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PRESENTATION

Operator

Greetings and welcome to the NCI Building Systems third-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 for NCI Building Systems. Please go ahead.

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 fiscal year 2015. 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 the date they are 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 have been 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, and CEO***

Thank you, Layne. Good morning, everyone, and welcome to our third-quarter 2015 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've had time to review the results. I'll open the call with a few brief comments before I hand over to Mark, who will offer some color on the third-quarter financial performance. And then we look forward to taking your questions.

I'm very pleased to report that we continued to outperform the low-rise non-res market with year-over-year improvement in gross profit margin and adjusted EBITDA, driven in part by a 16% growth in revenue as a result of our market-leading position in insulated metal panels. Even in the face of headwinds created by unprecedented flooding and wet weather in May and early June as well as low steel prices that constrained our organic revenue growth, we delivered year-over-year 53% improvement in adjusted EBITDA. We do expect modest revenue growth and earnings momentum to continue into the fourth quarter, while reflecting the challenges our network of builders and customers face catching up from the weather-delayed start of the normal construction season.

For those of you who have followed our story over the past few years, you know we've evolved our structure to maximize our earnings potential during this choppy, low-growth recovery. The benefits of our reorganization were very evident in the third-quarter performance. The simpler and flatter organization drove a higher degree of focus and execution as the commercial and manufacturing groups worked together to achieve the differentiated level of service that our customers expect.

The refined structure promotes levels of communication that further enhance our integrated business model, transforming NCI from a siloed organization to a solutions organization. For example, we are seeing accelerating growth of insulated metal panel sales through the internal distribution systems in our buildings and components brands as customers positively respond to our expanded product offering with a 20% intersegment year-on-year growth. We expect the insulated metal panel sales to continue -- will contribute approximately 30% of our EBITDA in fiscal 2015.

I'm especially pleased to report that, as anticipated, CENTRIA gained momentum in the third quarter and delivered year-over-year improvement in profitability and bookings growth. Our long-term investment in insulated metal panels will become even more meaningful to our top line and EBITDA expansion as we continue to unlock the growth potential of the underpenetrated North American market.

With the high level of volume flowing through our plants, manufacturing is working with the commercial group to refine project selection in order to optimize the plant loadings and maximize efficiencies and profitability. Sequentially volumes grew 20% on a consolidated basis, and our operational performance improved as a result of manufacturing and supply chain management. We expect the benefits of the organizational realignment will continue to be reflected in meaningful margin expansion as volumes expand beyond the cyclical trough levels.

Looking forward to our fiscal fourth quarter, we expect to deliver our sixth consecutive quarter of year-over-year improvement in gross profit margin and adjusted EBITDA. Fiscal 2015 will prove to be our most profitable year since 2008. I believe there's a significant inflection point in earnings growth, which puts us on the trajectory for our mid-cycle goal.

Despite our expectation that the low-rise market growth as measured in square feet will likely be flat year over year, we continue to expect both top-line and bottom-line growth. We remain committed to and focused on growing faster than the low-rise market, achieving year-over-year improvement quarter by quarter in order to maximize the earnings that will be reflected in our share price for the benefit of all our stakeholders.

Now Mark will add some color about our third-quarter numbers.

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

Thank you, Norm. As mentioned, our third-quarter results marked the fifth consecutive quarter of meaningful year-over-year improvement in gross margin and adjusted EBITDA. Our earnings growth in the quarter is driven equally by increases in our legacy business as well as incremental contribution from our CENTRIA acquisition. Our focus on growing and integrating insulated panel products into our buildings and components businesses as well as improvements we've been making in our production and cost efficiency are resulting in increasing gross margins.

Our consolidated revenues increased by approximately 16% from the same period last year. The year-over-year improvement was driven by underlying volume growth in both our legacy buildings and components businesses combined with the incremental contribution from CENTRIA, which added approximately $59 million to total sales. At the same time we faced a few revenue headwinds during the quarter, including declining steel prices and abnormally heavy precipitation in May and early June that delayed some of our shipments. Nevertheless, we are experiencing reasonably strong underlying year-over-year growth in our largest businesses.

For market context, low-rise new construction starts measured in square feet are down 8% calendar year to date. Even though these measures tend to be revised upward in succeeding periods, we believe the underlying growth we are achieving is outpacing market activity.

On that point our underlying volume of activity is growing faster than is apparent due in part to the pass-through of declining steel prices and due to the $4.5 million decline in third-party revenue in our coatings business. With respect to steel prices, while it is difficult to be precise, we estimate that our revenue for the quarter was $10 million to $11 million lower than it would otherwise have been as a result of declining steel prices versus the prior year.

While our components and buildings businesses are achieving underlying growth, as I will outline momentarily, this is despite headwinds from unusually high precipitation from March through early June, which had a larger negative impact than initially anticipated. These disruptions had a cascading impact on constructions scheduled and the ability of our customers to accept jobsite deliveries. While we cannot be precise in measuring this impact either, we estimate that our revenue for the quarter was $8 million to $10 million lower than it otherwise would have been as the result of customers' delaying specific orders.

All that said, our adjusted EBITDA and adjusted diluted earnings per share were better than the Street consensus and the prior year's results. With the near-term top-line headwinds described earlier, the key driver continues to be margin improvement, not top-line growth, as we continue to realize the positive results of our focus on improving our product mix, our supply chain management, and streamlining our operational efficiency.

Gross margin in the third quarter increased by 190 basis points to 23.9% of sales from the same period last year. Further, if you eliminate the short-term acquisition noise related to the fair value step-up in the CENTRIA inventory, our margins improved 220 basis points to 24.2%. As Norm mentioned, this is the fifth consecutive quarter demonstrating meaningful year-over-year improvement in gross margins. We also kept SG&A expenses relatively flat considering the inclusion of CENTRIA, despite the organizational additions and incentive compensation increases.

We reported $0.10 in earnings per diluted share versus $0.08 in the same period last year. However, on an adjusted basis we reported $0.15 per diluted share compared to $0.12 last year. For transparency and enhanced understanding of our operating performance, we separately identify and reconcile unusual or non-operating items to derive adjusted earnings. The amounts are separately included in the table accompanying our earnings release and primarily include costs related to our acquisitions and restructuring of our business segments.

Now I will discuss some highlights from our operating segments, which overall portends continued year-over-year margin expansion for the remainder of this year. Third-party sales in the coatings group fell approximately $4.5 million or 14.5% from last year's third quarter. And total sales, including intercompany activity, decreased by about 9%. A 5% mix shift from tolling sales to package sales and passing through lower steel prices had a negative impact, which was compounded by an increasingly competitive tolling marketplace.

We have made strides in further enhancing our service capabilities and production efficiency since the first half of this year, which, combined with increasing plant leverage, has nearly doubled our operating margin sequentially from 4.8% in the second quarter to 8.8% in the third quarter. We expect that the investments we've made by expanding our light-gauge footprint at the Middletown plant and the recent addition of in-line tension leveling will allow us to continue to differentiate our offerings and improve our margins accordingly. We expect our coatings business performance to continue, progressively improving as those manufacturing and commercial actions take hold.

We saw significant gains in our components segment, which generated a 36.3% year-over-year increase in total sales, driven by both the inclusion of CENTRIA and organic growth. Without the contribution from CENTRIA, our legacy revenues in this segment grew 4.1% over the prior year. Underlying this growth in our legacy business was a 7.6% increase in volume. Intersegment sales, which grew 32% versus the prior year, accounted for the majority of the underlying volume increase as we continued to expand the sales of insulated panels through our building segment and further integrated manufacturing operations between the buildings and components groups.

Adjusted operating margins increased 290 basis points to 8.6% compared to 5.7% in last year's third quarter. The margin improvement resulted from three primary areas: first, higher volumes from growth in both third-party and internal sales increased operating leverage on our production facilities. Second, the increasing mix of insulated panels in our product offering is increasing our average margins. And, third, our continued focus on Lean manufacturing principles, cost reductions, and supply-chain management are improving our operating efficiency.

Now, turning to our building segment, our buildings backlog continues to show significant year-over-year growth, up 19.2% to $344.8 million. We previously noted the significant step-up in our backlog at the end of our second quarter.

Part of the growth in our backlog pertains to the fact that excess precipitation earlier in the year has delayed construction schedules, which has had a cascading impact to schedules through the quarter and has slowed the speed that backlog turns into revenue. As mentioned earlier, these delays have been more pronounced than previously anticipated. On the positive side, booking levels continued to show year-over-year growth, up 5.5% in dollars and 12.4% in volumes this quarter versus the third quarter of the prior year.

Our building segment total revenue rose 1.3% from the same period last year, with underlying volumes growing a more noteworthy 6%. The pass-through of lower steel prices and a de-emphasis in ancillary construction services drives the variance between our volume growth and our revenue growth.

Adjusted operating profit increased by 26.6% over the prior year, reflecting higher margins driven by improvement in operational efficiency. These improvements are driven by the combination of the previously-announced manufacturing reorganization, with continued commercial discipline supported with effective supply-chain management. In addition, the underlying product mix is beginning to benefit from increasing sales of insulated panel products. We continue to expect to see incremental improvement in our operating leverage in future quarters.

Now a brief look at our balance sheet: we had approximately $49 million of cash on hand at the end of the quarter and working capital of approximately $153 million. Year to date we have generated cash flow from operations of $38.6 million, which compares favorably to a $10.1 million use of cash in the year-ago period.

Cash flow growth is driven equally by growth in cash earnings and improvement in working capital flow-through. We paid down another $10 million of long-term debt, and since the first quarter of this year we have already repaid $31 million of our term loan. As we have previously stated, our goal is to reduce our debt burden over the next couple of years to pre-CENTRIA acquisition levels.

Turning now to our outlook, as our combined segment results show, even in this less-than-robust market for low-rise nonresidential construction, we've been able to successfully improve our margins and earnings by focusing on the things we do control. Over the last 18 months we have reorganized the management structure of our business segments, removing unnecessary barriers between our highly integrated segments and leveraging key strengths across manufacturing and commercial operations. During the fourth quarter, as we work on our plans for 2016 and beyond, we have further challenged our teams to identify opportunities to streamline our operations, eliminate redundancies, and combine capabilities to best align with our customer opportunities for the foreseeable future.

We have high expectations that we will be able to continue to enhance our efficiency and profitability through these focused efforts. As we enter the fourth quarter we have a strong backlog that benefited from double-digit growth in bookings volume and an increase in demand for higher-margin architectural panels.

We currently anticipate delivering the sixth consecutive quarter of year-over-year improvement in gross profit margin and adjusted EBITDA in the fourth fiscal quarter. In addition, we expect fourth-quarter revenue to be up between 5% to 8% on a sequential basis. 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 to call back over to you for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Lee Jagoda, CJS Securities.

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

Just one question on CENTRIA first: how is it tracking through the first nine months of this year versus a year ago in the first nine months from both a revenue and EBITDA perspective? And what are your expectations for that business for the full-year this year?

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

Yes, so as we said, I think, earlier, we had a slower period in terms of EBITDA earlier in the year as a result of our job in Saudi Arabia that was late in shipping. So that affected the EBITDA potential.

And as I think I explained before, the high-end architectural piece of the business -- which is really the part we are really attracted to in terms of our strategy -- is showing really good growth. It performed well in the third quarter. And this was the first quarter that we had year-over-year improvement in CENTRIA.

And we expect that the bookings and backlog that we're seeing there will set us up very well for 2016 and beyond. So we are happy with what we see there. Their coating business is very strong as well. And as I said, the international piece was certainly weaker, and that caused the shortfall that we had earlier in the year.

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

Okay. And then looking more macro, assuming that we end the year at around 1 billion square feet of non-res, what you think the split between mid- and low-rise and the high-rise will be this time around versus -- you know, what was it the last time around when we were at that 1 billion square feet?

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

So to be sure, Lee, we clearly have seen since 2010 that mid- and high-rise are growing 30% a year; and low rise has grown at, like, 6% or 7% a year. And we have seen this year -- now, we know that the numbers will be revised, but for our second quarter, non-res all was down 6% year over year. For the third quarter it was down 8.5%. And when you look at the low-rise piece, it was down 8.9% in the second quarter and 9.4% in our third quarter.

So we're expecting those will be revised but, man, I'll tell you, it's going to be hard to get back to flat. And that's the reason why we are really pleased with what we have seen in our bookings and our backlog in the building group, and our growth in market share, and our performance -- because the underlying non-res has certainly slowed. I will immediately say that McGraw-Hill is expecting low-rise the grow substantially in 2016. And we will see about that. But that's the market we are in.

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

Okay. And then, Norm, is there anything that you can add just regarding the transition plan that was announced last night?

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

You mean my employment contract?

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

Yes.

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

So -- it's good governance. It's something that I'm keenly, keenly committed to -- the succession and the transition. We've got three years or so to do it. As you know, I'm the single-largest individual shareholder. I'm keenly, keenly committed to making sure that my succession really works well. So that's all it does is reflect that.

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

Great. Thanks very much.

Operator

Mike Dahl, Credit Suisse.

Matt Bouley - ***Credit Suisse - Analyst***

Hi, this is actually Matt on for Mike. Thanks for taking the questions. My first question, on building systems -- you had that good volume growth out of the market, and I believe you mentioned share gains. And I'm assuming if you add back some of those weather delays, volumes would've been even stronger.

So the question is: is this a function of customers increasing their buying across the industry as prices are coming down? Or are you specifically using more aggressive pricing strategy to drive those share gains?

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

So what we are doing is we are clearly focused -- like, frankly, we haven't been before -- on the opportunities we have in a bunch of different market segments. Don Riley and the team, supported by John Kuzdal and the manufacturing team, have done a first-class job of growing our share; keeping great margins; and really, really getting after it. Our share is increasing in the buildings group.

And I just want to say that I know for many, there was disappointment in seeing the organic growth in the buildings group on a year-over-year basis. And to be sure, we're not disappointed, but we are conscious of the fact that at the end of the second quarter our backlog was up 19.2% -- 23% in tons -- and our May bookings were up 11.3% and 26.9% in tons. So we're sitting on a really good backlog, and it clearly did not release as a result of the times that Mark and I really did speak to -- this delay of the seasonal start of the construction season really had an asymmetric impact on the ability to get work to the builders, meaning the builders taking the work.

So what I think we will see is we are being fairly cautious in terms of what we're expecting to see for revenue growth in the fourth quarter, as Mark has said. But that backlog will release. It will release at some point, and I'll tell you, it's going to be good when it does.

I'm pleased that we have it. So, again, we are focused on our performance in the buildings group. And we're seeing that in terms of the job that the team are doing.

Matt Bouley - ***Credit Suisse - Analyst***

That's great. Thank you. My second question: you had mentioned that the weather delay was primarily impacting May into early June. Just wondering if you could drill down a little bit into how deliveries looked in July and maybe even into August, just so we could get a view on a more normal month of operations? Thank you.

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

Yes, so July was -- you know, it was quite good. We've seen the preliminaries in terms of August, and August is really where we expect it to be. The team has done a very good job. So we're busy. I will tell you, we're busy. The team are doing a better job than ever in my tenure here of dealing with what will likely be a substantial increase in tonnage again in Q4.

And we're really pleased with the ability of our supply chain to do a great job from everything from transportation to procurement and the way we they go about that. And Kuzdal and the manufacturing team are just doing an outstanding job of utilizing our capacity. So, again, I'm not at all apologetic. We're going to have a great year.

Matt Bouley - ***Credit Suisse - Analyst***

Got it. Thank you and good luck.

Operator

Trey Grooms, Stephens.

Drew Lipke - ***Stephens Inc. - Analyst***

Yes, good morning, Norm. This is Drew Lipke on for Trey. The first question I had was just around -- you mentioned you are on track for midcycle earnings. And as we look at where we are in the non-res recovery, and you lay out in your slide deck the $30 million of EBITDA opportunity for every 100 million in square feet from non-res starts.

And you've talked historically about the $280 million to $350 million of midcycle EBITDA. So we are roughly 300 million square feet below average.

So if you take your trailing 12-month EBITDA of $110 million and then add on an incremental $30 million for every $100 million -- it's, you know, $200 million in EBITDA. So I guess the incremental -- between here and your midcycle is all, I am guessing, going to come from growth in productivity initiatives.

So my question is: how far are you guys along with these initiatives? Sort of what inning are we in? And how quickly do you expect these initiatives to flow through?

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

That's a good question. That's a $64,000 one.

We certainly -- as we see from the trailing 12 months, where we saw low-rise construction flat to negative, our revenue up 8.6% net -- you know, I admit that we made an acquisition. And I'm really glad we did it.

I don't what to sound like old Warren Buffett, but that's an important one for us. Gross profit was up nearly 20% and EBITDA 58%. So we like the trajectory. And it comes down to, as Mark alluded to, we really have some analytical work that's going on -- that we look at how we can improve our efficiencies. And we'll speak more about that, I'm sure, in the fourth quarter.

But at the end of the day we also believe that the efforts that the commercial folks are making across our legacy businesses, and showing performance and growth in some of those areas -- particularly in open orders in the components group and the really good backlog that the buildings group has -- that while we will focus on the things we control, our expectations are that that work will release from our backlog. And we will see how much comes out in the fourth quarter, but it really points to -- you know, we could have a pretty good start to the year.

So growth will happen. We'll take advantage of it. And we'll work like crazy to keep improving our margins by efficiencies and other steps we can take.

Drew Lipke - ***Stephens Inc. - Analyst***

Okay. And second question: just with these productivity initiatives that you guys are talking about in place and the higher mix of insulated metal panels, as this low-rise recovery continues, how should we think about incremental EBITDA margins?

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

You know, it is the case that we see our margins -- the margin analysis that we've done -- the buildings group margins are actually pretty much back to the levels that we saw when volumes were 40% higher than they are now, so we're really pleased with that.

We still have some work to do in components and some work to do in our coating group. But at the end of the day, we would expect, as we go through the cycle and keep coming up the line, that we'll continue to improve our margins and get back to and exceed margins that we've had in the past. That's a big part of the game.

So you're right to say that it's the function of how we execute the initiatives that's going to be -- I know it's going to be critical. But I will say that out of the 20 brands that we have in the third quarter, 18 of them did perform on a year-over-year basis in terms of nice growth on the bottom line.

But there's always more work to do. And as I said, we are going to continue to be focused on that. We'll speak in more detail about that in the fourth quarter.

Drew Lipke - ***Stephens Inc. - Analyst***

Okay. But you guys don't have any kind of internal target for incremental EBITDA margins?

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

Higher than they are now.

Drew Lipke - ***Stephens Inc. - Analyst***

Okay. All right. Thanks, Norm.

Operator

Matt McCall, BB&T Capital Markets.

Matt McCall - ***BB&T Capital Markets - Analyst***

Good morning, everybody. So maybe following up on that last one -- I just wanted to understand -- I think, Mark, you use the term streamline operations, eliminate redundancies, and combine capabilities. Norm, did I hear you say that you are going to provide more details around the plans, the expected savings, the timing of the savings, next quarter? Or can you give us any more detail today?

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

So, listen, we have been, as I think you know -- we've been working around this -- John Kuzdal and the team has been working around this. Don Riley has been working around this. And we really want to be as precise as we can be. So we'd prefer to wait until the fourth quarter to really complete that analysis. We don't want to mislead in any way.

So all I can tell you is that we see opportunities. We really do. And we will talk about those in more detail in the fourth.

Matt McCall - ***BB&T Capital Markets - Analyst***

Okay. So maybe the square footage data you talk about -- when you look at overall non-res spending, the data looks a lot better. I know square footage matters a lot more to you, but can you talk about that square footage outlook? What's assumed in your Q4 forecast?

And then as we look out into next year, you said there's a substantial -- I think McGraw-Hill assumed a substantial acceleration. Can you give more details on what you would expect to happen next year?

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

Sure. So I think that part of next year is how the fourth quarter -- our fiscal fourth quarter -- actually comes out from a recovery in non-res, right? Certainly McGraw-Hill is expecting to see a swing in our fiscal fourth quarter. We'll see how that materializes, right?

But they do believe, by virtue of them expecting to see 16% growth in low-rise construction in 2016 -- we've got them coming in next week; we're going to be interrogating that in great detail, as you can imagine. And certainly, when we look at the backlog in the buildings group -- you know, I don't want to get over my skis here, but we are seeing pretty much consistent, consistent growth there, in part because we've had some cascading of work, for sure; but we are also seeing some underlying growth.

We're seeing great opportunities. We certainly have recovered market share that we had given up as a result of being really -- you know, pricing a focus in 2014. And we like where we are. So I think that the whole notion about 2016 is going to be about, as I said earlier, our real focus on things we control. And we know that can take advantage of whatever growth the market provides.

If we're able to grow when the market is flat to down, then if we get a bit of tailwind, that's going to be a good -- that's going to be nothing but good for us. Now, on top of that, steel prices have continued to be low. We know that the tariffs and the things that the steel mills are doing are really focused on raising the steel prices, and rightly so. If that occurs, that's a good thing for us, too.

Matt McCall - ***BB&T Capital Markets - Analyst***

So I was actually going to ask -- the next question was going to be on steel. Can you talk about the assumption in the Q4 outlook? And then, also, maybe it would be helpful to review the earnings impact from the steel price movement, both in the quarter and expected as we move forward.

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

I think Mark touched on that. Let me just say that we're not expecting to see any improvement in the steel prices in Q4. We're expecting the headwind that we've seen in Q3 to continue into Q4, and it actually will be probably a bit more of a headwind than we saw in Q3.

And as we see the mills and the market reacting to the tariff work that the steel folks are doing, our expectations are -- our hope is that we will see the steel market kind of normalize. But we're not going to bet on that. We're going to let that occur. We're going to do everything we can to work around that, like we have been this year. Mark, do you want to talk a bit about that?

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

Yes. So on the steel cost front, we talked a little bit already about the impact it had on revenue in the second quarter -- approximately a $10 million impact. We expect that that will be about twice that in the fourth quarter. And that's just a function of the prior declines that have been recorded in steel.

But if you look at where the steel futures have been for the last six months since, say, April -- or four months -- you've got really relatively flat movement in steel prices since that time. I know that the trade cases that have been filed are a long way from being resolved, or adjudicated, or whatever happens with those. But they seem to be getting a little bit of traction, a little bit of early nods that tell us that the market has kind of found a stabilized point with steel prices, and further declines are really a question at this point.

There's more attempts, I think, at raising prices in our future. So we kind of feel like we've found that bottom there and expect to see, as we go into 2016, steel costs actually rising.

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

And just to be sure, so that people know, what we just spoke about in terms of headwinds from steel -- you know, the cascading effect of the builders, and the customers getting caught up with work -- that's baked into Mark's 5% to 8% expectation on a sequential growth in revenue in Q4.

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

And the second part of your question had to do with the profitability impact of steel prices. We've talked a lot in past conversations about what we refer to as our natural hedge, which means that different parts of our business react differently to movement in steel. And in this kind of environment, our buildings group tends to benefit from declining steel prices. But the other two parts of our businesses face pretty significant headwinds. So it's actually fairly balanced right now, and we expect that balance to continue in the fourth quarter.

Matt McCall - ***BB&T Capital Markets - Analyst***

Okay. Perfect. Thank you, guys.

Operator

Brent Thielman, D.A. Davidson.

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

Thanks, good morning. Your comment on the backlog containing higher-complexity projects, which lengthened production lead times -- to what degree have you seen these lead times in backlog extend? Is it one, two, three quarters, or --?

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

So we clearly have seen an expansion of time it takes us to get work out of the backlog. Part of that is the mix of high-complexity work, which we are pleased to have.

But it's really more a function of the cascading effect. And I think most people know that the builders and customers we have are small customers. We don't have a customer that's 2% of our sales.

So we're dealing with lots of small partners that are doing everything they can in their interest to get work done. So it's one of those things that just because our fiscal year kind of ends in October doesn't mean that their year does. Now, we are going to have whatever the fall and winter has for weather; but at the end of the day, they are focused on getting that work done as quickly as the can.

So my sense is that we will start to see that backlog releasing here at some point. And maybe we will see some in the fourth, but we don't want to bet on that, because we certainly didn't see it in the third.

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

Okay. And then in terms of order patterns from the different end markets you serve, are there particular sectors where inquiries and orders aren't quite as good as they were before?

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

Well, clearly the oil and gas side has been decimated. And I know I was criticized earlier about not having enough exposure there. I'm kind of glad now that I didn't. But we are seeing -- you know, manufacturing is still quite good; warehousing is still quite good. We're seeing more in the institutional, certainly more.

We're doing lots of projects that are kind of sports-related. And those are always good for us. And that's across the board, whether it be CENTRIA or whether it be our buildings group, our components group. So we're seeing kind of a nice spread of work, and it's kind of interesting -- we're seeing those activities in our quoting, and we're seeing it in our backlog. And yet the new construction starts measured in square feet have been consistently negative in our second and third quarter.

So one of the things we are looking at -- and I just want to mention this very briefly -- is we are looking at him forward-looking relationship to the leading economic indicators in a blend of our relationship to residential and our relationship to the leading economic indicator, and our relationship to the ABI. And I'm hoping as we test this forward-looking indicator system out that we are working on now -- that it may actually provide us all with a better sense of direction and give us a sense to what the market may look like a year on. As I said, hopefully we talk more about that by the fourth quarter, as we test out this forward-looking indicator mix that we are working on.

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

Yes. Thank you.

Operator

Robert Wetenhall, RBC Capital Markets.

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

Hi, this is actually Collin filling in for Bob. How's it going?

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

Good. Very good. Thank you.

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

So I have a question on the components group. You noted the mix shift toward the insulated metal panels, and I've heard this commentary in the past. I was just wondering if you can give us a little bit more detail on the breakdown between the insulated metal panels versus some of your more traditional products in that group? And then also could you talk about the margin difference and what your expectation is going forward? Should we expect this to continue in the future?

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

So, again, I'm going to let Mark kind of pull together what he can on this. But at the end of the day, what we have seen is the improvement in our METL-SPAN acquisition year on year has been 100%. Their bottom line has improved by 100% on a year-over-year basis.

And in large part that's because they have been more selective on the work that they've done. So their overall revenue is flat to up a bit, but their ability to really be very much more selective on work has benefited in a very considerable way.

We knew when we bought the CENTRIA operation, leaving aside their core coating and international piece, that the high-end architectural part of their business was coming out of the cycle. And I'll tell you that the job that that team is doing is a first-class job. And they are building their high-end piece of the business, and we would expect the margins there to recover as that work is released through 2016.

So we're expecting to see -- and I think we'll be speaking in more detail about the components group as well, so that we can have more clarity, since it's increasingly becoming a big part of our market. Mark, do you have any insights?

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

No. The only thing I would say is that we are reaching the point where roughly 45% of the total revenue of the components business is starting to come from insulated metal panels. And we expect that to increase.

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

Great. Thank you for that -- for the details. I really appreciate it.

And then on the buildings group, just hitting on the incremental margin again, it was above 75%. I was wondering if you could give us a little more detail on the breakdown between the margin improvement from volumes versus stuff like the commercial discipline?

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

So the benefit that the buildings group has is in being able to increase its market share and increase its backlog and really be focused on margins and incremental levels of margins, just as you alluded. And there's opportunities there. And the team, led by Don, is really doing a great job there.

You know, my sense is that that will continue to benefit us. But I will also say that it's incredibly important to realize that, really, where we're getting the big bang for our buck is in our manufacturing and our supply-chain management. Those two groups are doing an outstanding job, and are making a big difference, and will continue to make a big difference.

So that's kind of where it falls. It's not just a commercial discipline. It is really the support of that that we see in supply chain and manufacturing.

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

Great. Thanks for the clarity.

Operator

Alex Rygiel, FBR Capital Markets.

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

The third-party coatings segment -- how should we think about that in the fourth quarter and sort of next year? Do you continue to expect sort of some weakness in that third-party coatings segment?

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

Yes -- so, again, you know, I don't want to beat up the dead, but we clearly were not happy with the leadership on the commercial side there and made those changes early this year. That business is so integral to our internal work that -- you know, we are in the coating business primarily because it fuels our integrated business model in our components and our buildings group.

I will tell you that the team there is much more selective on the kinds of work it takes on. And I will tell you that we're very happy with the direction they are going. We are seeing improvement, as Mark has said, and we continue to see improvement. But it will take us a while yet to get back to the levels. And in part that's both the underlying lack of growth in low-rise construction and, maybe more important, the effect that steel costs actually do have on that business.

You know, that's one of the parts of the business that really is impacted on their third-party sales by steel cost. So if we see steel costs begin to improve, that will be a very good thing for the core coating group.

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

Thank you very much.

Operator

Scott Schrier, Citi.

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

I wanted to follow up on the coatings question. Have you thought about how you prioritize the internal sales versus third-party? I know in the past you said growing third-party sales is important to you. Is there possibly any shifts there? And if third-party sales in the segment are -- remain a priority, is there any appetite for M&A in the segment?

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

So, you know, I think that it's fairly consolidated on the hot-roll side, and there's been some consolidation on the light-gauge side as well. So I think that the acquisition of the Middletown plant -- which John Kuzdal and the team did a fabulous job of pulling that online -- it gives us the spread both geographically to support our internal sales, and it puts them in really good position to support third-party sales as well.

We continue to work on relationships with big consumers of light-gauge steel and the expectations that we can grow our position in some of the big manufacturers. And I think that over time, that provides us with an opportunity that's a bit outside the construction industry, right?

But our primary focus is on that business supplying our internal demands. That doesn't mean to say that we are not focused on third-party sales, but it means that we are focused in a way that is beneficial to our internal and our external, right?

So it's more important that since our internal demand covers all the fixed costs of that business, that we can be rather more selective on the third-party sales and not be so caught up in taking work that has low margins. So that's the focus. And that's the focus that will continue. So we expect to see third-party sales grow, but they are going to grow at a rate that's consistent with what we want to earn from that work.

Scott Schrier *- Citigroup - Analyst*

Great. Thanks. And then on the buildings group, now that you are growing your backlog and are having strong bookings, which is a good thing to have, and you're diversifying your backlog between the different levels of complexity, does it make sense at all to maybe take on some more risk in terms of -- I know no single customer is more than 2% of your sales, but now that you have a more diverse backlog, does it make sense to bid on possibly maybe some larger projects in the mix?

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

So I will tell you that there are, in our brand mix in the buildings group, two or three brands that are really geared up to take high-complexity work. To be sure, we have seen recently some nice adds to that mix. Our bookings in the last week of August were up 30% on a year-over-year basis, right? Now, that was after a fairly weak first three weeks of the month.

But in that booking in the last week was some high-complexity work. And we certainly do see some opportunities to take on that work. So we are not risk-averse in that at all. But there hasn't been as much of that work as we would've liked to have seen in the marketplace. And we've done a pretty good job of capturing our share of that.

Scott Schrier *- Citigroup - Analyst*

Great. Thank you for taking my questions.

Operator

Steven Fisher, UBS.

Steven Fisher *- UBS - Analyst*

I know you've talked about McGraw-Hill a number of times, but as you talk to your customers about the next couple of quarters relative to the -- I know it's been a sluggish first few quarters of the year -- what sentiments are they expressing now about activity? Are they telling you that they expect a better pace at this point?

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

Yes, they are. I mean, they are busy. Some of it is catch-up, but we clearly see anecdotally that there is real good activity out there. As I said, and it's -- I wish it weren't the case, but if you remember back, we really had pushed the pricing in August of 2013 and expected to see that come out of our backlog, like, in the first or second quarter of 2014. And it didn't start to come out until the third quarter.

So it's not unusual for us to see some delay in the release of work from the backlog. I think that that's going to be the part of the puzzle that's going to be very interesting to see when that releases. If that releases modestly in the fourth quarter, then it's going to mean that we take a really good backlog in the first half of next year. So we'll see how that plays out.

Steven Fisher *- UBS - Analyst*

Okay. And then do you have any sense as to how much the public sector is weighing on the square footage of construction activity? I mean, are you seeing the private market is really growing and public is lagging? I guess I'm wondering, particularly maybe on federal buildings, if that's something that is now structurally a bit more challenging.

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

You know, it's interesting. We clearly have seen improvements in institutional work. And we define that more broadly in terms of churches through to prisons, right? And there are parts of the economy, parts of states that we are seeing more institutional work.

And I think as we said before -- and I don't mean this as a political statement -- but the right-to-work states are still growing at a rate of speed that exceeds that which we are seeing in non-right-to-work states. I think that is across the board, both from an industrial and commercial as well as institutional standpoint.

Steven Fisher *- UBS - Analyst*

Great. Thank you.

Operator

Barry Haimes, Sage Asset Management.

Barry Haimes *- Sage Asset Management - Analyst*

Thanks, guys. Good quarter. Had a couple of questions. One is: as you pointed out, Norm, you've gotten great margin benefits from a lot of the restructuring that you've done. Is there an anniversary date we should think of where that year-over-year benefit will probably still be there but start to moderate? How should we think about the timing of that over the next several quarters? That's the first question.

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

Sure. So I think that that anniversary date will occur, when we think about the acquisition, sometime in our first quarter or so -- second quarter, probably, in 2016. But what we alluded to in terms of our internal work, in terms of looking at a whole host of things that Mark alluded to, will be an attempt to actually mitigate that.

I think probably the most important aspect, not just on the cost things and what we control, is that the CENTRIA group are building their backlog in a way that is consistent -- even though their backlog is longer, meaning their jobs can come out over a course of 12 months or so -- I will tell you that the team is doing a really good job. And I also think that that is in part a function of the presence we have around all the markets in North America, with the footprint we have in insulated metal panels, and probably benefits somewhat by the consolidation that's taken place in that marketplace as well. So my sense is that the anniversary may be one of celebration -- that the growth that we expect to see makes that date kind of a moot point.

Barry Haimes *- Sage Asset Management - Analyst*

Got it. Okay. Great. And my second question is: if we take July and August, which perhaps were a little more normal months in terms of production, any gut feel for capacity utilization? Just trying to get a sense of how much excess or not you've got in the system now? Thank you.

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

I'll tell you the capacity utilization has definitely increased in August and will be increased in our fourth quarter as well. You know, when we look at the capacity utilization from an asset perspective, we're still probably at 50% or less.

And when we look at it from a capacity of actual -- you know, wanting to be very cautious about expanding our capacity in terms of our labor, we really want to be mindful of not being in a situation where we're taking a lot of extra cost into the slowest seasonal --.

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

First half of next year.

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

That's right. Yes, thank you, Mark. So we're trying to balance that a bit.

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

And then one quick last one: you mentioned revenues up in the fourth quarter -- I think it was 5% to 8% sequentially. Approximately what would that be in tonnage?

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

That's a good question, and I think it will be slightly north of that. But let me -- Mark is just going for a number here. That's a good question, actually. We should tell you that.

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

I think the answer to that question will lie in really a segmented answer. So within the buildings group, for example, we will see anywhere from a 6% to 10% volume increase. We'll see in the coaters group anywhere from a 0% to 2% volume increase. And then within our legacy single-skin business, our components business, we'll see as much as a 10% to 12% increase in volume in the fourth quarter.

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

Great. Thanks very much.

Operator

Dana Walker, Kalmar Investments.

Dana Walker - ***Kalmar Investments - Analyst***

Norm, what portions of your business share in the more rapid ongoing activity in high-rise?

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

So I will tell you that the CENTRIA piece books in mid-rise and some of the high-rise, but they tend to be focused on the higher-end architectural piece of that business. And that exposure is in part driving their increased bookings and the opportunities that they see in the marketplace.

Dana Walker - ***Kalmar Investments - Analyst***

And is there any part of your single-skins business that would be participating in high-rise? Or in your coating business?

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

So the coating business coats for companies that are benefiting from lighting fixtures, some HVAC work; and they would have some exposure there, for sure, that would be positive. And I think that when we look across the other parts of our business, that is really not the case in the buildings group. And it's really not the case in the components group in the legacy side.

But I want to say, just very quickly, our agricultural business in the components group has really done a great job. Our depots have completely turned around and are profitable in a very nice way. Our roll-up door business has done well. So we're seeing support in our legacy business that's -- particularly in the components group -- that's really across the board.

Dana Walker - ***Kalmar Investments - Analyst***

On the coatings side, you mentioned that you were not super-pleased with how the management of your legacy business had gone. Why -- whether it's a question that can be made independent of that or not, why is the CENTRIA coating business doing so much better than your internal -- your legacy business?

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

That's a good question. I think that the CENTRIA coating business is a bit more niche. And it's focused on the parts of the market that probably do benefit a bit more from mid-rise and high-rise growth as well.

Dana Walker - ***Kalmar Investments - Analyst***

And then a final question on CENTRIA: as you further integrate their products into your system, what will happen in terms of volume change, in terms of customer-facing exposure that would be different than what they had before that might catalyze a step-function change in their volume and profit?

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

Well, I think that we will see what consolidation plays, right? We've been very accretive with metal span -- I'm sorry, acquisitive with METL-SPAN and the CENTRIA acquisitions. Kingspan has made lots of acquisitions as well.

So I think that that consolidation, particularly Kingspan, being a very good leader -- you know, they are a market force; they're the largest in the world; and they are very sophisticated -- very good competitor. My sense is that structure could be beneficial over time.

But the bottom line is that we can offer, actually, support from our METL-SPAN manufacturing to support the CENTRIA group in a couple of ways that enables CENTRIA to blend together the high-end architectural with some -- I won't say lower work, but with more utility kinds of products that are oftentimes included in the package that they can sell now. So we are very pleased with that.

Dana Walker - ***Kalmar Investments - Analyst***

Perhaps for a point of definition, describe what you mean by high-end architectural versus more prosaic product?

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

It's the aesthetic attractiveness. It is the look of the product and the contours; the way the product fits together with glass. The things that CENTRIA does in working in a consultative way in their sales group is first-class. They work with architects in much more of a forward partnership way to get their products spec'd. That is largely aesthetic.

Where if you look at cold storage and more of the commercial industrial piece that METL-SPAN does, it's more of an energy efficiency and total lifecycle cost of the benefit of that product. So what that means is that we see opportunities to grow our market share in insulated metal panels, particularly from the METL-SPAN perspective, that is more about displacing other building materials. And that is a pretty keen focus of that group.

Dana Walker - ***Kalmar Investments - Analyst***

And it sounds like you might have design opportunities to expand the market for some of what CENTRIA does better might go beyond just the very high end that they've focused on.

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

Very, very true. And in fact, the gentlemen that leads that charge at CENTRIA is now working across all of our insulated panels group -- you know, for Don. And it's a very good opportunity. And I just want to say that the METL-SPAN piece, again, has had a great year -- a really, really good year. So we are very pleased with that.

Dana Walker - *Kalmar Investments - Analyst*

Okay. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back over to management for any further or closing comments.

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

Well, we really enjoyed the questions. They were great, and I think everybody asked the questions that needed to be answered. And I thank you for that. And we look forward to speaking to you on the fourth-quarter call. Thank you.

Operator

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