback in conditions. I'm wondering if there's any pull forward in demand. You had some nice volumes in both Buildings and also in IMP. So I'm wondering what the dynamics were there. Did you have pull forward is -- did bidding activity really slow significantly to have that backlog only up modestly?

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**Donald R. Riley *NCI Building Systems, Inc. - CEO of Commercial Business Unit***

So I guess, the way I would answer that is we had a really strong backlog going through, probably the first 2/3 of the year, and we continued to have good strong backlog performance in the Insulated Metal Panels business. And as we discussed through all the price increases we ran, we knew we acknowledged in the marketplace that we did have some pull-ahead activity associated with that. But we believe that right now, our backlog reflects the trends we're seeing in the marketplace. We continue to see solid performance in IMP along the lines that we've talked about due to the increasing wall systems penetration and its superior performance and due to our ability to sell it through our adjacent channels. And then we see the Buildings backlog trending at a pace that's in line with Jim's comments around -- he historically said low-rise nonres 3% to 6%, our addressable market was 2% to 4%, and we see ourselves at the lower end in that range now and -- but our backlog supports that. So we're comfortable that we're in line with that.

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**Scott Evan Schrier *Citigroup Inc, Research Division - Senior Associate***

Got it. And then I wanted to ask you about margins in IMP, they look good. You're getting some incremental margins and they are not quite to the level that you've spoken about a while ago, it's what you would see normalized margins there. But is this margin profile that you're seeing for IMP, is that sustainable and could there be tailwinds if that mixed headwind that you had starts to alleviate over time? Just trying to think structurally how you feel about the margin profile in the IMP business now and how it could look going forward.

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**Donald R. Riley *NCI Building Systems, Inc. - CEO of Commercial Business Unit***

Yes. No, we're really pleased with the performance of that organization and the commercial discipline they've demonstrated and the support they've gotten through legacy business in the markets. And we believe that -- as we stated on our last call that the mix we're seeing now is a reasonable expectation for the next few quarters and then we'll continue to give you all insight and guidance as that moves forward, but we're really pleased with the performance of that business unit.

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**Operator**

(Operator Instructions) Our next questions comes from the line of Steven Fisher with UBS.

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**Steven Fisher *UBS Investment Bank, Research Division - Executive Director and Senior Analyst***

Just a follow-up on the last question. You touched a little bit upon the visibility on IMP, but I wonder if you can just talk a little more detail about it. Obviously, it's important to the growth trajectory here. Can you just talk about the potential to sustain the IMP growth at a double-digit pace or do you think that would slow kind of to near the growth of your core market over the next year or so?

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**Donald R. Riley *NCI Building Systems, Inc. – CEO of Commercial Business Unit***

Yes. So our core market, as we said, is 2% to 4% the low end of that and I don't remotely see that as an eventuality over the next 12 months for the Insulated Metal Panels business. As we've talked about, it's a great story, it's driven by energy codes, cost efficiency and installation, and its overall performance and by the factors that it takes up less space to achieve the same thermal factor as other competing products. And especially, in a tightening labor market with the increasing cost, it continues to be a superior solution. We see that. We see increased adoption. We are aggressively working in the marketplace on education, training, specification of the product. As we talked about, we're seeing double-digit -- good solid double-digit growth rates through our legacy channels. So we see that performance continuing to drive at the pace we have talked about historically, which is low double-digit growth rates due to the performance of the product and its capabilities in the current environment.

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**Steven Fisher *UBS Investment Bank, Research Division - Executive Director and Senior Analyst***

Okay. That's helpful. And then given the slowing in your core markets, I guess, to what extent are you guys feeling the need to find additional sources of cost savings around this deal or to what extent are you actually currently looking for -- to be more aggressive on the cost savings target?

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**James Shane Metcalf *NCI Building Systems, Inc. - Chairman of the Board & CEO***

We're very focused on costs. This is a core competency of both companies. We talked about the combined -- the combination of the 2 companies, and really, it's exciting now because the diversification of the market that we have -- we aren't strictly in commercial, we're third commercial, third residential, but that repair and remodel side of the business is something that we want to continue to grow. That's one of the reasons why we bought in companies like Silver Line that gives us a bigger footprint in that repair and remodel market. The margins have a different margin in each one of those segments. But also diversification of our procurement. If you look at the steel, the legacy NCI steel procurement, approximately 60% of our raw materials were steel. That's now under 40%. The same with Ply Gem from

a PVC standpoint. So it really helps us as you get through softening of the market from a procurement standpoint because of our size. We're also looking at freight. Freight has been a big issue over the last 24 months in both businesses. Now we're a larger customer, the carriers. We have commonality from the NCI commercial business and our siding business. You use very similar carriers. So we'll be able to do things, for example, backhauls, common carriers and things where we are now a larger customer to carriers. So that gives us leverage and margin expansion. The automation at the plants, we're finding some great projects there that will not only reduce our manufacturing cost but also take an impact of the labor shortages that we're all seeing. So another area that since we have now put the 2 companies together is our indirect procurements. We have subject matter experts on indirect cost things, for example, of the combined travel. We now have a bigger footprint, health care. So there's quite a few levers that having this combination that we can pull that individually, we didn't have as much leverage. So our focus really is EBITDA growth. We -- from both an organic standpoint and inorganic standpoint, we want to have margin expansion. We're very focused on margin expansion in each one of our businesses. And along with that, we think there's some great opportunity for innovation to be introducing new products to our customers. So we have numerous levers here that we can -- regardless of where the market is with us, we're going to focus on navigating and create our own success.

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**Operator**

Thank you. There are no further questions at this time. I'd like to turn the floor back to Darcey Matthews for closing comments.

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**K. Darcey Matthews NCI Building Systems, Inc. - VP of IR**

Thank you, Brenda. Thank you, everybody, for your interest in NCI. We appreciate your time. Happy Holidays to everyone, and we look forward to speaking with you again in February.

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**Operator**

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and have a wonderful day.

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