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PRESENTATION

Operator
Welcome to the NCI Building Systems Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Darcey Matthews, Vice President of Investor Relations for NCI Building Systems. Thank you. Ms. Matthews, you may begin.

Darcey Matthews ***NCI Building Systems, Inc. - VP of IR***
Good morning, and thank you for your interest in NCI Building Systems. Joining me today for the call are Norm Chambers; Don Riley; and Mark Johnson.

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 presentation. The company's actual results may differ materially from the anticipated performance or results expressed or implied by these forward-looking statements. In addition, management will refer to certain non-GAAP financial measures. You can find a reconciliation of these non-GAAP financial measures and other related information in our earnings press release and supplemental presentation located on our website.

As you know, our second quarter results were released last night. This morning, Norm will provide some key highlights about our view for the year, and then Don will provide an update on our second quarter as well as an overview of our operational outlook for the remainder of fiscal 2017. Then Mark will provide some details regarding our second quarter financial performance and our guidance for the third quarter and second half. And after that, we'll be happy to take your questions.

And now, I'll be happy to turn the call over to Norm.

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Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Thanks, Darcey. Good morning, everyone.

Our second quarter results reflect the strength of our diversified end markets across the U.S. and North American economies. Our performance benefited from the commercial discipline exercised by our brands, leveraged by our improved manufacturing efficiency and enhanced by our very effective supply chain management. Our insulated metal panels, sold through channels in both our Components and Buildings, led our growth and profitability followed by strong performance in our legacy component products. We are pleased to say that our business performed as expected in a slowly recovering economy with higher steel costs.

While not unusual, there has been some recent hesitation in bookings, our customers digest current workloads. Our quoting activity is good, our backlog is solid and our customers' outlook is positive, anticipating a good year. More encouraging, our internal forward-looking indicators forecast a marked improvement in growth over the next 12 months. Led by our second quarter performance, we are pleased to finish the first half of 2017 ahead of the same period last year. We believe that our 2017 second half will track with our traditional sequential cadence of a good third quarter followed by an even stronger fourth quarter. Overall, we expect to deliver significant annual growth and financial performance consistent with our tightened 2017 annual guidance and current EBITDA consensus.

Before asking Don Riley to take you through the quarter, I'd like to say a few words about my succession. As you know, Don has been President of NCI for 2.5 years. He's done an outstanding job leading our brands. Since last August, he has successfully led all of our operations, including commercial brands, manufacturing, supply chain and information technology. He has brought together and coalesced a strong focused team of talented men and women who have developed a dynamic business plan for not only 2017, but also 2018 and 2019, which we'll roll out at our October Investor Day.

On behalf of the NCI Board of Directors, we are pleased to announce that Don will succeed me as CEO, July 1 of this year, and keeping with our succession plan, I'll continue as Executive Chairman of the Board. Over the next few months, Don and I will attend several industry conferences and non-deal road shows in order for him to have the opportunity to meet directly with our analysts and investors.

With that, I'd turn it over to Don.

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Donald R. Riley ***NCI Building Systems, Inc. - President***

Thank you, Norm, and good morning, everyone. I look forward to meeting many of you over the coming months. Let me first thank Norm for his leadership and support. I have truly enjoyed working closely with him over the past 2-plus years and look forward to working together in the future. I'd also like to thank the board for their confidence in me and for the opportunity to lead this extraordinary company.

I will now review some key highlights of the second quarter and our first half of the year. We are pleased to have generated a 13% increase in revenue and a 45% increase in adjusted EBITDA versus last year's second quarter. Our Q2 and first half performance have positioned the company to achieve the full year guidance ranges we have provided at the beginning of the year, as Norm mentioned. Our second quarter performance was driven by the strength of both our legacy single skin and insulated metal panel sales in the Components segment. The strong performance in these product lines was driven by pricing discipline, product mix improvements and a successful pass-through of higher material costs. Specifically in IMP, we saw an improvement in product mix with an increase in architectural panel sales, our highest margin product. As one of the fastest-growing building products in the country, the contribution from insulated metal panel products sold through distribution channels in both our Buildings and Components segments, now represents approximately 26% of our revenues and 48% of our EBITDA.

Looking ahead, we expect to see a continuation of the strong growth for this product line during 2017, which will allow us to continue to outperform the nonresidential marketplace.

Additionally, we continue to see the benefits of driving sales of IMP and door products through the NCI legacy distribution channels. Our buildings and single skin groups saw sales and backlogs for these products grow substantially. Our ability to leverage adjacent product sales through a variety of end markets and channels is becoming a core competency of our company and uniquely positions NCI to accelerate the growth of these and future adjacent product lines. Overall, our consolidated backlog continues to strengthen as it was up 3.2% versus last year's second quarter and 4.8% sequentially.

Looking beyond the numbers, our top line improvements and margin expansion are the result of the structural reorganization and initiatives we implemented in our commercial, supply chain and manufacturing groups. Key results of these efforts are: through the first half of the year, our manufacturing cost per ton declined significantly, highlighting the ongoing success of our efforts to streamline our business; ESG&A as a percentage of revenue declined materially through the first 2 quarters, due to our continued cost-reduction initiatives and the impact of our operating leverage through volume growth; and lastly, we remain committed to commercial discipline, margin enhancement and passing through higher input costs, which includes continuing to decline projects that do not meet our required rates of return. These achievements showcase our manufacturing efficiencies and ESG&A cost-reduction initiatives. These initiatives and our commitment to commercial discipline have been the bedrock of the marked improvement we have delivered over the past 13 months. Mark will provide an update on the financial impact of these initiatives later.

Now some of the thoughts about the second half of 2017. Our overriding objective remains the same: to establish a business platform that enables NCI to grow faster than the low-rise nonresidential market and allow for gross margin expansion through a combination of executing our internal initiatives and growing the top line of our business segments. All our business lines are currently experiencing increases in quoting and market activity, despite a near-term slowing in order activity. Overall, we like what we see in terms of booking trends and the significant increase in quoting activity for our IMP product line. Given our customers' optimism for the future, we are confident in what we are seeing for 2017 and are optimistic in our ability to continue to grow the business in 2018.

Lastly, before I turn it over to Mark, I'd like to share with you some of my thoughts about NCI and my initial agenda. We have successfully done a lot of work on our manufacturing footprint and streamlining that part of our business. We are now focused on driving forward with advanced manufacturing through automation and process innovation. This will improve our operating leverage and optionality through the business cycles and lead to greater cost efficiencies and operational flexibility. Next, we have excelled at driving lean manufacturing processes across our plants, which has favorably impacted our bottom line. We're going to take that lean knowledge base and apply it to the rest of NCI to simplify our operations and drive out further costs. This represents a significant opportunity for our organization.

Finally, our company revolves around its ability to meet and exceed our customers' needs through all our businesses and brands. Enhancing the customer experience and driving our customers' success and the ease of doing business is critical in today's world. We are focused on improving their experience with our company. Our recently launched e-commerce platform in our single skin group is a great example of this. It expands and enhances those relationships and takes ever-increasing advantage of bringing broader building solutions to our customers to make their business easier and more successful. It will be our commitment to these 3 areas which will propel NCI to the next phase in its evolution. We look forward to sharing the details behind these initiatives and the bright future we see for NCI with you in October.

I will now turn the call over to Mark for a review of our second quarter financial results.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Thank you, Don.

As is customary, we have provided a review of our 2017 second quarter financials in both the earnings press release issued yesterday and the quarterly supplemental presentation posted on our website. Now I'd like to add some additional insight to our results.

Overall, our second quarter results came in at the upper end of the guidance we provided on March 8, with strong revenue growth and cost efficiency improvements once again driving year-over-year gain. The 13% revenue growth reported for the quarter resulted from a combination of increased volume and increased pricing, particularly with the pass-through of higher input costs. Importantly, our gross margin increased sequentially from the 21.4% reported in the first quarter to be consistent with the prior year's second quarter of 24%. In fact, on an adjusted basis, gross margins were approximately 20 basis points higher than the prior year margins, which had included a $930,000 gain on asset disposal, which was identified as a separate line item on the face of our income statement. Without that gain, margins for last year's second quarter were 23.8%.

While our margins continue to reflect the near-term headwind of rising steel prices, this is more than offset by both the improvements in manufacturing efficiency as well as favorable product mix related to increases in our insulated metal panel product line. Our manufacturing efficiencies represented approximately 120 basis points of improvement from the prior year and are the direct result of executing our previously disclosed cost-reduction initiatives, which also enhanced our ability to leverage the higher volumes in the Components and Building segments.

Started in 2016, we continue to achieve success with the further implementation of lean manufacturing processes as well as the rationalization of our manufacturing capacity and are on-target to achieve our overall improvement goal of $15 million to $20 million, of which $6.5 million is expected to be achieved in 2017.

ESG&A expenses decreased as a percentage of revenue by 220 basis points from the prior year period and came in just below the midpoint of our guidance range despite the higher-end revenue attainment. The improvement in ESG&A efficiency was achieved in both the Buildings and Components segment, and results not only from increases in our revenue while restraining costs, but also are the direct result of gaining traction with our cost-reduction initiatives. In our Buildings segment, our selling and G&A costs were $800,000 lower on a year-over-year basis while revenues were nearly 18% higher.

Similarly, in our Components segment, selling and G&A costs were $1.3 million lower than the prior year while revenues were 15% higher. Our cost reductions have more than offset incremental costs related to volume increases and wage inflation pressures. We remain on target to achieve our total ESG&A cost savings goal of between $15 million and $20 million, of which $3.5 million is expected to be realized in FY '17. We also remain committed to our longer-term target to reduce our annual ESG&A cost as a percentage of revenues to less than 16% over the next several years.

Our consolidated effective tax rate at 33.6% was lower than our guidance range and roughly flat compared to 33.3% in the prior year's quarter. The variants to our guidance resulted from favorable foreign currency movements as well as the utilization of previously reserved tax assets with respect to our foreign subsidiaries. As a result, we have improved our view of our forward effective tax rate by nearly 150 basis points in our updated guidance range for the third quarter.

Now I'll comment briefly on key aspects of our segment performance during the quarter. Our Components group continues to post strong growth, both from external sales as well as through our own internal segment distribution channel, which has been a significant driver of IMP product sales. Total revenue was up 15.3% over last year's second quarter, with a little more than half of the increase driven by the pass-through of higher input costs and the remainder resulting from higher volumes across nearly all product lines. The margins generated by this division were excellent, aided by growth in insulated panels which were some of the highest margin products, commercial discipline in a rising steel price environment, and cost efficiency driven by our cost-reduction initiatives, which drive our ability to leverage our improved structure over higher activity levels.

Our ability to grow the distribution of our IMP products through our existing Buildings and Components distribution channels is a strong validation of the investment pieces for insulated panel products.

The Buildings segment also exhibited strong revenue growth with a 17.8% increase over the prior year. The vast majority of this growth results from the strong 13.6% increase in third-party tonnage volume. In contrast to the Components segment, however, as is normal, the price realization on higher input costs occurs at a slower pace, particularly during the seasonally slower periods, temporarily dampening margins. Those of you familiar with our company have heard us typically refer to this contrast to the Components margins as a part of our natural hedge to steel costs volatility. We expect that margins in the Buildings segment will sequentially and progressively improve as the input costs cycle plays out in the next 2 quarters.

Our Coatings segment performed as we expected during the period with 14.8% higher revenues driven by higher pricing both internally and externally, with volumes down about 6% year-over-year.

Before turning to our outlook, I'll make a couple of comments regarding our balance sheet and cash flow.

In May, after the second quarter, we amended our existing term loan facility to extend the maturity date to 2022 and reduce the effective interest rate by 25 basis points. This facility has $144 million outstanding, which remains unchanged from the first quarter. As a side effect of this amendment, we anticipate that through the next 6 months, we will not make additional principal payments on this facility to avoid the temporary 6-month 1% prepayment penalty that was part of the amendment.

We generated positive operating cash flow of $38.3 million during the quarter as our first quarter investments and working capital have begun to turn around as we had anticipated. The increased earnings and decrease in working capital enabled positive operating cash flow of $6.4 million for the first half of fiscal 2017. This positive cash flow trend should continue through the balance of the fiscal year, and we expect to see meaningful year-over-year growth in operating cash flow in the last half of fiscal 2017.

In addition, on the cash flow front, we continue to successfully find opportunities to convert to cash the idled facilities generated by our cost rationalization activities and further, in the third quarter, we will receive $8 million in cash related to an insurance recovery on property damage claim.

Turning now to our outlook. Consolidated backlog is up 4.8% sequentially and 3.2% year-over-year to $552.3 million. As Norm mentioned, we expect that the business will exhibit a more normalized seasonal pattern with the second half stronger than the first half, and with Q4 outperforming Q3, unlike last year which was an anomaly. As a result, we continue to expect 3% to 6% in underlying growth in new low-rise starts measured in square feet in fiscal 2017. The insulated metal panel business should continue to be a strong driver of order growth and margins through the rest of the fiscal year. Rising steel costs should exhibit less of a downside impact on our margins by the end of 2017 as we continue to execute on our cost rationalization program and as the cycle plays out through our businesses.

Based on these factors, we believe we will deliver another year of modest growth in underlying volumes with continued year-over-year operating margin expansion and earnings growth. For fiscal 2017, we expect revenue will range between $1.8 billion and $1.86 billion. This increased annual range takes into account our performance during the first half, along with incremental increases in steel input costs and our ability to pass them on effectively in our pricing. We also expect that adjusted EBITDA will range between $180 million and $200 million for the fiscal year, with the midpoint of this range consistent with current analyst consensus.

For the third quarter, we estimate consolidated revenue will range between $480 million and $505 million, with adjusted EBITDA ranging between $48 million and $58 million. Further, consistent with a more normalized seasonal pattern than was exhibited in the prior year, we expect that the fourth quarter revenue will range between $510 million and $545 million. In addition, the gross margin is expected to improve sequentially in the fourth quarter due to higher capacity utilization and less headwinds from escalating steel costs, the adjusted EBITDA in the fourth quarter is expected to range between $69 million and $79 million. As a reminder, we have provided additional guidance for the third quarter in the supplemental presentation posted on our website.

And now we will open the call for your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Lee Jagoda with CJS Securities.

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Lee M. Jagoda ***CJS Securities, Inc. - Director***

So I think you mentioned that the insulated metal panels in the quarter was -- were 26% of your revenue and 48% of your EBITDA. And I assume the EBITDA percentage is driven by the mix shift towards architectural versus last quarter cold storage. So as we go forward, how does the outlook for architectural look over the next several quarters? And how do you see that mix unfolding over time?

—

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***

So look, Lee, what we really expect to see is a continuation of insulated metal panels playing an important role, but of course, in the next 2 quarters, we'll have a seasonality which will help the rest of our businesses. So I wouldn't expect that the same percentage of our EBITDA would be maintained but nevertheless, the IMP side should continue to do well. But Don, do you want to add to that?

Donald R. Riley ***NCI Building Systems, Inc. - President***
No. I think we're really excited about what is going on in our IMP business, and a big part of that is what's going on in architectural. And we do see quoting activity up, and that's positive on the architectural front.

Lee M. Jagoda ***CJS Securities, Inc. - Director***
Okay. And just as a follow-up. Regarding steel prices, I understand the natural hedge, and we can see what's going on within Buildings and Components this quarter and how that might play out over the rest of the year. But has your guidance changed at all with regard to what you thought steel price increases would be for the full year versus where we sit today?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes, it has, Lee. In the second half of the year, the steel prices are a little higher than we would have thought at the beginning of the year, anywhere from 4% to 7% higher on a year-over-year basis than in the original guidance.

Lee M. Jagoda ***CJS Securities, Inc. - Director***
So that would kind of make up the increase in your revenue guidance versus where it was before?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
It's a large part of it, Lee. It really is. Some of that revenue increases in the first half of the year as well where we've performed at the upper end of the guidance range as we had provided. But certainly, it's a big factor for the last half of the year.

Operator
Our next question comes from the line of Bob Wetenhall with RBC Capital Markets.

Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
First off, congratulations on a great run at NCS, Norm. I think you've done some tremendous stuff for the company in a pretty tough environment, so hats off to you and best of luck. And Don, welcome to the hot seat.

Donald R. Riley ***NCI Building Systems, Inc. - President***
Thank you.

—

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
That's great.

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Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
Good. I think this is more for Mark, and I was hoping you could get pretty granular on incremental margin performance in 3Q and 4Q, and I might be missing this, so be gentle. But it sounds like there's a step down in the incremental margin in the third quarter, and then you have a real big spike in the fourth quarter. And I want to make sure I'm understanding that incremental margin goes down in 3Q and up in 4Q, and what's driving that? And how do you have visibility right now into the profitability of the consolidated profitability as you move through the balance of the year?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Great question. Thanks, Bob. This question's tied up in a couple of bigger picture items, the first one being the seasonal pattern of our company. Historically, the fourth and third quarter are the strongest 2 quarters of our fiscal year, it goes through the construction cycle. And typically, the fourth quarter is the strongest, the third quarter is the second strongest and then you have the weaker first half. Last year was a pretty significant anomaly to that, and it was driven in large part by some rapid increases in steel prices that pulled some work forward into the second quarter -- I'm sorry, into the third quarter. And so you actually had a situation which is very rare, where the third quarter last year was stronger than the fourth quarter, and it was stronger from a volume perspective as well as from a margin perspective. And we end up talking about steel prices quite a bit, but it's always in a short-term conversation where we're talking about a quarter or an individual segment. When we're talking about steel prices, we're hardly ever talking about an annual result or a long-term view of our performance, and that's certainly the case here. In the prior year, that rapid increasing steel price caused an anomaly in the third quarter margins to be high and the fourth quarter margins to be lower. And when you put the 2 together, you get a more normalized view. Now when we flash forward to this year, we're looking at a much more normalized situation where steel prices, while they have risen and are at a higher level than they were last year, they're not showing that same level of increasing pattern, that same steep decline. So it's not causing an anomaly in the seasonal pattern, and we're reverting back to the more normal pattern. So underneath all of that is volume and the impact of steel on short-term margins. So this year, in our third quarter, we will have progressively better margins than the second quarter. In fact, if you take the unusually high margins in last year's third quarter off the table for just a moment, you would see that our third quarter margins we're guiding to at the midpoint of our range for the third quarter this year are the highest margins since 2009 when the downturn began. So that is driven by all the hard work of the men and women of NCI to focus on the manufacturing and process improvements within our manufacturing group and then also in the supply chain area. Similarly, when we get to the fourth quarter, we expect a much more normalized

margin that won't have that impact of the higher steel costs as a headwind that we still expect to see in the third quarter, and so the margins will progressively be better in the fourth quarter and will be more illustrative of the margins we now can obtain given our improvement in our cost structure.

Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
That makes perfect sense. That's sort of what I was trying to understand. I have a two-part question, so bear with me. You've got really good double-digit pricing in Components of 12% and then Buildings saw 1.3% price growth. And I was trying to understand what the disparity is because there are large differences in the amount of pricing you're getting. And is that due to the length of the sales cycle for the products? And kind of what are you anticipating for second half guidance in terms of incremental price increases that you can realize? What's baked into your forecast? I have a quick follow-up on volume after.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
So you are correct in your statement around the pricing and the Buildings Group being less realized than it is in the Components group. Components group sales cycle is measured in days and maybe a couple of weeks, whereas the Buildings group sales cycle is measured in 90 to 120 days. So there's definitely a difference in time frame that we recognize the price realization. That's really the driver behind that. And in my earlier comments, I was referencing the fact that as that price realization occurs for the Buildings group, we will see progressively better margins for Buildings in the third and fourth quarter.

Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
Got it. Got it. And then final question for me. You've got a huge surge in IMP sales, up 81%, and metal doors are up 84%. How do we contextualize the big spike you're seeing, you're obviously must be entering new markets or developing a new customer base. How is that going to impact the trajectory of sales on the external side for Components and Buildings, they were both up kind of mid-teens levels or close to it. Is this kind of a growth of the base market of 3% to 6% augmented by market share gains? How do we think about this? It's not really for the next quarter, but maybe Don could take this, framing this for the next 18 months into year end? And what's the strategy here? How do we think bigger picture, longer term going into 2018, what your expectations are?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Another good question, Bob, and let me start by just touching on a cue -- a few of the factual points, and then Don, you can answer the rest of the question. So first of all, we expect double-digit growth out of our IMP business, irrespective of passing through the pricing costs. The growth that you referenced, the 80% significant growth we had in IMP volume in the second quarter, is speaking to the internal distribution of IMP specifically. So overall, strong growth, double-digit growth, but the 80% that we're referencing is the internal sales of that through our existing Components sales channels and our

Buildings sales channels, which is really the thesis behind us investing in insulated metal panels, we can leverage those sales channel.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
And they're huge. I mean, it's competitive advantage, Bob, that we had really baked into why we wanted to invest in insulated metal panels. Don?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Yes. So as you highlighted, and as Mark and Norm noted, a key part of our growth has been our ability to leverage IMP sales through the single skin in Buildings channels. But what it really does is demonstrates our core competency we have built, of our ability to pull adjacent products through these channels and how we're uniquely positioned to accelerate the growth of IMP and other future potential adjacent products, which as you talked about what can transpire, the possibilities of '18 and beyond. So we continue to take advantage of these channels for IMP growth, and we stay committed to not only driving that and maintaining this accelerated growth of these channels, but also focusing on how do we increase the specification of this product in under-penetrated areas of the markets where we're also focused on, which is a big untapped potential for us. So we anticipate continued growth and execution on this front.

Operator
Our next question comes from Matthew Bouley with Barclays.

Matthew Adrien Bouley ***Barclays PLC, Research Division - Research Analyst***
Well first, I'd also like to pass along my congratulations to both Norm and Don. Don, looking forward to working with you more in the future. So first question, I guess, just on -- I wanted to ask about third-party volumes. So you called out Buildings up 14% and Components I believe up 1%. So just a question on if you could just touch on that variance. Is it regional differences or any particular larger project mix that is driving the strength in Buildings? And is that a trend we should expect to continue this year?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Yes, sure. So I could take that on. So first off, a lot of the leading indicators are positive. So I'll start kind of broad and then bring it down to the businesses. The economic indicators we look at for the next 12 months are very positive. Our customers are expressing a lot of really great optimism, and our quoting activity is very high in our longer lead businesses, and we are starting to see the order pace pick up in our shorter lead time businesses. So we have that kind of balance in the portfolio in the marketplaces. From a regional perspective, we're seeing the northeast and the west being very strong, south and south central, less so. And then in looking at single skin in the Buildings businesses, it's a balance of how their customers are consuming the bulk of work that's flowing through them. Mini storage has been really

strong and single skin accelerating their pace, and then those customers are trying to consume all that bulk, and we anticipate that then it's going to take off again. Whereas in the Buildings side, the ebb and flow of commercial and institutional. So it's more about ebb and flow than what's going on in the marketplace, but overall, we're really pleased with what things are going to look like for the second half and forward 2018.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
One of the other, 2 other trends that we're beginning to see that could be really beneficial in 2018 and '19 is the resurgence of manufacturing. And we're seeing in some of the forecasts done by Dodge and others, that for the first time in a really a number of years, manufacturing plant additions, new plants looks to be on an interesting trend from both the volume and the cost basis. The second thing is that we would expect to see a tailwind in oil and gas on the onshore side. We're starting to see already what the restructuring of oil and gas industry that is really going to be a great opportunity to again see some growth there. So those are 2 things that would speak very well and positively for both our Components business and our Building business.

Donald R. Riley ***NCI Building Systems, Inc. - President***
And I would support that, Norm. We're definitely seeing the pickup on the industrial side.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Yes.

Matthew Adrien Bouley ***Barclays PLC, Research Division - Research Analyst***
Okay. That's helpful. Second question, just your comment around the modest slowdown in your markets at the end of the second quarter. Do you have any sense of why that may be? Are you seeing any maybe tightness on the commercial lending side or any -- just specific vertical that might be hitting a soft patch, something more temporary? And just which segments for NCI or product categories should we see that manifest over the next couple of quarters?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Sure. No, a great question. As we said, overall, we feel good about the year. Relative to this hesitation of -- essentially, the optimism in the market's generating accelerated half one for many of our customers. And then you combine that with a limited skilled labor market for them leads to a bulge of work for them, which they need to digest before they move on to their backlog. And so one of the key indicators we have that we can tell when that's going on in our business is when we're booking business in the Buildings world, it's generally in 2 forms: either permit and approval, where they're waiting to move on the work or for production. And when you see a higher percentage in peak periods like this of permit and

approval, it tells us that customers have a lot of work, and they want to hold future slots while they're consuming through their current book of business. So we've heard this from all of our customers. They're very upbeat and positive about the second half of the year. They're working through this business they have, they're playing through it. And we're also seeing positive signs in our accelerated quoting pace, and we're starting to see a dissipation of what we're experiencing in this hesitation.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
And we've seen this before over the years. And it's a function as well as that our customers, our builders, are small businesses. They really are. And they have to digest the work, just as Don was saying, and that -- that's -- this, we've seen this a number of times in the past.

Operator
Our next question comes from Brent Thielman with D. A. Davidson.

Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
Norm, best of luck to you as well. You guys are seeing some pretty good growth at the Coatings business, but the margins aren't moving as quickly, and I know there's moving pieces with input costs. But are you assuming sort of the traditional step up in margins in the second half of that segment?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
I would say that we will have higher volumes in the second half and those lead to higher margins, generally speaking. On a year-over-year basis, in the second quarter, part of the margin headwind there was volumes were down a little bit, and they have to react to the push-through of the higher input costs as well. But I don't expect any meaningful variances in their margins relative to past patterns.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
But Coating really benefits from the seasonality of our internal demand as well. We're going to see that. And again, we're in the Coating business because we consume 50% or more of the output.

Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
Got it. Okay. And then, I guess, Don, maybe one for you. I mean, you got the company right now, right around 2x leveraged, and it seems to be coming down even more. What's the latest thoughts on kind of acquisitions? Is the panels business sort of structurally where you want it at this point? Any thoughts around that?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Sure. We're always on the lookout for good accretive opportunities for the business. We're targeting opportunities in adjacent products and expansion of current growth business areas. We do have a higher hurdle rate we've set for ourselves based on our performance, and also how well we've performed on our internal investments. So we have set that bar high, and -- but what we really like about it is we've developed this core competency in driving sales through our channels and unleashing untapped potential for adjacent product lines that we bring in, so that's exciting to see, and I do see -- have seen in the numbers, we used to talk about what we've been able to do with IMP and doors through our legacy channels. So yes, we're excited about the future potential of that.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
We love the idea of synergies on the cost side and synergies on the revenue side.

Operator
Our next question comes from Matt McCall with Seaport Global.

Matthew Schon McCall ***Seaport Global Securities LLC, Research Division - MD of Building Products and Furnishings and Senior Analyst***
First, congratulations, Norm, and Don as well. I look forward to working with you. And Don, maybe one for you. As you went through your agenda, you talked about taking lean to other parts of the business, and you guys have quantified, I think $30 million to $40 million in cost savings, are you prepared or can you give us an idea of what kind of cost savings, what kind of operational improvements, working capital improvements, whatever, could come as a result of extending lean throughout the organization?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Yes. So that was $15 million to $20 million in terms of the manufacturing cost side of it, right?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
And then extending that same concept of lean through to the (inaudible) side of the businesses.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Exactly. So one of the things that we've seen in the partnership of John Kuzdal and Don has just been superb. And we really, I think all see even more opportunities. And Don, if you'll touch on a few of those.

Donald R. Riley ***NCI Building Systems, Inc. - President***

Yes, I think we're really excited about the potential of taking lean across the company, simplifying the business, improving the quality of our processes and the services we give to our customers through that, so we definitely see a lot of upside potential in our cost structure associated with that. And that's part of what we want to talk you all about at the October Investor Day, is the potential around advanced manufacturing and the customer experience and NCI solutions and taking lean through the company, and what that's going to do for our cost efficiency, our margin enhancement and the overall growth of the business.

Matthew Schon McCall ***Seaport Global Securities LLC, Research Division - MD of Building Products and Furnishings and Senior Analyst***
Okay. Okay, great. And Mark, maybe one for you. I think this has been asked a couple of different ways. But I just look at the overall price cost environment and the expectations for the back half of the year, what kind of price cost pressure, and I think it sounds like there may be a price cost benefit as you move into Q4. What kind of price cost pressures in the Q3 guide? What kind of price cost benefit in the Q4 outlook?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
So first of all, I don't think that there's a price cost benefit in the fourth quarter. I think what you'll see is the absence of a headwind. So you'll see the underlying improvement in the margins more so than a benefit or a cost in the fourth quarter.

Matthew Schon McCall ***Seaport Global Securities LLC, Research Division - MD of Building Products and Furnishings and Senior Analyst***
Okay. That's fair, yes.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Okay. And then, so for the third quarter, certainly, on a year-over-year basis, you're at two ends of the extremes. Last year was at the point in the extreme, where we have a tailwind, and the third quarter of this year will be a point where we have a headwind, and that's probably the greatest magnitude you'll ever see that -- or we have ever seen, let's say it that way. Though it's a couple of 100 basis points.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
So the circumstances of Q3 of this past year were really advantageous, we could take advantage of. That's really a circumstantial kind of event in Q3 of last year.

Matthew Schon McCall ***Seaport Global Securities LLC, Research Division - MD of Building Products and***

Furnishings and Senior Analyst

And maybe a follow-up on that, Norm. So Q3 last year, I think you said 380 basis points, I believe that was when you were still combining the benefits of efficiencies and/or the impact or benefits of price costs. What was -- just the pure price cost impact or benefit in Q3 of last year?

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***

Well, one of the things that was happening was that both our Buildings group and our legacy Components group really, really did quite well. And the situation in the steel cost side helped the Buildings group, but the Components group really has shown, and I'm talking about the legacy business, to really be able to perform in almost any market condition. They've done very well. Mark, do you want to add to that?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***

Yes. I would just say that these are not precise calculations, but roughly speaking, in the prior year third quarter, we called out a 380-basis-point improvement that also included some of the efficiencies around supply chain management.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***

Right.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***

And this year, -- so that 380 basis points we spoke to last year, roughly 200 basis points of that would be in the steel price tailwind range. But remember, you've got to look at these on a broader basis, not just within the context of a single quarter. And so if you look at the margins for the last half of last year, that helps to moderate out what that tailwind would've been.

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

Okay. That's helpful.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***

Yes. So 200 basis points of tailwind last year, and somewhere around 200 basis points of headwind this year is the dynamic. That's the extremes.

Operator

Our next question comes from the line of Scott Schrier with Citi.

Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***
First, just wanted to echo the prior sentiments for both Norm and Don, congratulations. I want to start by asking, so I understand the short-term impacts of the internal hedge and all the factors around that. But I wanted to ask maybe a little more broadly, as we normalize the business taking into account your favorable medium-term view as far as underlying fundamentals and industrial manufacturing and oil and gas, and as we think about Components, which I understand we've had the short-term benefit from steel prices, but it looks like you've had quite strong margins there. And as we go forward in the next couple of years, how can we think about the operating leverage in this business? What kind of margin profile can we have with also taking into account the fact that you have this mix shift to the architectural-type panels as well as the cost reductions? How can we think about the margins there? And I guess even more broadly speaking, taking into account the overall company now that you have more IMP in there, how can we think about operating leverage going forward over the next couple of years?

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Improving. And the reason for that is really all the things you've touched on. The advantage we're getting out of our supply-chain management, the incredible job that John Kuzdal and the team are doing in manufacturing. And this next phase that Don will be talking about, and John, in October about the opportunities in terms of advanced manufacturing and techniques. Everything we're driving to is to bring our cost per ton of manufacturing down. At the same time, the commercial discipline and the advantages that we get internally on adjacency, man, I got to tell you, that is a hand, that is probably the best hand we've ever had to play. Don, do you want to...

Donald R. Riley ***NCI Building Systems, Inc. - President***
Yes. Norm, exactly. And it brings me back to kind of our vision for the company, which is to be the undisputed leader of our industry by delivering unparalleled performance and financial results. Norm has positioned the company well towards this vision through the work that's been done on manufacturing and consolidation by John and supply chain execution by our supply-chain organization in the commercial organization work. But now we're going to be focused on taking that and building momentum and driving 2018 and beyond with focal points around the next wave of cost efficiency, margin enhancement and profitable growth. And we're going to share even more insight in October, but we're going to see that through advanced manufacturing, through automation and process innovation and plant upgrades and lean through the company, which is going to simplify us and improve quality, and an emphasis on the customer experience in new channels such as the e-commerce platform and delivering portfolio solutions through this core competency we have in driving that through our portfolio. So we've made great progress in margin and costs, and we see future great opportunities in margin and cost improvement going forward.

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Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
And this is what Don has done. He's brought together his team and focused them on line of sight for 2017, developing a plan that is really impressive for 2018 and '19. So kind of getting out of the annualness of the planning into a broader view. And I'd tell you, it's very, very impressive.

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Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***
Great. And I just wanted to follow up on the question earlier about steel prices and guidance. So you had said that the -- now you expect steel prices to be, I believe you said 4% to 7% higher than what you were originally expecting when you gave guidance. How does that come into play with how you're looking at EBITDA guidance and the tightening of the range with respect to some of those short-term impacts from the internal hedge also specifically, I guess, if you can quantify the impact of steel on EBITDA guidance for the year.

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Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
One of the easy ways of thinking about this is that the headwind that we've seen in the Buildings group will now start to turn into an advantage in patterns Q3 and in Q4. So that will be one of the real evidence points. And as we said earlier, we've really been pleased with how the legacy components business has continued to be able to perform in a variety of cost ways. And then you couple on top of that the insulated metal panel piece which is higher margin and growing faster, it kind of all blends together. Mark, do you want to add a bit more color to that?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes. So I think it's important to recognize that we gave the annual guidance at the beginning of the year, and we're reaffirming that guidance now effectively with a slightly tighter range because we've taken some of the volatility of the first half out of the equation. But nevertheless, the bulk of the work at the company occurs in the last half of the year. And so we want to be very careful. We want to make sure we're not over guiding or under guiding, we're just trying to keep our guidance range appropriate.

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Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***
Got it. And if I could slip one more in. I just wanted to ask about -- I noticed that you didn't buy back any stock in the quarter. I just wanted to see how you're thinking about the buybacks. And I know you touched on capital allocation, but just specifically to buybacks going forward.

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes. So as I said, we do expect to reduce significant amounts of cash flow in the last half of this year, and so available cash resources is expected to be fairly meaningful. We continue to have availability under

our approved stock buyback plan, and we will continue to review that and look at that every quarter.

Operator
(Operator Instructions) Our next question comes from the line of Trey Grooms with Stephens Inc.

Trey Grooms ***Stephens Inc., Research Division - MD***
Norm and Don, congrats to both of you. And Norm, it's been great working with you over the last several years. I wish you the best.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Thank you, sir. Appreciate it. I'm going to be here for a while.

Trey Grooms ***Stephens Inc., Research Division - MD***
For sure. I wanted to kind of revisit a couple of the questions that were asked earlier just to get a little bit more color around the recent hesitation in bookings, the slowing in order activity. I just want to follow-up on that. And I think it was asked, but I'm not sure it was touched on specifically. But as far as like any particular end market, Norm, you've said this happens from time to time, you've seen it, it can -- it's ebb and flow, it moves around, I get all that. But are you seeing it in any particular end market? Or is that more just kind of a blanket statement as far as kind of what you're seeing out there?

Donald R. Riley ***NCI Building Systems, Inc. - President***
Yes. Fundamentally, it's more of a generic statement. And we -- a lot of our -- all of our customer base is very optimistic. They all have a lot of work going on, so it's not like there's a particular end market that's -- there's something unique going on in.

Trey Grooms ***Stephens Inc., Research Division - MD***
Okay. And Norm, in the past, when you've seen these ebb and flows, how quickly does the bounce back occur, when you do see these little hesitations? As you know, I mean, the overall recovery seems to be intact. So I don't think that's necessarily a concern at all here, it's just how quickly do these things generally kind of rebound?

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
We're starting to see some evidence of it right now.

Trey Grooms ***Stephens Inc., Research Division - MD***
Great, great. Good to hear. And then I wanted to take another look, kind of bigger picture at the metal panel pieces or the insulated metal panel piece as well. Was it growing at a stronger clip than overall non-resis and obviously, it's taking share versus the single skin panel, with the continued recovery in non-res, how do you think about the longer term? Or how should we think about the longer-term capacity picture there on the insulated metal panels piece? In other words, at what point do you guys think -- have to start thinking about maybe expansions or adding capacity or anything like that to that part of the business?

Donald R. Riley ***NCI Building Systems, Inc. - President***
At this juncture, we are positioned well for the growth we see over the horizon. So we build that into our strategic planning process and at whatever juncture we think we're going to need more capacity, we'll make -- we have the capability and wherewithal from cash flow to fund that, but right now, we're more than confident we have the capacity to continue to drive this growth.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
Yes. I might add that those are highly automated processes, so it's easy to add additional product without having to add facilities.

Operator
Our final question comes from Lee Jagoda with CJS Securities.

Lee M. Jagoda ***CJS Securities, Inc. - Director***
Just one quick follow-up for me. So when you're talking about rolling out advanced manufacturing and doing some plant upgrades, understanding there's a pretty high hurdle rate for internal projects. Do you have a view of the capital investment you might need to roll this out and whether it's a 2018 CapEx event or how does it actually roll into the plan?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
We have some internal views. It won't be significant relative to our current level of capital expenditure requirements and probably eliminates the need for some planned capital expenditure. So I don't think you'll see it significantly show up.

Norman C. Chambers ***NCI Building Systems, Inc. - Executive Chairman and CEO***
And the returns look really superb on it as well.

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Operator

There are no further questions at this time. I would like to turn the call back over to Ms. Darcey Matthews for closing remarks.

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

Thank you, Michelle. As we mentioned, Norm, Don, Mark and I will be on the road in the coming months for several conferences and non-deal road shows. We will be attending the Citi Industrial Conference on June 13 in Boston, traveling with Barclays in Chicago on June 29. As Lee mentioned, and he forwarned me a little bit at the CJS Conference in White Plains on June 11, and traveling with Seaport in the Mid-Atlantic region on June 12 -- or excuse me, July 11 and July 12, pardon me.

Finally, as the team mentioned, we'll be hosting an Investor Day in New York on October 11 to provide additional detail on some of the initiatives we mentioned, introduce the broader management team and provide our views of fiscal 2018. Save the date and additional details will be sent out next week. We thank you for your time, and we appreciate your interest in NCI. Thank you, Michelle.

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Operator

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

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