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NCS - Q3 2014 NCI Building Systems Inc Earnings Call

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PRESENTATION

Operator

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the NCI Building Systems third-quarter earnings conference.

(Operator Instructions)

This conference is being recorded. I would now like to turn the conference over to Layne de Alvarez, Vice President of Investor Relations. Please go ahead, ma'am.

Layne de Alvarez - ***NCI Building Systems, Inc. - VP of IR***

Thank you. Good morning and welcome to NCI Building Systems' call to review the Company's results for the third quarter of FY14. To access a taped replay of this call, please dial 1-888-203-1112, and enter the passcode 5382199 and the pound sign when prompted. The replay will be available approximately 2 hours after this call, and will remain accessible through September 16, 2014. The replay will also be available at the Company's website at www.NCIBuildingSystems.com.

The Company's third-quarter results were issued last night in a press release that was covered by the financial media. In keeping with SEC requirements, I advise that during this call we will be making forward-looking statements that involve risks and uncertainties. Actual outcomes may differ materially from those expected or implied.

For a more detailed discussion of the risks and uncertainties that may affect NCI, please review our SEC filings, including the 8-K filed last night. Forward-looking statements speak only as to the date they are made. We undertake no obligation to update any forward-looking statements beyond what is required by applicable securities law.

In addition, our discussion of operating performance will include non-GAAP financial measures. A reconciliation of these measures with the most directly-comparable GAAP measures is included in the earnings release and the CFO commentary, both of which are available on our website.

At this time, I would like to turn the call over to NCI's Chairman, President, and Chief Executive Officer, Norm Chambers.

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

Good morning everyone, and welcome to our third-quarter 2014 conference call. Joining me this morning are Mark Johnson, our Chief Financial Officer; Todd Moore, our General Counsel; and Layne de Alvarez, our Vice President of Investor Relations. Our third-quarter earnings were released last night, so I hope you have had time to review the numbers. I'll give a brief overview of the quarter before I hand over to Mark, who will dive more deeply into the numbers.

Our business performed well. Even though our fiscal third-quarter non-residential volume, as reported by McGraw-Hill for new construction starts was down 1.3%, with low-rise construction consisting with buildings of five stories and less, our sweet spot, was off 3.4% on a year-over-year basis. We believe there was actually modest growth in the market, and anticipate that those numbers will be revised upward in the next reporting period.

Our sales and operational teams worked with our customers to provide greater value, while converting orders more effectively, manufacturing more efficiently, and delivering our quality product. After a very challenging Q1 and Q2, I'm proud to report our efforts generated improvement in gross profit margins of 250 basis points sequentially, and 90 basis points year-over-year, but more importantly, there remain many opportunities for improvement, both in the short and intermediate term.

Having said that, this quarter provided an opportunity for the numbers to speak for themselves. Our growth initiatives in our coating and components groups drove top line increases, both sequentially and year-over-year. Coating grew 22% and 35% respectively, while components sales were up 19% sequentially and 15% year-over-year. Each had meaningful 20%-plus growth in operating income on a year-over-year basis.

The buildings group drove consolidated operating income by 185% on 14% growth in revenue on a year-over-year basis, demonstrating commercial discipline and leverage. When we roll the segments up to a consolidated level, we generated quarterly year-over-year incremental income from operations of $8 million on $44.4 million of incremental revenue with an incremental margin of 18.2%. This incremental margin does not reflect adding back one-time costs, or adding back ramping up of initiative costs. As initiatives mature, incremental margins will improve significantly.

These results, while just one quarter, do shine a very bright light on the potential our entire team believes can be produced going forward, regardless of the modest pace of recovery in the US economy, and the US non-residential market. In other words, the trajectory of our performance should continue to improve.

Now, a few words on our quarterly shipments. In our third quarter, commercial end market shipments, including warehousing, distribution, facilities for road rail and air maintenance, were most active. This was followed by solid demand from the industrial sector comprising of manufacturing and assembly plants. The oil and gas plays continue to show solid growth. And retail has continued to improve from very low levels.

A few words on strategy. As you will recall, our strategic goal is to generate four or five times our 2013 EBITDA of $71 million by the point of mid-cycle recovery, which equates to 1.3 billion square feet of new construction. 55% of our goal should be obtained from expected impact growth of -- in volume on our businesses. 45% should be generated by successful execution of our six initiatives.

Now, I will turn to briefly touch on those six initiatives that will reach various stages of maturity through the cyclical recovery.

First, the opportunity for efficiencies in manufacturing to drive greater improvements to our bottom line are meaningful. The manufacturing team has produced early-stage improvements, which are lowering our cost per ton through improved scheduling and plant efficiencies, while significantly reducing both back orders and back charges. We think there are yet untapped synergies that can provide greater margin expansion between our components and building manufacturing plants, and their respective supply chains.

Second, margin expansion through value pricing is generating significant real-time improvements that we expect to continue.

Third, our sales and service initiatives are the foundation on which the components legacy business continues to deliver revenue and earnings growth. This initiative should reach significant value during 2015.

Fourth, our focus on distribution channel differentiation is at an early stage of implementation for our insulated metal panels operation. We expect to see some benefits in 2015, in addition to ramping up line seven, focused on high-end architectural panels.

Fifth, our coating group is driving growth in third-party sales in both construction and non-construction markets, leveraging our new plant in Middletown, Ohio. That ramp-up will continue throughout 2015.

Sixth, we are in the early stage of metal depot retail expansion, and we expect the rate of expansion will increase in 2016. Again, my point is that our initiatives will mature at different stages, adding value throughout the recovery.

I will remind you that while non-residential construction is in its fourth year of recovery, and still around 840 million square feet, it is still below the 50-year cycle troughs. We believe the recovery has several years ago to get back to mid-cycle levels. And this contributes to our excitement about our future potential, and the importance of our third-quarter results in providing a perspective on that potential.

A word or two on leading indicators. Leading indicators continue to point toward moderate economic recovery, that is picking up steam. The Federal Reserve senior loan officer survey continues to report easing of lending standards and increased commercial real estate loans. The ABI mixed use index has indicated growth for the last four months, and in July, was at its highest level since April of 2005.

Growth in the manufacturing sector in August expanded for the 15th consecutive month, according to the latest Institute of Supply Management survey, and the new order index indicated growth for the 15th consecutive month as well. The August reading was 66.7%, is the highest reading since April of 2004, when the New Orders Index registered 67.1%.

According to the CB Richard Ellis Econometric Advisor Data, industrial vacancy rates continue to decrease. The vacancy rate now registers at 10.8%, the lowest level since 2007. The lack of supply likely will spur new development, as sustained demand in industrial sector continues.

While forward-looking indicators are very positive, our internal metrics of bookings, backlog, and open orders provide tangible evidence of modest, and we believe, sustainable recovery. Q3 bookings were up 14.3% year-over-year, with a very strong July. August bookings were up 8.8% on a year-over-year basis, and that comparison reflects price increases realized in August of 2013, when we first started our move to put prices up.

Our backlog is at 5.6%, and the margins remain healthy, because there's a sustained commercial discipline and greater demand for more complex projects in the buildings group. Additionally, we have seen improved product mix in insulated metal panels.

The open order levels and components reflects continued growth. If the level of bookings continues through the remainder of the fourth quarter, it will indicate stronger year-end momentum than we have experienced in the past two years. This could provide the opportunity to start our FY15 with a bit of tailwind, which would be very good for our businesses. We're very optimistic that our business will continue to improve.

Now, Mark will provide greater color on the numbers.

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

Thanks, Norm, and good morning to everyone joining us on the call. We have provided a review of our fiscal third-quarter financials in both the earnings press release and the CFO commentary, posted on our website. I will now take a few minutes to add some additional color to those results.

After a challenging first half of 2014, which was impacted by severe winter weather, we are pleased to report an improved third quarter that has put us back on track to year-over-year growth in earnings. We achieved double-digit revenue growth in each of our three business segments, compared to the prior year.

Consolidated revenues increased 14% from the same period last year, and rose 18% sequentially, reflecting both improved tonnage volumes in our components and coater segments, and better pricing from commercial discipline across the board. Our volume growth was fueled by the combination of success with our ongoing growth initiatives, and improved demand for our legacy commercial and industrial components products, compared to last year.

Gross margin improved to 22% from 21.1% in the same period last year. The bulk of this improvement was the result of our focus on commercial discipline and value-oriented pricing. During the last several earnings conference calls, we have spoken to the margin improvement embedded in our incoming orders, and this is the first quarter illustrating tangible evidence of those improvements in our recognized shipments. In addition, while we have advanced the ball significantly in our manufacturing efficiency and reorganization efforts, the benefits of these activities are currently offset by the ramping up of new facilities and capabilities, particularly the architectural insulated panel line in Virginia, which we anticipate will be a positive contributor by mid-2015.

We improved our leverage on ESG&A expenses, which dropped to 18.2% of revenue, compared to 19.8% in the prior year. This improvement is despite the fact that we continue to make growth investments, particularly in our components business, and incurred an incremental $1.6 million in additional spending for these activities, compared to the prior year. This improvement further illustrates the underlying operating leverage we have in our integrated business model, and which we expect to benefit from, as non-residential construction continues to recover from these historic low levels of activity.

As a result of our growth in revenue, improved gross margins and increased leverage on the ESG&A expenses, our operating income increased 185%, and our adjusted EBITDA grew 47% over the third quarter of last year. Interest expense improved to $3.2 million this quarter, compared to $5.2 million last year, as a result of the debt refinancing completed during the third quarter of 2013, which significantly reduced the interest cost for the related debt.

Debt refinancing also resulted in a non-routine charge of $21.5 million last year, which was primarily non-cash in nature. Our net income was $0.08 per share compared to a loss of $0.19 in last year's third quarter. Both years had non-recurring items.

The recent quarter included a $1.5 million charge or $0.02 per share for strategic development activity, and last year's third quarter included a charge of $21 million or $0.21 per share for debt extinguishment expenses. Adjusted non-GAAP EPS was $0.10 for this year's third quarter, compared to $0.02 in the prior year's third quarter.

With that quick overview, I'll now focus on our three segments. Our building segment total revenue grew 10% over the third quarter of 2013, to $174.2 million. Year-over-year total volumes were flat to the prior year, down approximately 0.3%.

Revenue growth occurred as the result of the improved composition of our project mix, and our focus on commercial discipline, and value-oriented pricing. In previous earnings conference calls, we identified the improved project mix and underlying margins in our incoming orders and backlog, and this is the first quarter illustrating that improvement in our recognized shipments.

Our buildings operating income of $11.5 million grew 87% over the prior year. Our operating margin for the division grew 270 basis points over the prior year, and grew 660 basis points sequentially. The predominant contributor for the improvement was the underlying improved gross margins on product shipped. Sequentially, the earnings growth was very pronounced, as we were effectively only at breakeven in the preceding quarter, due to compressed margins which have now reversed.

In addition, we have made significant progress in our manufacturing realignment efforts to date, and have begun to see improvements in our total conversion and delivery cost trends. The successful continued execution of these activities are fundamental to elevating our service levels and quality offerings, and we believe will lead to further expansion of our operating margins, particularly as volumes grow with continued economic improvement in North America.

Our bookings for the quarter grew 14% over the third quarter of last year, and our buildings backlog at $298 million to 6% higher than the year-ago period. These items, combined with continuing improved year-over-year incoming order margins, point to continued favorable earnings trends for this division.

Our components division also achieved solid growth in revenue and earnings over the prior year. Total revenues grew 14.5% to $184.3 million, and operating income grew 29.6% to $10.4 million. From a volume perspective, total shipped tons for this division increased 13.2% over the prior-year third quarter.

Similar to our observations last quarter, we noted mid-teen year-over-year volume increases in our legacy commercial and industrial components product volumes. We view this as an important indication of a broader-base non-residential construction recovery in the making, and it also serves to validate the targeted growth investments we have been making in our sales force and regional capabilities.

During the quarter, we incurred incremental ESG&A costs of $1.6 million related to these growth initiatives. Importantly, this is the first quarter since these initiatives began that the sales and earnings contributions from these items exceeded their cost, and we expect to see continued incremental contribution as these items develop over the next four to six quarters, and become fully leveraged.

Our focus on commercial discipline, combined with underlying growth and legacy products led to improved operating margins. However these improvements were partially offset by an unfavorable mix shift and margin compression in our insulated metal panel products. As we analyze the current backlog and incoming order margins for insulated metal panels, we have seen a notable improvement of the year-over-year incoming margins; however, we believe it will take several more quarters until the shipped products reflect the full underlying improvement.

One of the key growth initiatives for the coatings division was the acquisition and refurbishment of the Middletown, Ohio facility, which we first brought online in January of last year. To date, we are pleased with the progress we have made on this effort, and this facility achieved operating profits of $400,000 this quarter, compared to a loss of $1.1 million, as the facility was initially developing in the same period last year. We expect continuing incremental earnings contribution as the facility's utilization rate continues to expand over the next four to eight quarters.

Our total coatings revenue grew 21% over the prior year to $68.3 million for the quarter. Within that, external third-party revenue grew 35%, fueled by our Middletown, Ohio facility. Our third-party revenue growth was also enhanced by increased heavy gauge package sales, which grew to 29% of revenues, compared to only 23% in the prior year.

As you will recall, package sales include the sale of the underlying steel substrate as well as the coating services, so the price points are naturally higher. The impact of this mix shift is generally favorable to earnings contribution; however, gross margin percentages are generally lower on packaged sales, which serves to reduce the operating margin percentage for the division. As a result of the revenue growth and the mix shift in external sales, operating income for the division grew 20.7% to $6.7 million for the quarter.

Now I'll turn to some highlights on our cash flows and balance sheet. We ended the quarter with $27.7 million in cash and equivalents, up sequentially from $12.5 million at the end of last quarter, but down from $77.4 million at the end of last year.

During the first three quarters of this year, we used approximately $10 million in cash for operations, compared to $9.1 million last year. We used approximately $34 million in the first quarter, followed by generating positive operating cash flow in the second and third quarter. This is consistent with our typical historical pattern, where we invest in our working capital in the seasonally weaker periods following the fourth quarter peak.

We used approximately $26.3 million in financing activities in the first three quarters of this year, compared to $12.2 million in the prior year. This increase resulted primarily from the previously-reported repurchase of approximately $20 million of common stock at the time of the secondary offering completed in January this year, compared to a $10.5 million reduction in long-term debt last year.

Now, I'll provide a brief overview of our debt leverage and liquidity. Our total debt outstanding was $236 million at the end of the quarter, and our net debt leverage improved to 3 times compared to 3.25 times at the end of last year's third quarter, and improved sequentially from 3.65 times at the end of the second quarter. The net debt leverage fluctuates with seasonality as our cash balances and earnings tend to be higher in the last half of the year. We also maintained strong and flexible liquidity, with an undrawn $150 million revolving ABL facility, which, based on the borrowing base calculation, had availability of $132 million at the end of the second quarter.

Now, before I turn the call over to questions, I wanted to remind you that in the CFO commentary available on our website and filed as an 8-K, we have provided specific expectations for our third quarter for ESG&A expenses, interest expense, effective tax rate, weighted average diluted share count, and capital expenditures. Those were our guidance items for our fourth quarter.

Now, operator, I will turn the call back over to you for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Winnie Clark, UBS.

Winnie Clark - *UBS - Analyst*

In buildings, you realized roughly 10% sales growth despite volumes being roughly flat, which indicates pricing and manufacturing initiatives are certainly paying the dividends that you have been talking about. Can you talk a bit about how you think about the trade-off between price and volumes in the business? And then when we think about that backlog of 5%, how should we think about the type of margins embedded there?

Norm Chambers - *NCI Building Systems, Inc. - Chairman, President & CEO*

I will start with the second question first. We continue to see improved margins in the backlog, and I tried to make the point when I was talking about the bookings in August being up 8.8%, that was compared back to August of last year, where we were starting to ramp up our pricing. That's a pretty good indicator that we're continuing to follow the commercial discipline that we set in place a year ago.

So getting back to the actual backlog, it is the case that that backlog gives us a foundation for going forward, but the level of bookings enhances that during the quarter, with lower complexity work that we will spin out, and actually produce and ship in the period.

So on price and volume, one of the things that we're certain about is that in a marketplace that really has pretty low growth, it is difficult to have a broad market share improvement approach and strategy, and we think it is far more important for us to focus on understanding and delivering the things that really make a difference to our distributors and our builders, in terms of the value that they can use to create more value for themselves. So part of me is conscious and we monitor how our market share is competing, but at the end of the day, we really are focused on growing the bottom line. And we are happy with the market share we have, and we are happier with the value we're getting from that market share.

Winnie Clark - ***UBS - Analyst***

Great thanks and just on pricing as you mentioned you took the increase last August and several after that. I assume that means that you didn't take a price increase this August, and how you're thinking about the potential to put in additional price increases going forward, would be great. Thanks.

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

We made public disclosures in pricing in August of last year, January and April of this year. And I will tell you that there are opportunities for value and value quality type of pricing that is focused on the particular project and opportunity. And those continue without the need to put forward a dictum in terms of price increasing.

I don't want to suggest that the only way that value pricing occurs is to actually announce a price increase. Real value pricing is a function of working with our customers to add more value, and that's the focus that we are on.

Operator

Lee Jagoda, CJS Securities.

Lee Jagoda - ***CJS Securities - Analyst***

If I look at Q3, you had an acceleration in both volume and price as compared to Q1 and Q2. If I look at Q4, given that we've anniversaried the initial price increases of last August, would you expect to see a deceleration in price, but an acceleration in volume growth in Q4?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

No. We think we will see a continuation of third-quarter momentum.

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

One of the things underlying that, Lee, are when price increases occur, it takes a while for those to start to show up in recognized shipments. But even though we have hit anniversary of those price increases, we still haven't hit the anniversary of when those start to show up.

Lee Jagoda - ***CJS Securities - Analyst***

So than the 7.5% volume and the roughly 6.5% price, that should be building blocks to then build on in Q4? Is that a good way to look at it?

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

Yes, I think that's a good way to look at it.

Lee Jagoda - ***CJS Securities - Analyst***

And then one question on the metal panels. You mentioned you saw a shift to more insulated panels from the single skin later in the quarter, and into the first month of this quarter. Is there any trend or any data points that would suggest that it's a permanent or more permanent shift back to a more balanced mix?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

We expect that over time that the insulated metal panels will continue to grow in terms of the percentage of building materials that are used in non-res construction. That's the premise of our investment, and that's the premise that we are working to. And that reflects a similar trend that we saw over the last decade or more, in fact, in Europe and Scandinavia.

So we're expecting and are pleased to see particularly non-res commercial and industrial applications which really are still at the beginning stages of growth. So at the end of the day, we both see in the current period, as well as future opportunities, continued growth in insulated metal panels.

Operator

Trey Grooms, Stephens Inc.

Trey Grooms - ***Stephens Inc. - Analyst***

Great work in the quarter. Mark, on the guidance for ESG&A for the 4Q, $68 million to $71 million, it looks like you're getting some good leverage there, as you did in the third quarter. Should we continue to see ESG&A as a percent of sales improve, as we look into next year, and as the recovery progresses, or are at a sustainable run rate here?

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

I think that you will continue to see that our ESG&A as a percentage of revenue should decline throughout the recovery. Speaking specifically of the fourth quarter, I think it's always been the case that our leverage on ESG&A expenses has been better in the fourth quarter, except during periods where the market was decelerating.

Trey Grooms - ***Stephens Inc. - Analyst***

So looking over next year you would expect continued leverage then? Okay, I got you. And can you talk about just geographically where do you -- I know you talked about some of the end markets where you are seeing improvements, but geographically, can you talk about where you are seeing strengths and weaknesses?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

So some weaknesses in the Northeast, and that's interesting, because the Northeast kind of led the recovery to some extent, which was a bit surprising at the time. But we're still seeing the central East Coast area and mid-coast area being strong. And again, really through the Southwest we continue to see growth.

And it's not that there's any particular area that is really not doing well, but it appears that in the modest growth environment you see some places that are off a couple of percent, and other places are up a few percent.

Operator

Robert Wetenhall, RBC Capital Markets.

Collin Verron - ***RBC Capital Markets - Analyst***

Hello this is actually Collin filling in for Bob. Quick question on the backlog. So the backlog remained relatively flat sequentially, around 6% and in dollar value. Does this mean that you see the demand remaining like this throughout the rest of the fourth-quarter and into 2015, or how do you see it playing out into 2015 as well?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

Again our backlog on a year-over-year basis is up, in the buildings group particularly, it's up 6%, as Mark said. And we would expect to see growth continue in our backlog, but again our focus is on value and commercial discipline, so it's a balance between growth driven by volume, and growth driven by value.

And we're going to err on the side of value. So that means that unless the non-res market substantially increases the pace of recovery, we should stay in this single-digit, mid-single-digit growth rate that we are speaking about. But the important thing is that drives much more growth leverage at the bottom line.

Collin Verron - ***RBC Capital Markets - Analyst***

Great. Thank you.

Operator

Alex Rygiel, FBR.

Alex Rygiel - ***FBR Capital Markets - Analyst***

Norm, could you expand a little bit upon the improved product mix inside the insulated panels?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

So it was kind of interesting. We saw really two things occur. Last year, around this time, a little earlier in the year, we got very defensive in terms of our position regarding our cold storage activities, and there seemed to be a lot of those activities, which we were pretty of aggressive in trying to get our share, our fair share.

And we also saw kind of a bit of a slowdown in immediate new projects for insulated metal panels. And the combination of not having insulated metal panels in our mix to the extent that we were expecting or have seen in the recent past, and the increase in cold storage, which is great work but at a lower margin, really had a disruptive effect on us.

But as Mark said, we look at this on a weekly basis, and I think the team has been doing a first-class job in righting that particular ship, in terms of value pricing, and we're seeing again nice growth opportunities in commercial industrial applications, and we expect that to continue. And as Mark said, it takes a while to get that out the tailpipe, but we should see those benefits certainly during 2015.

Operator

Will Randow, Citi.

Scott Schrier - ***Citigroup - Analyst***

This is actually Scott Schrier in for Will. I want to ask about the metal coatings, and having the strong top line growth, and you were saying that's coming from the Middletown, Ohio plant. And how should we think about, as far as the top line growing but the operating leverage being lower, because of the package sales? I just want to see how that's all going to shake out going forward?

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

There's actually two things going on there. When you see the top line growth, you've got half of that business devoted to internal activity and the other half devoted to external sales. So when you are looking at total sales growth, it's a little bit slower than external sales growth.

External sales growth was predominantly driven from the addition of our new Middletown facility, and the shift toward packaged sales. But both of those things, the new facility, that brings along its own plant and therefore fixed costs.

So at these early stages of that plant's lifecycle, you don't see a lot of incremental leverage there. But the revenue that was driven from that didn't show a lot of operating leverage. Similarly, when you have revenue growth from package sales which was a smaller piece of the discussion, it has an impact on the gross margin percentage, and therefore you don't see it show up in the margin percentages, but you see it show up in contributed dollars.

Scott Schrier - ***Citigroup - Analyst***

Okay, great. Thank you. And it looks like on your CFO commentary, you had lower CapEx guidance somewhat. Just wanted to see if you can comment on that?

Mark Johnson - ***NCI Building Systems, Inc. - CFO***

Sure. There is no underlying story there, other than just the timing of cash flows, is a little bit slower than originally guided to. So we're still on the same plan, we will spend somewhere around, or somewhere less than $25 million this year.

Operator

Gregory Macosko, Montrose Advisors.

Greg Macosko - ***Montrose Advisors - Analyst***

Nice quarter, there. Most of my questions have been asked, but just from looking back on the discussion over volume versus sales growth, it looks like net-net, you certainly did not lose share, looking kind of across-the-board relative to the McGraw-Hill numbers.

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

I think you are right Gregory, and I think that -- and you know this better than anyone, you watched these businesses for many years. And when someone decides that there is a need to move in a different direction in terms of pricing and value, you've got to be prepared to take a hit on share. You just have to expect that could happen.

But over the year, I'm reasonably pleased with our team has really done a great job in terms of communicating and working with our partners, because at the end of the day, costs are going up, up. And they need and we need to be able to price that in. That's what we've been trying to do on the value pricing side.

Greg Macosko - ***Montrose Advisors - Analyst***

And then just looking at the different segments, it sounds as if your brief commentary there, all of them or most of them were decent and growing across the board. What about Ag? That's probably a small segment, but is there anything that's been kind of weak?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

You are spot on. That's about the only place it was weak. And again, for a whole host of reasons, but we are reinvigorating our ag approach, and have made a couple of changes there that we think will be beneficial to us in 2015.

Operator

Jack Kasprzak, BB&T.

Jack Kasprzak - ***BB&T Capital Markets - Analyst***

You talked about the flow-through on EBITDA, and where it was in the quarter, and the initiatives that you have undertaken to drive it higher. Where do you think it can go, in terms of the flow-through or the incremental margin at these different levels of non-res construction over the cycle? Have you set a goal, or talked about ultimately what your thoughts are there?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

We've got it on page 30 in the investor presentation, and it's stamped on my forehead. We believe that we can drive EBITDA to 4 or 5 times the level that we generated in 2013. That's $300 million or $350 million of EBITDA at mid-cycle.

And that's the result of us absolutely being able to hold together our historic positions in terms of share and our productivity, and as ships rise with the tide, we will benefit from that, and that's about 55% of our gain. But the other 45%, we think, we estimate, is really from our execution of our six initiatives. And we may find that some actually provide greater opportunity, and some maybe a little less opportunity.

But I got to tell you, from our perspective, we like the fact that we got our playbook in place, and we like the fact that we're seeing results, and we like the fact that we're able to intervene in things that aren't moving quite as rapidly as we would like, and we can gauge this and move this through. So my point is from our perspective, from my perspective, we're on track to have extraordinary levels of performance at mid-cycle, 1.3 billion square feet of new construction. And that's the name of the game here.

Jack Kasprzak - ***BB&T Capital Markets - Analyst***

Fair enough. With regard to the six initiatives, and allowing for what you just said, Norm, that some work out better than expected and some worse, but is there one or two that you think could drive, has the potential to drive some upside, if that's the way to say it, or could surprise to the upside over the next few years, because they are somewhat new to you?

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

So I spoke to the notion of manufacturing. I just tell you that I think when I originally -- when we originally put the initiatives together, I really thought that the opportunity in manufacturing was more on the margin. And subsequently over the past year, with the new team that has been running it, I think that opportunity is much more significant. And we have to produce, we have to see it, but I like our possibilities.

On another side, I would really like to be moving more quickly in the retail space. We don't want to take the drag that it takes to ramp up new stores, so let's slow that down a little bit. But that's not a bad thing either, because it means that later on in the cycle we will be able to pick up the pace at our company, as I said in my script.

It gives us a number of different avenues to look at our pace, and I think that's the exciting thing. To have some continuity and some consistency, but to view those very separately as the opportunity grows.

Jack Kasprzak - ***BB&T Capital Markets - Analyst***

Okay. Great. Thanks.

Operator

(Operator Instructions)

And we have no questions at this time. I would like to turn the call back over to management for any additional or closing remarks.

Norm Chambers - ***NCI Building Systems, Inc. - Chairman, President & CEO***

Thank you very much for your interest, and I look forward to reporting our fourth quarter, which we will be doing in early December. Thank you very much. Bye-bye.

Operator

Ladies and gentlemen this concludes the NCI Building Systems' third-quarter conference. You may now disconnect. Thank you from the conference center.