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NCS - Q2 2015 NCI Building Systems Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the NCI Building Systems second-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Layne de Alvarez, Vice President of Investor Relations. Thank you, you may begin.

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 second quarter of FY15. The Company's second-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 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 of the date they were made. We undertake no obligation to update any forward-looking statements beyond what is required by applicable securities laws.

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, Norman Chambers.

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

Good morning, everyone. Welcome to our second-quarter 2015 conference call. Joining me this morning are Mark Johnson, our Chief Financial Officer; Todd Moore, our General Counsel; Layne de Alvarez, our Vice President of Investor Relations.

Our second-quarter earnings were released last night, so I hope you had time to review the results. I will open the call with a few brief comments before I hand it over to Mark who will offer commentary to our second-quarter financial performance.

We delivered continued solid results, and our second-quarter financial performance marks the fourth consecutive quarter of year-over-year improvement in gross profit margin and adjusted EBITDA. Importantly, our trailing 12 month revenue growth of 7.7% has driven EBITDA growth of 57.6% and puts us on trajectory to achieve our mid cycle recovery goal.

The reason for our confidence is that we have demonstrated solid operating leverage over the past four quarters, and going forward we expect to generate top line growth as a result of the benefits from the addition of CENTRIA to our insulated metal panel business, and improving results from our commercial focus. Even in the face of the second-quarter weather that was materially more disruptive than the second quarter of last year and a choppy economic recovery, we generated improved year-over-year performance with 15 of our 18 brands posting bottom line growth.

We make no apologies for our success from focusing on bottom line EBITDA growth as demonstrated over the past four quarters. That was our goal, as was the strategic move into insulated metal panels enhanced by the acquisition of CENTRIA to help fuel additional top line growth.

In our second quarter, Metl-Span generated 27% growth in sales and insulated metal panels through our intercompany distribution channels. This was one of the thoughts that we had in buying the Company. It demonstrates the advantage of our integrated business model. We have a very formidable IMP business.

Further, the double-digit growth in bookings and backlog in the Buildings group is expected to deliver double-digit sales growth in the second half of the fiscal year. While we expect Components legacy skin business to post only modest top line growth, they will benefit from the sales growth generated on insulated metal panel business, in addition to solid growth from our agricultural, metal doors, and metal depot businesses.

Finally, while the Coatings group is overcoming the effects of service challenges from last year, they will likely experience headwinds to growth for most of the remaining year. But it should be noted that while third-party sales are very important for the Coatings group, they are only part of the value Coatings provides to NCI. Half of the production from the Coatings group is consumed internally with great benefit to our Components and our Buildings group supply chain management margin expansion. I believe we are at an important inflection point in the history of NCI, and it's worthwhile (technical difficulties).

Operator

(Operator Instructions)

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

Well, I must say that I did say the weather had been terrible, but I didn't expect to lose the power just now, so I'm going to just repeat a word or two before the power was cut. I was saying that it should be noted that while third-party sales are very important for our Coatings group, they are only part of the value Coatings provides to NCI.

Half of the production from our Coatings group is consumed internally with great benefit to our Components and Buildings group supply chain management margin expansion. I believe we are at an important inflection point in the history of NCI, and it is worthwhile to take a moment to reflect on where we've been, where we are currently positioned, and what we look forward to achieving.

Since the unprecedented downturn of 2009, we are focused on removing silos and streamlining our processes to create a highly efficient and lean organization that is more nimble, more responsive to our customers and therefore more profitable. Many believe the economic recovery would gain traction several years ago, but the “great recession” and the recovery thereafter have proven to be unique. Now in its fifth year, the recovery has been choppy and frustratingly slow but has provided the opportunity for our employees as well as our customers to exhibit fierce determination to overcome a challenging marketplace and perform with a higher level of discipline.

We survived the historic trough and over the past several quarters reorganized both our manufacturing and our commercial organizations to instill further accountability and focus. We have recalibrated our commercial organization with the support of a dynamic and highly efficient manufacturing organization. We are now positioned to work with greater visibility, clarity and alignment.

With the acquisition of CENTRIA, we have become the market leader for the full complement of insulated metal panel products and ideally positioned to unlock the accelerated growth potential of insulated metal panels in the underpenetrated North American market. We acquired both Metl-Span and CENTRIA because we believe that IMP growth will outpace the non-residential construction market over the next five years. Insulated metal panels currently account for approximately 3% of the $20 billion wall system market and less than 1% of the multi-billion dollar roofing market in North America.

We believe that increasingly stringent building codes will accelerate demand for this energy-efficient and design-friendly product. Importantly, because of the under penetration of the marketplace, IMP has tremendous upside for value creation over the next few years. We believe our insulated metal panel business can add significant incremental sales as we fully leverage our aligned sales organization.

The manufacturing organization continues to have meaningful impact on our efficiency and cost structure. In the first half of our FY15, the manufacturing organization stripped out approximately $5 million in annualized cost by consolidating operations and continuing the optimization of the organization. As we complete our plan, we expect further refinement of the manufacturing footprint in the second half of our FY15 to provide additional meaningful annualized cost reductions and efficiency improvements.

Looking forward, we are entering the second half of our fiscal year with a seven-year high backlog and double-digit year-over-year bookings and we believe by staying focused on the commercial manufacturing execution, we will continue to deliver meaningful year-over-year growth that reflects significant leverage inherent in the organizational structure. Based on our current level of bookings and a strong backlog, we expect significant year-over-year revenue growth in the second half of our fiscal year to drive leveraged EBITDA growth to keep us on pace to reach our mid cycle earnings growth.

Before I hand it over to Mark, I want to say a word or two about the seasonality of low-rise non-residential construction. Our first two quarters, November through to April, are our seasonally slow period. When the weather is good, we perform well. When the weather is abnormally bad, we experience challenging headwinds which describe the first half of this year.

When I look back at the market expectations prior to our first-quarter earnings result, expectations indicated our first-half results would be $700 million in revenue and $35.4 million in EBITDA. Our actual results for the first half are $683 million in revenue and $35.5 million in EBITDA. This is an important context to have as Mark provides more detail about our results and comments about the remainder of this year. Mark, over to you.

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

Thank you, Norm. In the second quarter, our consolidated revenues increased 17.8% from the same period last year. The year-over-year revenue improvement included the addition of CENTRIA which added approximately $53.4 million to total sales. In addition, our revenue reflected increases in our legacy single skin and insulated panel Component businesses, which were partially offset by lower revenue in our Coatings and Buildings businesses.

Similar to last year, winter weather conditions negatively impacted our revenue generation during the quarter. In addition, however, unlike last year, unusually heavy precipitation in the South and Central U.S., which has continued through May, has temporarily delayed the normal seasonal uptick in shipments we would typically see begin in April, particularly for our Buildings business.

Nevertheless, we are experiencing reasonably strong year-over-year growth in our largest businesses as evidenced by the 18% growth in new bookings for our Buildings segment, which ended the quarter with a 7 year high backlog and the 7% increase in organic third party revenue for our Components business. As a result, we believe as we get into the seasonally stronger part of the year, this underlying growth will become increasingly apparent in our results despite headwinds from lower underlying steel costs.

Gross margin in the second quarter increased by 160 basis points from the same period last year, reflecting the continued positive results of improved manufacturing efficiencies, continued commercial discipline and other strategic initiatives that were implemented last year. Sequentially versus our first quarter, margins were 120 basis points lower due to the lower manufacturing leverage in Buildings and Coaters, changes in overall consolidated product mix, and temporary noise from purchase accounting for CENTRIA.

As a result of our expansion in sales and gross profit margin, our adjusted operating income improved by $7.4 million versus the prior year. Our adjusted EBITDA more than doubled to $15.8 million, a 151% increase over the same period last year. While it is difficult to be precise, we estimate that the unusual weather impact reduced our second-quarter adjusted EBITDA by between $3 million and $4 million from what it would have been absent these conditions.

As a result of our recent acquisition and the restructuring we have completed to streamline and improve our operations, our results include certain unusual special charges that are not indicative of our continuing operations. In keeping with our objective to improve transparency and comparability of operating performance between periods, we separately identified special items such as these and regularly present adjusted operating income, adjusted net income, and adjusted EBITDA. The tables in our financial release reconcile these adjusted amounts to GAAP reported amounts.

The recent quarter included a total of $5.2 million in special pre-tax charges that reduced our operating income, which included $0.6 million of strategic development and acquisition related costs, and $1.5 million of restructuring charges related to the previously announced realignment of our management structure and closure of our Caryville, Tennessee plant. Special charges also included $3.1 million of additional short-lived intangible amortization related to the acquisition of CENTRIA, which will be fully amortized within the first year following acquisition.

Our reported net loss in the 2015 second quarter was $7.5 million, compared to a reported net loss of $4.9 million in FY14 second quarter. On a per share basis, we reported a loss of $0.10 versus a loss of $0.07 in the same period last year. As previously mentioned, both years included special items. On an adjusted basis, our net loss for the period was $4.3 million or a loss of $0.06 per share, a 19% improvement over the prior year.

We continue to invest in strategic initiatives in order to improve our operating efficiencies, expand our customer base and optimize our project selection, and we recognize the related costs if and when incurred. During the remainder of 2015, we will incur additional short-lived intangible asset amortization costs related to our CENTRIA acquisition of approximately $4.3 million, of which $2.3 million will be in the third quarter. Those costs are expected to be fully amortized by the end of FY15.

Now I will discuss some highlights from our operating segments, which overall portends continued year-over-year margin expansion in the second half of this year. Third-party sales in the coatings group fell 11% to $22.8 million from last year's second quarter. Total sales including inter-company activity decreased by 8%.

The lower activity levels reduced our operating leverage in this segment, and our adjusted operating income declined by $900,000 versus the prior year. In addition, compared to the prior year, our revenue mix shifted by 5% away from package sales towards tolling sales, which has an outsized impact on revenue due to the higher price point of package sales which includes the underlying steel coil.

On the positive side, we expect that the investments we've made by expanding our light gauge footprint with our Middletown plant and the recent addition of in-line tension leveling in our heavy gauge business, combined with improvements to our quality systems, will allow us to continue to differentiate our offerings in the marketplace and expand our margins accordingly in the longer term. On a shorter term basis, however, as Norm mentioned, we expect our Coatings business to continue to see similar challenges in the second half as those experienced in the first half.

We saw significant gains in our Components segment, which generated a 46% year-over-year increase in third-party sales driven both by the inclusion of CENTRIA and organic growth. Excluding the impact of CENTRIA, the Components revenue grew approximately 7% over the prior year quarter. Importantly, our legacy commercial and industrial insulated panel revenue grew 17.3% over the prior year, with a 27% expansion in the revenue generated from inter-segment IMP sales, further validating our integrated business model.

The Components adjusted operating income for the quarter grew $6.1 million, or 134% over the prior year which included a nominal $0.2 million contribution from CENTRIA. The growth in earnings for this segment resulted from both the improved operating leverage as from increased volumes as well as targeted cost reductions as part of our restructuring plans.

As mentioned, during the quarter, the CENTRIA acquisition contributed its first full-quarter results. Our integration efforts are progressing in accordance with our plan and we continue to expect to reach annualized run rate synergies of approximately $6 million to $7 million within 24 months of acquisition. In fact, we are currently analyzing opportunities which may lead to meaningfully increasing these estimates. The earnings for CENTRIA during this quarter were lower than typical due to an unusually weak product mix of higher margin architectural panels which negatively impacted margins, unusually low international sales which tend to be choppy, and approximately $3.3 million of acquisition related special charges.

Current booking levels, however, are favorable including architectural and insulated panels, and the commercial integration with our existing IMP business is progressing as expected. Our Buildings segment total revenue fell 4% from the second quarter of 2014 despite the strong growth in new bookings, which was effectively trapped in backlog at the end of the period. A portion of the shortfall was related to the falling value of the Canadian dollar, which also impacted the first quarter of this year, and the remainder was related to lower volume as a result of the inclement weather.

Our commercial discipline and project selection more than offset the impact of lower volumes. The Buildings segment continues to optimize its project selection and product mix profile. Despite the decline in revenue, our Buildings segment adjusted operating income grew significantly to $3.6 million when compared to about breakeven in the prior year’s second quarter.

Despite the lower volume from unfavorable weather in the quarter, the Buildings group benefited from improved manufacturing efficiency from our lean manufacturing initiative. We also completed the closure of our Caryville, Tennessee plant during the quarter and expect to see incremental improvement in our operating leverage in future quarters.

In dollar terms, our Buildings backlog grew by 18% to $335.7 million when compared to the 2014 second quarter. We are seeing a momentum in institutional projects in both publicly and privately funded sectors as the market recovers from recessionary conditions.

Our continued commitment to increasing and sustaining higher margins through improved product and project mix combined with operating and manufacturing efficiencies is a key driver to our improved performance. Examples of these efforts include the closing of our Caryville plant, the completion of our built up frame automation project in Spokane, Washington and the reduction of excess reprocessing scrap material at our Lexington facility by 32%.

Before I cover the balance sheet, I wanted to make a few comments on the steel market. As you know, the cost of steel is one of our primary inputs. Steel prices have been declining since the fourth quarter of 2014, primarily related to weak global demand, the strengthening dollar and increased output in the US.

Prices appear to have stabilized with upward pressure from the producers announcing modest price increases. We have mentioned previously that our internal business model creates a natural hedge against falling steel prices, although the positive benefits tend to lag the initial margin compression. While declining steel prices negatively impact our Coatings and Components business, they typically benefit our Buildings segment, and vice versa.

Historically, we've seen a lag of about two months before the benefits are realized. We have already begun to see steel producers cut capacity in response to the price declines, which in past cycles, has been a precursor to price recovery. While lower steel prices should not impact our consolidated gross margin contribution in a material way, declining steel costs have typically put downward pressure on revenue in the near term as the market price-points react to lower input costs.

Now turning to our balance sheet, as we had previously stated, we expect our net debt leverage to decrease to levels at or below CENTRIA's pre acquisition level of 2.3 times over the next couple of years. Consistent with this leverage reduction commitment, we have reduced our total debt under our existing term loan by approximately $21 million at the end of April compared to the end of the prior year same quarter.

Turning now to our outlook, based on the underlying 7% legacy revenue growth we experienced in Components, the 18% growth in Buildings bookings and 18% growth in Buildings backlog levels, we continue to believe we will have solid year-over-year performance in the second half of this year, which is also the seasonally stronger period for NCI. In fact, I would even point out that current First Call street consensus estimates for the second half of 2015 are overall capturing our current internal views. These views are predicated on normalized weather conditions in both the Summer and early Fall. Obviously, continued excessive amounts of precipitation could impact our performance.

One additional thought I wanted to share about guidance, we understand many of you have been requesting additional visibility into our businesses, and we are paying attention. While we have nothing specific to announce today, we are considering providing additional guidance through new metrics to help you better model our performance going forward. We expect to make a decision in the next couple of quarters.

Finally, I want to remind you that I have provided some supplemental commentary on our performance and guidance on certain financial items in the CFO commentary available on our website and filed as an 8-K. Now, Operator, I will turn the call back over to you for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question comes from the line of Lee Jagoda with CJS Securities.

Lee Jagoda *- CJS Securities - Analyst*

Hi, good morning.

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

Good morning.

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

Norm, can you just break out your exposure to Texas and how the weather in May may have affected fiscal Q3 results to date and how you look at the weather impacting Q2 whether or not it gets pushed into Q3 or spread across the next few quarters?

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

Yes, so I think that the Q2 impact will be spread over the next two quarters. We would like to see most of it in Q3, but what happens is the builders which affects more of our Buildings Group have schedule in buildings. So we're moving schedules around, but we expect to see everything that slipped to be built this year, this FY.

I will tell you that May, as you saw in the press, was unbelievable here. We really had a lot of sites that were under water, so we have some slippage in May, but there's nothing about the slippage that changes our view about what we can do in the third quarter. We really -- I think the fundamental thing to take away is we have in our backlog and our shipping schedules and the momentum we have in our businesses, everything we need to complete this year in a very strong fashion.

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

Okay, and then just as a follow-up, the macro projections would indicate that somewhere in the next 12 months, we're either likely to approach or even exceed that 1.0 billion square feet of non-res construction. And if I look at projections out there on the street for NCS, it looks like we're going to be well below that $200 million to $225 million of EBITDA that had been suggested in that market environment. Can you give us some color around why this might be the case and some of the things that are in your control versus just the macro that can be done to get closer to the previous numbers we spoke about?

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

Right. Well the first thing is in our control. We have an absolutely better strategies and execution on our brands and the acquisition of work, that there is no doubt.

And I will tell you that while we've produced operating leverage in the last four quarters, which we're very proud of, the opportunity for the volume increases that we're seeing exceed that materially. We will have the opportunity to add value in our manufacturing and supply chain. Those are in our control.

I will tell you that for the first half of this year if you look at McGraw-Hill numbers, the first quarter in low rise construction was negative. The second quarter was even more negative, so it's actually retracted from reaching 1.0 billion square feet soon.

We do see from the backlog we have that as I said, we are seeing great opportunities, but the first half of the year was clearly slow as evidenced in the economy, it just really was. So the bottom line is we like where we are, we like what we have on our plate and it's really about execution, Lee.

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

Great. I will hop back in queue, thank you.

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

Thank you.

Operator

Our next question comes from the line of Mike Dahl with Credit Suisse.

Mike Dahl - ***Credit Suisse - Analyst***

Hi, thanks for taking my questions. I wanted to start on the Building Systems. I guess maybe one thing would be if you could isolate what the weather impact was in the second quarter in Buildings.

But also just broadly, we've seen a few quarters of nice growth in bookings and backlog, and we've still seen sales falling. So just wondering if there's anything in terms of project complexities that you can identify or just how we should be thinking about the lag as we head into the second half of this year and clearly strong bookings but not seeing it come through the results yet.

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

So I think the results were impacted materially by -- in particular in the Buildings group, [I know] by the weather. The number that we have, we feel that it's in that $3 million to $4 million range in EBITDA. That was largely the Buildings group.

But I will tell you, the thing that's most important to me is when I look at what is actually in our shipping schedule, how our plans of filling out for every month the work that our team is doing with our builder network who are absolutely optimistic about their ability to have a really strong second half of this year. And the thing that's important as we're booking now and our bookings have continued to be really strong, that we really are setting up for beginning of 2016 which is looking encouraging. And as we go forward that's going to be important. So I'm not saying that the headwinds are behind us, but clearly, clearly the opportunity that we have exceeds what we have seen in the last five years, clearly.

When we look at the first half as difficult as it was, it was the best first half we've had in five years, right? And we have the best bookings and backlog we've had in the last five years. So when I say that everything in front of us is very positive, it is because it really is. We have to execute, but I like our chances of executing very well because of what we've done in manufacturing in particular.

Mike Dahl - ***Credit Suisse - Analyst***

Got it, and I guess to be clear, do you expect revenue growth in Buildings in the back half of the year?

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

Absolutely, without doubt. I said it in my speech. Double-digit growth.

Mike Dahl - ***Credit Suisse - Analyst***

Okay thanks. My second question, get the natural hedge on the steel, but then Mark, I guess you pointed out the impact on revenues which can also then have some deleveraging effect on fixed cost. Is there any magnitude that you can give us to help think about what the impact is going to be in the near term from those?

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

Sure. I think most of the impact we were likely to see on that would probably be in the third quarter as I think prices have stabilized and by the time we're into the fourth quarter, we will actually be talking about some magnitude of price increases. And I think as we've said in the past, our natural hedge generally protects our earnings from the volatility of steel.

We do tend to have some of the negative impacts proceed the positive impacts. I don't anticipate there will be a material impact in the third quarter.

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

So what we said was that we would expect to see, I know modest growth in the top line of our Components group. And that's where that steel trough will affect, but by the same token, we will see growth in our Buildings group and benefits there. That's fundamentally important, and I think anecdotally one of our biggest competitors has put forward an increased price this week, and that I think is reflective of the trough being reached and the steel prices increasing because the non-res part of the market, I'm sure for our competitors as well is looking far more buoyant than it has for a long while.

Mike Dahl - ***Credit Suisse - Analyst***

Great, thank you.

Operator

Our next question comes from the line of Trey Grooms with Stephens.

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

Hi, good morning. Mark, I just want to get some clarity. In your prepared comments there about your outlook, you mentioned solid performance year over year in the second half.

And you mentioned something along the lines of current estimates, current street estimates reflect your outlook, something along those lines. Could you give us a little bit more clarity? Are you basically saying that consensus for the back half looks to be in line with where you guys are thinking about?

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

Yes, I would say that when we look at the current First Call street estimates for the last half of this year, they are very consistent with our internal views.

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

Okay and just to be clear, that number combined somewhere is somewhere in the [$925 million] range for the combined Q3 and Q4 of revenue?

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

In revenue, that is correct.

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

Okay perfect, and looking at the -- you mentioned steel, and Norm you talked about competitors raising steel prices or suppliers raising steel prices. Do you guys -- are you seeing any pre-buying activity or anything like that from your customers as a result of maybe their expectation for prices to move up?

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

That a very good question and normally we do, and we would expect to see some movement. And from my standpoint, price increases and steel price increases are a benefit to us at this stage of the game.

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

And then on the 18% backlog growth, can you talk about geographic strengths and weaknesses that you're seeing there and then also within the non-res overall market different segments where you might be seeing end-market segments you might be seeing strength, and then I will turn it over. Thank you.

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

Yes, so we're seeing strengths across agricultural work. Even our depots and retail sales went from a loss to a profit this year and looking well. Our doors business is growing.

15 of our 18 brands showed growth, and when we look at the parts of the country, the East, North Central, the Mountain, the South Atlantic, the West South Central are all looking quite good. The broadening of the retail recovery looks particularly interesting to us. We are picking up lots of sports and leisure time activities.

Health is up for us. Health treatment [in our] facilities are up for us. Production manufacturing is up 38%. It really is amazing really when you look at the economy and look at the first half of the year at the same time as deliveries into that economy were struggling, the actual bookings activity and backlog activity in volume improvements.

We haven't talked much about this in the past, but the volume improvements in our backlog really set us up well for the manufacturing improvements that we've made. That's the reason why we are confident even in the face of having to acknowledge that the first half was challenging as hell, but even with that, we were pretty much on where the market thought we were going to be for the first half.

First and second quarters, first quarter up second quarter down a little bit, but where we ended up is pretty much where we set out to be. So when we look forward, we again, if we didn't have the backlog, didn't have the bookings, didn't have the current activity and our day sales and components the things we monitor on a weekly basis, we would be speaking a different tune.

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

Understood, thanks a lot Norm. Appreciate the color.

Operator

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

Bob Wetenhall - ***RBC Capital Markets - Analyst***

Thanks for taking the question. I just wanted to get focused on the weather impact and how that impacts revenues. Are you going to see because of the weather push into Q3 and Q4 of work that was lost in the first half of the year?

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

Yes, it really -- the first quarter was really okay. There weren't any movements. It was normal weather and everything went well.

The second half was completely different. It was a bugger right? And May was disconcerting, but it was an event for three weeks in Texas and the West was soaked. That had an impact on us.

But all that work is scheduled. All that work is engineered. All that work will be delivered. And the question is just slotting it into the schedules, getting it done. So from my perspective, we wished we hadn't seen the weather in Texas in the West that we've seen, but we seem to be through that now, Bob, and the sun is shining even though we lost power here.

Bob Wetenhall - ***RBC Capital Markets - Analyst***

Okay and touching on CENTRIA, could you just give us a view on what was revenue growth year over year for CENTRIA and could you split that in terms of volume versus price and mix?

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

Yes, so it's been flat. Bob as I said before that the CENTRIA deal is about building their backlog, right?

And the only thing that we will say is that backlog that they had is what has really materialized into performance that is flattish. But at the end of the day, when we look at what that team has done in terms of bookings and done in terms of the improvement in the high-end market, it's really encouraging.

Now at the same time, the Metl-Span operation has virtually doubled its bottom line. The team there has just done a first-class job. So my point is when I look at the whole IMP side, I really like how the business is moving ahead in terms of the building of a backlog in the CENTRIA side which will benefit us into next year in a meaningful way.

Bob Wetenhall *- RBC Capital Markets - Analyst*

Got it, that's very helpful, and if I could just sneak one in for Mark. You said $925 million looks about right using First Call for 2H. That would also imply somewhere between $90 million and $100 million for adjusted EBITDA in the second half of the year.

Is that also what you meant? What would give us a view towards saying that that 9,100 has upside or downside? What would cause you to miss that or to beat that range? Thanks and good luck.

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

Thanks, Bob. So again, we aren't trying to be cute, but by the same token we're trying to work this forward in a way that consensus can be meaningful for you guys, right? So when we look at it, we say that the range of possibilities that is brought together into an average of consensus looks to be about right.

Bob Wetenhall *- RBC Capital Markets - Analyst*

I'm trying to understand, I know the $90 million to $100 million. I'm just trying to say if you miss that range or you beat that range, what are going to be the factors that put you outside of the range on either side?

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

Okay so the factors were that our commercial group is able to bring more from the backlog into Q3 and Q4. The downside is they are able to bring less from the backlog into Q3 and Q4.

I will also say that enhancing and diminishing that risk is the level of bookings that are for production where we take work in and it's got a set date. As we book going forward into June and July, what we will find is that a lot of that work will be booked for our first and second quarters. So again we like where we are, and we like the momentum.

Bob Wetenhall *- RBC Capital Markets - Analyst*

Got it. Good luck. Thanks for the clarity.

Operator

Our next question comes from the line of Min Cho with FBR.

Min Cho *- FBR Capital Markets - Analyst*

Great, thanks for taking my question. My first question has to do with your Coatings business. And I understand that there's a tough year-over-year comp in terms of volume, looks like you're still having mix-shift issues and there was some pricing issues in the last quarter, but I thought initially you'd talked about improvement in the second half of the year. So I was wondering what was causing the incremental negative comments for the rest of the year in Coatings?

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

Well I will tell you, we clearly have had some fixing to do there, and the team is doing a very good job now. One of the things is that we really need to return to our focus of appreciating that the reason why coating is valuable to us is the internal support it does for us in terms of managing our steel, and managing our just-in-time delivery. That's critical and we balance that with being very selective in terms of the customers and the opportunities.

I will tell you that a year ago unfortunately under the team that was there, that discipline was diminished. We've got that back in place, but we're also being very careful about the work we take on because we want it to be additive and we'd much rather be selective, so that's why we're being cautious.

I can tell you that the team is working to dispel the guidance I've given in that respect. They're working very hard to blow the doors off the place. But at the end of the day, I just want to say that the commercial discipline in that part of our business is as critical as any part, and we really want to reestablish that. So that's why I'm saying it may take us the rest of the season to do that.

Min Cho - ***FBR Capital Markets - Analyst***

Got you, that makes sense, and also in terms of your Building segment, first of all are you seeing the continuation of increased complexity in the projects that are being booked? If you could talk a little bit about pricing, is that still holding up and are you losing any market share to maintain or raise price?

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

So I will tell you that over the last four quarters, we have been focused on value pricing, and that was to really demonstrate internally for us and for you the leverage that we have in that business. That's what we were focused on achieving and that's what we've done.

Since we've changed as you know made major changes in our Management team, I can tell you that the focus that that commercial brands across all of our brands have right now is like no time I've seen in the last 11 years. They are incredibly focused.

We have low rise express buildings which are very good because they're smaller but they fit in. We also have increased backlog in the high complexity work which generally draw a slightly lower percentage margin but drive lots of dollars to the bottom line.

Min Cho - ***FBR Capital Markets - Analyst***

Great, thank you very much.

Operator

Our next question comes from the line of Brent Thielman with D.A. Davidson.

Brent Thielman - ***D.A. Davidson & Company - Analyst***

Yes, thanks. Sorry if you touched on this, but have you worked through most of the legacy backlog which would have been at presumably much higher steel prices?

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

It's a good question, so I will tell you that we have not by a long shot. And that's part of this natural hedge that we take into, the third quarter.

Brent Thielman - ***D.A. Davidson & Company - Analyst***

Okay, and then Norm, you gave some figures around production/manufacturing, I presume that was revenues. But just given some of the mixed economic data out there and currency pressure and direct impact from oil and gas markets, from a bookings perspective, has the manufacturing side of your business I guess cooled for you at all or is it still one of your stronger areas?

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

It's still very strong. We do distinguish between oil and gas, and oil and gas continues to be weak. It's still a percent or two of our backlog, and we're seeing a -- rather than an absolute falling off the cliff because of where oil and gas prices have been, we're actually seeing a new level of activity which is still interesting. But it is something that is different than it was before.

But I think we're fortunate that we didn't have a lot of exposure to it, right? We had about 5% of our backlog in the past year, and that's gone down. But in the same token we still are seeing manufacturing activities, we're seeing hangers and terminals and maintenance facilities and as I was trying to say, we've seen a growth in leisure time activities.

We're shipping a couple of big projects that are soccer related. We've got a project, in fact I know for the Atlanta site, Falcons which is a really cool project, so we're seeing other parts of the economy moving along regardless of what the oil and gas side is. And ultimately lower costs and energy are beneficial for the economy, so we would expect to see that continue.

Brent Thielman - ***D.A. Davidson & Company - Analyst***

And Norm, if I could ask just one more. Are those other areas, do those tend to be more complex projects for you versus the manufacturing side?

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

They are more complex and they tend to have more structural steel which are generally a lower price, a lower value. But as I said, if you look at the big projects and this is the way it was in all construction, but the percentage margin tends to come down a bit but the overall dollar value is great.

And I think the other thing is that and this is really important. When we have looked in the past at what our margins are in our backlog and what comes out the tail pipe in the Buildings group in particular, it would have been less than the margins we had in our backlog. Now it goes through and our supply chain has value, our manufacturing has value so we actually have manufactured margins that are higher than our booking margins.

Brent Thielman - ***D.A. Davidson & Company - Analyst***

Okay, great, thank you.

Operator

Our next question comes from the line of Sam McGovern with Credit Suisse.

Sam McGovern - ***Credit Suisse - Analyst***

Hi guys, thanks for taking my questions. Just in terms of the deleveraging plans, as you guys get below 3 times, you guys have the ability to do more RP. Would you guys be interested in increasing dividends maybe pushing back the deleveraging target time-frame or doing stock buybacks or anything like that?

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

So I tell you that we are really conscience of two things. One is that as a cyclical, we really want to manage our debt, and I think our priority is to make sure that we bring our debt levels down.

But by the same token we see a huge opportunity to buyback shares and would get to that position when we're comfortable with our debt piece. But those two things are our foremost view in terms of allocation of capital as we go forward.

Sam McGovern *- Credit Suisse - Analyst*

Got it and then as you guys make your way to that 2.3 times target, I think by my math, you guys end up getting there roughly about somewhere between 1/2 and 2/3 EBITDA growth and the remainder being actual debt pay down. Is that the right way to think about how you will get there?

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

Well I think it is a combination as you're right. I don't know that I would or have handy the components broken out by percentage but it's certainly both earnings growth as well as direct reduction of the outstanding debt.

Obviously the debts that are outstanding that we can touch easily is our term loan, which is outstanding at about $215 million today. So that's where we're directing our quarterly pay-down approach.

Sam McGovern *- Credit Suisse - Analyst*

Got it. Thanks so much, I will pass it along.

Operator

Our next question comes from the line of Barry Haimes with Sage Asset Management.

Barry Haimes *- Sage Asset Management - Analyst*

Thanks very much. I have two questions. First is just a quick one. You had a great bookings quarter. Could you just comment as to whether those booking trends were similar as you went through May or better or worse?

And my second question has to do with the guidance where you talked about the second half being in line with your expectations. But given the weather miss in the second quarter, it would seem that the -- and given your comment you expect to make up the second half, there seems to be a little bit of a mismatch there. In other words, were the street estimates for the second half originally too high because if you get all the makeup from the second quarter miss in the second half, arguably, that the number should be higher than the second half consensus if nothing else had changed.

So I'm trying to reconcile those couple statements one on the consensus being in line, the other on the makeup with the weather earnings being light in the quarter. Thanks so much.

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

That is a good, I know, a good observation, and that's why we're trying to say that the range that we have in the second half that is reflected in the consensus is where we're trying to point. And of course we know that there are opportunities as Bob Wetenhall was getting to be under that and to be over that. So when we think about the first half of the year, we are pretty much where we expected to be.

Our first quarter was a little better than we had planned to be and our second quarter was a little softer, but when we look at it as I said, we came in at $683 million in revenue versus $700 million and we came in spot on, on the EBITDA. So my point is that going forward whatever else we could have gotten in the second quarter that possibly will show up in the second and will see how that works through, but as Mark said, it's predicated on weather conditions being normal and us proceeding along at a steady pace.

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

The only other thing that I would add to that is when you're in the first half of our seasonally slow year small things look like a lot bigger things than they really are. And a $3 million difference in the first half is less than a 3% variance in the second half, so it's within the margin of error. So I don't think we're trying to be that precise.

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

Very good point.

Barry Haimes - ***Sage Asset Management - Analyst***

Got it, thanks for the clarification, and then just on the May bookings?

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

So May bookings when we look at the dollar values or volume, we really like where we are. We really like the continued momentum, and we like what's ahead of us in terms of opportunities, across all of our businesses.

Barry Haimes - ***Sage Asset Management - Analyst***

Great. Thanks so much, appreciate it guys.

Operator

Our next question is a follow-up question from Lee Jagoda with CJS Securities.

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

Hi, Norm just a quick one for me. Can you just remind everyone about the details regarding the performance-share units, exactly when they vest and is there an additional arrangement going forward once this one is complete?

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

Well, so what occurred is that the Board wanted to put something in place last December that would continue on, on a performance base going forward for myself and the team and a larger group of the team. So we do have incentives that continue, but as you know, we did this trade and gave up half of our salaries for 2012 and 2013 and 2014 and knew that it would be whatever the market is in June and we will see how that goes out.

We're doing everything we can, and if you think about the reorganization that we did, if we were just selfishly looking at June, there would be a case to be made that we would have put that off and just rode the tide. But I've got to tell you, we've got to be focused on the value of the Company going forward. And me as a big shareholder, I'm interested in June but I will tell you I'm more interested the future as well in terms of where the value of this Company goes.

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

Perfect.

Operator

Thank you. We have no further questions at this time. I would now like to turn the floor back over to Management for closing comments.

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

Listen, thank you very much. We've had some technical difficulties, I've stuttered once or twice and I appreciate you putting up with the technical part. And we look forward to reporting to you in the third quarter. Thank you.

Operator

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