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PRESENTATION

Operator
Greetings, and welcome to NCI Building Systems Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Darcey Matthews, VP of Investor Relations. Thank you. Ms. Matthews, you may begin.

Darcey Matthews ***NCI Building Systems - VP Investor Relations***
Good morning, and thank you for your interest in NCI Building Systems. Joining me today for the call are Don Riley, our CEO; and Mark Johnson, our CFO. Please be reminded that comments regarding the company's results and projections may include forward-looking statements that are subject to risks and uncertainties. These risks are described in detail in the company's SEC filings, earnings release and supplemental slide presentation. The company's actual results may differ materially from the anticipated performance or results expressed or implied by these forward-looking statements.

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

Our fourth quarter and fiscal year 2017 earnings were released last night. This morning, Don will make a few comments about our 2017 key accomplishments and then turn the call over to Mark for a more specific financial commentary before we take your questions.

And now, I'd like to turn the call over to Don.

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

Thanks, Darcey, and good morning, everyone. Thank you for joining us today to review our fourth quarter and fiscal year 2017 results. 2017 was a demanding year. And in spite of the overall challenges, we finished the year on a strong note in terms of bookings and shipments, which led to outperforming our revised fourth quarter guidance. Additionally, we are pleased with the early indications for Q1 and are excited about 2018.

In closing out the year, we achieved many goals critical to realizing our long-term vision for NCI. First, we completed the rationalization of our manufacturing footprint, a key part of our commitment to operational excellence in our long-term cost efficiency strategies. Second, we met our manufacturing and ESG&A cost reduction targets ahead of schedule, resulting in an annual savings of approximately $32 million, a key part of achieving our long-term EBITDA and margin goals, and demonstrating the commitment of the NCI team to achieving our goals. Lastly, we produced double-digit growth in our insulated metal panels products, demonstrating the continued value of the product line and our ability to sell IMP for our legacy businesses, which is a key part of our long-term strategy.

As one of the fastest-growing building products in the country, the strong growth of insulated metal panels is becoming an increasingly larger contributor to our financial performance, representing approximately 26% of our revenue in 2017 and 42% of our consolidated EBITDA. The growth is driven by accelerated adoption rates in the marketplace and taking advantage of sales through our legacy business channels.

During 2017, NCI also faced a fair number of challenges. As we had shared, from May forward, we experienced an ongoing market hesitancy that negatively impacted our second half. This hesitancy continued into the fourth quarter, but we began to see a recovery in late September and early October. These lower-than-anticipated volumes in our billings and components businesses adversely affected our margins, manufacturing utilization and absorption, and slowed the timing of the pass-through of higher steel costs.

On our last call, we also discussed the potential impact of Harvey on NCI, which is later compounded by Irma. The collective impacts on Texas, Florida and Louisiana dampened revenue in Q4 by about $16 million, with Buildings experiencing the greatest impact. While the hurricanes provided a short-term dampening, historically, we have seen that these types of events can drive additional demand during the recovery period. Texas and Florida are some of the country's most active construction markets. And we would anticipate that over the next 12 to 18 months, we would see this be a net positive for our businesses.

As I previously stated, despite of these overall challenges, we finished our fourth quarter on a strong note. And so far, we are pleased with the early indications for Q1.

Looking into next year's markets, we currently expect low-rise nonresidential construction starts will continue to grow mid-single digits, with the adjustable markets for our legacy businesses growing 2% to 4%. IMP, based upon increasing market penetration, should continue to grow at low double-digit rates. Our current backlog in income and order rates and Buildings and IMPs support these assumptions.

Now let me turn the focus towards our vision for 2018 and beyond. Our strategy is to leverage our advanced managed legacy platform to drive higher end market growth rates to expand and envelope solutions for our customers. This is what we referred to as adjacency. The concept of adjacency is an important part of our future growth, and is based on our ability to pull adjacent and complementary products through the advantage sales platform that our legacy distribution channels have created. Specifically, in addition to the direct sales channels of our IMP brands, we have been able to leverage the 40-plus year network of builders, dealers and customers in our Components and Buildings segments to expand the variety of end market users for this product. We have been able to replicate this model with our door business as well. And as a result, sales of IMP in doors through legacy channels have increased 16% and 33% (corrected by company after the call) year-over-year. We believe this ability to drive adjacent products through our legacy channels is a core competency of NCI, and we're uniquely positioned in the marketplace to accelerate further growth in these 2 product lines, along with other feature potential adjacent products.

As I mentioned on our last call, my 3 key areas of focus going forward and over the next 3 years are: first, the implementation of advanced manufacturing, where investments in automation and process innovation will further drive down our operating costs, improve margins, quality and service, and enhance our long-term operational flexibility; second, continuous improvement, where we will take advantage of the great work that has been done in manufacturing and delivering further cost reductions, with Lean and Six Sigma initiatives across our entire business, further reducing operational excess back-office costs and simplifying the business; and third, NCI solutions, our growth strategy around insulated metal panels and our ability to drive adjacent products across the engines of our legacy distribution channels. These initiatives make 2018 a critical year for NCI. The impact by 2020 will be $40 million to $50 million, delivering margin expansion, ESG&A reduction and EBITDA expansion.

The NCI team is excited about the potential for our company. Our employees are committed to our values of personal responsibility, commitment to excellence and creating an exceptional customer experience. We are confident 2018 will be a better year than 2017, believe we are off to a good start and are excited about what the future holds for us. Our overwriting objective remains to establish a business platform that enables NCI to outperform our addressable market within the low-rise nonresidential marketplace, while allowing expansion of our operating margins. We now have a more efficient cost structure, demonstrated success in leveraging IMP sales to the Components and Building groups and the ongoing implementation of the proven concept of product adjacency. Combined with the rising demand for key products, these strategic actions will prepare us for the long-term growth in 2018 and beyond.

I look forward to answering your questions at the end of the call, and I will now turn the call over to

Mark for a review of our fourth quarter financial results and first quarter guidance.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Thank you, Don. As is customary, we have provided a review of our 2017 fourth quarter financials in both the earnings press release issued yesterday and the quarterly supplemental presentation, which is posted on our website.

Now I'll add some additional insight to our results. Even with reduced activity levels due to the disruptive hurricanes, we were able to post year-over-year revenue gains in the fourth quarter. Revenues were at the higher end of our guidance, and were driven largely by strength in our Components business, including the insulated metal panel product lines, offset by weakness in the Buildings systems volumes. The weather disruptions had a disproportionate effect in our Buildings system segment due to the larger transaction sizes and longer lead times from order to delivery.

Though gross margins were below our expectations due to the combined impact of both hurricane-related disruptions and the pass-through of higher cost materials, our continuing focus on cost reduction and more efficient resource utilization enabled us to offset some of the impact on gross margins and to achieve sizable reductions in our ESG&A costs, which were below the bottom end of our guidance range.

The combination of lower gross margins, somewhat offset by lower ESG&A costs, allowed us to deliver an EBITDA that was within our guidance range. We estimate that fourth quarter EBITDA was negatively impacted by approximately $8.5 million due to hurricane-related issues, including job site disruptions, uneven production flow and elevated transportation costs.

Total revenues for the fourth quarter were up 1.8% year-over-year, which was driven largely by continued gains in price realization throughout all of our business segments and volume growth in our legacy Components and insulated metal panel product lines. This was partially offset by lower volumes in the Buildings segment due in large part to the weather disruptions.

Excluding the estimated hurricane impact, our year-over-year revenue growth would have been approximately 5.1% for the quarter. Our gross margins were 23.8%, which was down 1.4 percentage points from a year ago, about 2/3 or approximately 90 basis points of this reduction related to the hurricane disruptions. The remainder relates to higher input and transportation costs.

I am pleased to report that in both the Buildings and legacy Components businesses for the quarter, we have successfully passed through higher steel input costs and are achieving higher year-over-year per-ton spreads over material cost, which was not the case for the Buildings Group earlier in the year.

Despite the dollar gains in spread, on a percentage basis, the spread margins were still below the prior year. Eliminating both the hurricane impact and the spread percentage variance, our cost-reduction efforts from manufacturing drove a 70-basis-point improvement in year-over-year fourth quarter margins. Please refer to our supplemental presentation for an analysis of our change in gross margins and a summary of our cost-reduction programs to date.

ESG&A decreased year-over-year as a percentage of revenue by 140 basis points and, again, came in well below the low end of our guidance range. As Don mentioned, we expedited $8.5 million of annualized ESG&A actions planned for next fiscal year to the fourth quarter of 2017, adding to the $3.5 million realized in fiscal 2017. ESG&A expenses were also lower as a result of lower incentive compensation costs, which are aligned with EBITDA performance.

During the fourth quarter, as part of our annual assessment of goodwill, we recorded a $6 million noncash impairment of the CENTRIA coil coating business, which is currently included in our Components segment, along with the rest of the CENTRIA operations. The coil coating operations of CENTRIA were a relatively small part of the CENTRIA acquisition. And while the fair value of the combined CENTRIA businesses is well in excess of the book value, on the stand-alone basis required for this assessment, the coil coating operations indicated impairment.

On a related note, in light of our recent management changes, we expect to revise our segment reporting as early as the first quarter of 2018, which will likely result in reporting the CENTRIA coil coating operations within our Coatings segment and the formation of a separate reporting segment for insulated metal panels. We expect to support any such segment changes by providing the related historical quarterly information, as appropriate.

Before turning to our outlook, I'll highlight a couple of items from our balance sheet and cash flow. During the fourth quarter, we generated $63.3 million in operating cash flow, partially driven by reductions in working capital. Directionally, we are pleased with the reduction in working capital, but note that the metrics continue to remain higher than historical periods. Based on annualized trailing 90-day calculations, our DSO was 35.1 days compared to 33.6 days at the end of the preceding year. Similarly, our days of inventory were 51.5 days compared to 47.7 at the end of 2016. These incremental days, including the related impact on payables, represent as much as $30 million in incremental working capital, which we will be working to release in fiscal 2018.

Looking at uses of cash for a moment. Debt reduction during fiscal 2017 was $10.2 million, and our ending net debt leverage was 2x, which is below our targeted 2.5 maximum. Capital expenditures during the year were $22.1 million, which was below our guidance of $25 million to $30 million due to timing of expenditures, effectively moving some investment into 2018. Share repurchases during fiscal 2017 were in aggregate of $41.2 million at an average purchase price of $14.68. This follows the $64 million in repurchases made in 2016. And I will also report that in fiscal 2018 through this last Friday, December 1, we have purchased an additional 1.5 million shares for $24.4 million at an average purchase price of $15.98. This leaves approximately 27 million remaining under the currently authorized share repurchase plan at that date.

Turning now to our outlook. Consolidated backlog is up 5.8% year-over-year to $546 million. As Don mentioned, based on our leading indicators, we expect our legacy business to track in the range of 2% to 4% growth for the addressable portion of low-rise starts for fiscal 2018.

Our IMP product lines are expected to continue growing at a low double-digit rate, as we see solid underlying demand that should drive this momentum to the next 12 months. Also, as mentioned, we have finalized the first phase of our cost-reduction initiatives for ESG&A and manufacturing during fiscal 2017. We expect future investments in advanced manufacturing and process innovation will further drive down our operating costs. To avoid confusion, the remaining elements of our prior cost reduction programs have been combined with the updated opportunities we are targeting for 2018 and beyond. Over the next 3 years, as compared to 2017, we are targeting total cost reductions and efficiency improvements of $40 million to $50 million prior to the impact of annual inflation. We estimate annual inflation will range between 1.5% and 2% during that period.

Capital expenditures, which were 1.2% of revenue in 2017, and have typically averaged around 1.5% of revenues, are expected to be higher in 2018 to fund the initiatives Don mentioned earlier for advanced manufacturing and process improvements and for the carryover of projects from 2017. Growth expenditures are anticipated to be in the range of $45 million to $55 million for the year and be funded from operating cash flow. Of this amount, almost half represents growth or productivity investments. We generally expect the growth and productivity investments included in our plan will provide minimum returns of 25% or more, and we are prioritizing projects with short payback periods.

Finally, over the last several years, we have incurred various special gains and charges related to cost restructuring and disposal of idle or non-core assets. We expect to see continued activity in these areas, incurring both charges and gains during 2018. However, such items as currently contemplated should likely offset in the P&L for the full fiscal year and result in positive net cash flow in the aggregate. We will continue to identify these items separately in the reporting of our operating results each quarter.

With respect to our outlook for the first quarter of fiscal 2018, we estimate consolidated revenue will range between $390 million and $410 million, with adjusted EBITDA ranging between $24 million and $34 million. In addition, gross margins are expected to improve compared to last year due to cost structure improvements and lower expected headwinds from escalating steel costs. As a reminder, we have provided additional guidance for the first quarter in the supplemental presentation posted on our website.

And now, we will open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Matthew Bouley with Barclays.

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Matthew Adrien Bouley ***Barclays PLC, Research Division - Research Analyst***
I just wanted to start out, I guess, with a question on the first quarter guidance. You highlighted some improvement on the market in September and October. So could you elaborate a little on the magnitude of that improvement? And also just outline if your first quarter guide embeds any further disruption from the hurricanes. So, really just trying to understand to what degree we can look for additional improvement in the business beyond the first quarter.

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Sure. Thank you for the question. As we noted, we saw the hesitation start to wane in September and October. We saw a pickup in the single skin business especially at that point. The hurricane impact, we didn't see go through the quarter, as we noted. The impact was approximately $16 million in revenue, with the broader impact on the building's organization. We do not see that hurricane impact carrying over into Q1. As we noted, we do see, over the next 12 to 18 months, that we would anticipate we would get an uplift from that activity. And then our view remains consistent with what we have said. We anticipate that for 2018 that low-rise nonres is going to be somewhere in the mid-single digits, and that our addressable market will be somewhere in the 2% to 4% range for growth. And we're optimistic about the year.

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Matthew Adrien Bouley ***Barclays PLC, Research Division - Research Analyst***
Okay. Second question, just shifting to the cost side. The $40 million to $50 million you've outlined, it sounds like maybe $30 million or so incremental to what -- to the original initiatives. So, I just wanted to understand kind of the timing of when these savings will start to roll in over the next 3 years if we can expect to see some later in fiscal 2018? And then just what's the breakdown between the cost of sales and ESG&A there?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Sure. The incremental amount, depending on whether you're at the high end of the range or at the lower end of the range, is probably $35 million to $40 million. So a little bit more than what you suggested there. The realization of those cost reductions is significantly weighted towards the second 2 years in the window of target reductions there, '19 and '20. Significant activity will occur in '18. That will set us up for a strong realization in '19 and '20. I would say that the breakdown between the cost reductions between cost of goods sold and ESG&A is approximately 50-50, but that's not a precise breakdown.

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Operator
Our next question is from Bob Wetenhall with RBC Capital Markets.

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Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
I wanted to ask you guys about pricing discipline. It's very strong in the quarter. Very impressive. Have things changed on the pricing side? Or has your go-to-market strategy changed? Can you give an update on how to think about price versus cost? And what's the competitive landscape look like versus engineered steel products relative to competing materials?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Great. Bob, you were breaking up a little bit, but I think we've got the gist of the question. So what's the pricing environment in respect to the pricing we expect to have in the fourth quarter.

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Sure. And so, I think in the fourth quarter, we saw competitive pressure in the single skin business, as we'd indicated before, and we were focusing on assuring that we were getting strong price realization and balancing that with share. And we think that, that ended favorably for us. We feel like we were, as we work through the quarter, that we're doing better in getting price versus the steel pass-through costs and have made improvements on that front. Then from a competitive landscape going forward, we continue to see us managing that balance of price realization in the organizations. We don't see any material issues from a competitive landscape perspective. I think everything on all fronts appears to be evenly balanced at this juncture. And relative to the positioning of our products against competing products, Mark can speak to that in a little bit more detail. But from an overall kind of cost-of-living change in pricing of the other products we compete against, we continue to feel we are advantaged based on historical perspectives and view that from a favorable perspective heading into 2018.

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
No, I would agree. While steel prices have been relatively volatile over the last 2 years and have grown substantially, that's following a period where they declined substantially. So on a relative competitive basis, the steel products that are in our portfolio are not disadvantaged.

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Robert C. Wetenhall ***RBC Capital Markets, LLC, Research Division - MD in Equity Research***
And you guys have some of bit of well-managed company for awhile, and it sounds like you're coming up with a lot of new ways for cost savings. Could you give us a couple of concrete examples? I'm surprised. You must be digging deep into the closet to find some other opportunities to cut down SG&A and improve profitability. What are those action items specifically? And the excess cash that you generated, it sounds a little bit like you have a very good visibility on top line. You're going to benefit from a lot of margin expansion going forward. You're going to have a lot of free cash flow, and I think Mark is busy buying back the stock. Is it going to be kind of the big margin expansion story with more free cash flow going back in the buybacks? Or are you going to look at M&A?

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

There was a lot into that one, Bob, so we'll work through it and try and capture the salient points associated with that. So relative to specifics around the savings programs of the $40 million to $50 million, there are, as we've highlighted, 3 key areas that we're focused on. The first one is advanced manufacturing, where we see, we have a lot of opportunity in applying automation across key process areas for us. The first area is frames within our Buildings business, and we've begun making investments in automation there. And we think there's an ability to take out costs and materially improve quality and service levels and give us operational flexibility by automating a portion of our frame manufacturing process. The second key area is in door manufacturing that is very labor-intensive, especially in the movement and transfer of the product and the basic manufacturing. And we have identified and designed an automation strategy for that, that we are in the process of implementing. And we see material opportunity for that business. And the key there is we view that as an important growth area for us, as we've talked about, as it's one of the adjacent products that we are driving through our channels, and that adjacency's a core competency in being efficient to manufacturing those doors as we want to grow at an accelerated rate is critical to us. So we're excited about the opportunity there. The third area is in trim manufacturing, which had a lot of variability, a lot of complexity, a lot of handling. We have done some investment upfront, but we continue to expand that investment. And in the last area of advanced manufacturing is around insulated metal panels and improvement in the continuous processes that we have there in improving the yield for those products. So these are very tangible initiatives. We have them laid out. John Kuzdal, our Head of Manufacturing, and his key players have these initiatives under way, which is, as Mark noted, we see '18 being a critical year of investment in this, with greater returns in '19 and '20. On the business process, excellence and continuous improvement front, I'm really excited about what's going on here. In 2017, we had about 24 projects that yielded nice returns, and we trained 200 employees in the continuous improvement approach. We have 5 black belts, and we are training more green belts, for those familiar with the approach. And in 2018, we anticipate having 400 trained employees. So as you know, this is something you drive and build into the culture and make as a competency for your organization. So 200 employees going to 400 employees. And into '19, you would see that expand. A lot of excitement around that, and we just see opportunities in cost and in simplification. In simplification, removing complexity from our business as we grow is a key part of it, and we are tracking and seeing the opportunities. They have over 80 projects identified for 2018 that they are working on across all aspects of our business. And as we highlighted before, this is taking the expertise of John Wallace, who did this work for us in manufacturing and Lean and Six Sigma, and is now deploying that across the commercial side of our business. And then on the back office consolidation, the primary opportunity there is bringing to final closure our engineering and drafting consolidation, along with other back-office opportunities. So we're excited, too. We have great line of sight to the initiatives that will get us to the $40 million to $50 million, and the team is committed to it and motivated and incented behind it. And we have the teams identified and the ownership identified within the organization.

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes. Just finishing that off from an effect on the financial statements, it's definitely items that are oriented towards increasing our cash flow, increasing the margins of the company. And we're very optimistic on that front, particularly with the fact that we see opportunity in working capital as well. So across virtually all fronts of cash flow, we're pretty bullish. From a capital allocation strategy and priority perspective, that hasn't changed. We continue to prioritize, first, the funding of the critical initiatives that we're describing to you to drive some of those improvements. Secondly, we will maintain our debt leverage in a comfortable place, not letting it get above 2.5x. And then thirdly, utilizing excess cash flow, as you've seen us do recently, in repurchasing shares, and that is done opportunistically. So I think to sum it up, I think we're pretty positive on those points.

Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
And the last piece where you asked about M&A, as we've shared relative to that capital allocation strategy, we will be opportunistic over the next 18 months. And then past 18 months, we will become more aggressive and methodical on building out a portfolio of targets associated with that. So we're still on track with that time line and thought process.

Operator
Our next question is from Lee Jagoda from CJS Securities.

Lee M. Jagoda ***CJS Securities, Inc. - Senior MD & Analyst***
So just starting on the cost side, you called out the $32 million in annualized cost savings and the 20-some-odd million that you've realized to-date. How much of that's actually dropping to the bottom line? And what are some of the offsets to the gross numbers there?

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Sure. Good question, Lee. And I appreciate the perspective of the question, given that we've had relatively strong success with our identified cost-reduction programs, and yet our EBITDA for the year is only up 1% year-over-year. And so during the year, of the $23 million of cost reductions that we've realized to date, $11.4 million of that was realized in 2017, which is incremental over '16. But there are some offsets against that. And if I just kind of step through the EBITDA walk from '16 to '17, that might help. There's effectively 3 positive items in our EBITDA performance versus 2016. The first one is there's this relatively small volume increase year-over-year, which drove about $8 million of incremental contribution margin. Second positive item is the cost reductions, which we did realize, which are identified, targeted, highly visible eliminations of cost within the organization, and that's $11.4 million. And then our incentive compensation year-over-year was lower by about $6 million. So 3 strong, positive items, but those are offset by a couple of negatives. The first one is the hurricane impact, which was all in the fourth quarter, and amounted to about $8.5 million in headwind to the earnings. And then

secondly, something that we've been talking about in all 4 quarters of this year has been the year-over-year comparison of the pass-through of those rapid rise in steel costs and our ability to get that pushed through. On a year-over-year basis, as it pertains to the dollar amount of EBITDA, that resulted in about a $9 million headwind year-over-year. And then lastly, annual inflation does offset those cost reductions, and that amounted to about $6 million during the year. When you net all those out, EBITDA is up about 1% year-over-year.

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Lee M. Jagoda ***CJS Securities, Inc. - Senior MD & Analyst***
Great. That's very helpful. And then just as it relates to your guidance for Q1, obviously a pretty wide range, about $10 million low to high on the EBITDA side. Can you talk about your market environment and sort of other qualitative assumptions by segment that would get you to the low end, and then that would get to the high end in Q1?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
So, sure. I'll start. The challenge historically for us in the first 2 quarters of any given year is the seasonal nature of our business. So those -- the first 2 quarters are the seasonally weakest periods and subject to the most variation. We'll often have situations where Q1 is strong and Q2 is weak. And it's kind of weather-dependent, which is what drives the seasonality in the construction business in general. So we do tend to have a wide range relative to the earnings in those first 2 quarters because of that level of variability.

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
But if I'm speaking to how we're looking at Q1 and Q2 and heading into the year, as Mark noted in his comments, the consolidated backlog is sitting at 5.8%. The Buildings backlog is sitting at approximately 8%. We see the insulated metal panel business is on pace for the low double-digit growth that we anticipate out of that business line. And our leading indicators continue to support the addressable market growth of 2% to 4% that we see. So our customer base is optimistic, and all the customers I've been talking to over the last 30 days are more optimistic than they have been in a while. So we're pleased with how things are kicking off heading into the new year.

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes. One last point to add there is an opportunity to remind everyone about the seasonality of our business. Over the last several years, there's been a very strong tendency to have about 45% of our business, revenue-wise, produce in the first 2 quarters of the year, and then the remainder of the strong part of the year having the 55%. And then from an EBITDA perspective, though, because of the leverage across the operating structure, earnings in the first half of the year tend to be about 33% versus the 2/3 being in the second half of the year.

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

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Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
IMP, the upper-teens EBITDA margins in insulated, is that sustainable just when you consider everything you're thinking about doing over the next few years? Or do you need a certain mix of products and markets to kind of sustain that level?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
I would say that it assumes a balanced mix across the 3 levels of insulated metal panel products. So that makes this cold storage, which is at the low end of the margin; industrial, commercial, institutional, ICI, which is at the midrange; and then architectural, which is it at the high end. And as you've seen before, we have variations in that mix quarter-to-quarter, which can drive profitability, but we generally get a nice balance over time. And so, right now, our mix is where we'd like it to be, and that can create some variation quarterly. But I think we're well positioned based on what we see as our current backlog, which gives us, in that business, 6 to 12 months' visibility that we are where we would like to be for that business.

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Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
Okay. So, Don, when you look at this quarter, you'd say it's a relatively balanced mix of those markets?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
From our current visibility, yes, but we also have a tendency in the first half, when there's colder weather, to see a greater preponderance of cold storage because a lot of that work is done indoor. So we could possibly see a heavier balance towards cold storage in the first half. There's a probability of that.

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Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
Got it, okay. And then just one on Buildings systems and some of the implications this quarter to hurricanes. Just curious kind of how much of that cost impact trails into the first half. I know you should probably get some net benefit from a volume standpoint. But I'd presume plant utilization production should normalize, but are logistics, transportation costs, any other sort of variable costs still kind of issue as you move into the first half?

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

I would say that transportation costs continue to be elevated. And so that does continue to be a challenge and present a headwind, but I wouldn't call that material.

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Operator
Our next question is from Steven Fisher with UBS.

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Steven Fisher ***UBS Investment Bank, Research Division - Executive Director and Senior Analyst***
I'm wondering if you guys got any feedback from your customers or dealers as to why the hesitancy and lift in the market at the end of September?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
We've spent a lot of time in the marketplace understanding the hesitancy and then the lift. And the reality becomes there were a wide variety of factors around the hesitancy, and there is no one singular factor. It was labor. It was health care. It was optimism. And now, we're just consistently seeing across-the-board no particular reason, but again, increasing optimism and investment. And it has progressed from -- we started seeing it pick up first in the larger builders in the larger-sized buildings that we focus on, and now it has moved into secondary levels of customers and a broad spectrum of buildings. Probably a little bit stronger right now in more of the smaller commodity-sized buildings, but we're seeing a nice spread across the whole portfolio. So there's not one particular reason that we're hearing in the marketplace.

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Steven Fisher ***UBS Investment Bank, Research Division - Executive Director and Senior Analyst***
Okay, that's helpful. And I know you expect the hurricanes to be a net positive over the next 12 to 18 months. Can you just give a little more color on the pace of how that flows into revenues? And what has to happen for that flow? Is it tied to any sort of federal funding or sort of local initiatives? Can you just talk about that?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Yes. It's more tied to, over time, when people start getting their insurance payments, when they start making decisions on when they want to rebuild, how they want to rebuild. And you'll start seeing the maintenance and repair work come through first, and then the larger buildings' replacement come later. And it will vary based on the type of events and whether it was more of a wind event, like in Florida, or it is more of a flooding event. So really, it's driven more by -- the greater impact, for us, is driven more by when people start getting the payments to replace their buildings and start making those decisions. And that's why the lead time can be longer on that front to, one, work throughout the insurance; and then, two, work on the building design and the investment and what they want to replace with.

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Operator
Our next question is from Scott Schrier with Citi.

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Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***
I wanted to ask you about what you're seeing in the marketplace from a labor perspective. Obviously, a lot of the construction industries have been impacted by the availability of labor. Is there a potential whether it's a headwind to your 2% to 4% estimates on labor? Or conversely, do you see incremental opportunities, given the fabricated nature of your building structures for more material conversion?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
I would say in general that for the construction industry, labor will continue to be a challenge. And we believe that we have reflected that in our views of the market and how it was going to grow. And that our builders are reflecting that in their views and how the market is going to grow. I don't see something that will flip that to accelerate the growth. I could see that if things happen in the marketplace that wanted to push a lot more volume through the market that, that could be kind of a challenge if you're looking for a material accelerated growth. But right now, based on what we're seeing and hearing, we're comfortable with the pace we have identified, but it is and will continue to be a challenge for our sector.

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Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***
Got it. And a follow-up. Just wanted to ask on tax reform, how that's played in the way you're looking at your business, be it the buybacks, be it the cost-reduction programs. And also from a customer perspective, what you're hearing from them as it relates to the way they look at moving forward with projects.

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Yes. So we've done a preliminary view of what the impact of the legislation would be on NCI. And while it's, of course, not finalized and you have 2 different bills in both Houses of Congress, a very rough estimate is that, to NCI, our effective tax rate would come down as much as 8% to 10%, because there are -- while you're lowering the overall tax rate, you also are taking away some deductions. So we view it as very positive to cash flow and would be incremental to the current view I was describing earlier about our optimism there. Across our customer base, I would say they share that same general sense that they see it as a positive to their business and the cash flow that they can produce with their business and the investments that they might make with that.

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
And as we've shared before, the preponderance of our customers are small- to medium-size businesses,

and a lot of their customers are small- to medium-size customers. They would view this favorably. They would like to see this get done. But, candidly, I'd say a lot of them are still, even at this point, in a wait-and-see mode. But they're cautiously very optimistic about it.

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Operator
Our next question is from Trey Grooms with Stephens Inc.

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Trey Grooms ***Stephens Inc., Research Division - MD***
Really, the only one I have left is on the cost headwind, Mark, that you notated of $9 million from steel. So is that -- I guess, really trying to figure out how we'd look at that going forward. Should you get all that back now? Is that kind of based on where the price cost is today? Or is there some opportunity to see some material spread actually improve from the price actions you've put in place?

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Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
Yes. The short answer is, broadly, I would expect to get that $9 million back over 2018. The important thing to remember is that coming into 2017, there had been a rapid increase in steel prices preceding the quarter before 2017. And that's really what put the pressure on right out of the gate, and it was significant. From the low point to the high point, steel costs went up 55%. And all of that got pushed through ultimately by the end of the fourth quarter, but progressively throughout the year. So there was a negative impact that developed in the first 3 quarters of the year. That same environment doesn't exist today. Steel prices have been volatile, but nowhere near that kind of increase coming into 2018. So I do anticipate we would be speaking less of that topic in '18.

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Trey Grooms ***Stephens Inc., Research Division - MD***
Great. And then on the 2% to 4% improvement for the legacy business for your addressable market, it seems like with the backdrop that you guys are kind of explaining in the backlog and some storm impact and some of that, it seems like there could be maybe some upside to that. So -- or maybe that, that could be maybe a bit of a conservative approach. Can you talk about what you're seeing out there that maybe could lead to some upside, where you think there could be some outperformance yet from that range relative to your end markets that you address?

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Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Right. No, fair question. I think right now, what we are trying to do is take a balanced view of what we see going on in the marketplace, looking at our consolidated backlog, looking at the time that, that will take the flow-through. We do see optimism in our customer base, but we still believe, based on our leading indicators, that it still shows this 2% to 4% for our addressable markets. There are things that could favorably impact that, but there's just no way to predict when and how that would flow through.

Now the examples aren't precisely when the favorability associated with the storms will flow through based on the timing that I described earlier. It's difficult to predict, and there will be difficulty to predict exactly on how this tax reform may or may not go through and what final shape it will take, and then based on whether things are immediate or delayed. How that will affect the business, but both of those could be favorabilities that are virtually impossible for us right now to speculate on how that might impact our top line.

Trey Grooms ***Stephens Inc., Research Division - MD***
All right. That all makes sense. I appreciate the color, and good luck, guys. And also, I wanted to say, before I hope off, the incremental savings you guys are outlining and the good work you guys have done on the ESG&A side of things is very encouraging, and good luck.

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

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

Operator
(Operator Instructions) Our next question is from Barry Haimes with Sage Asset Management.

Barry George Haimes ***Sage Asset Management, LLC - Managing Partner and Portfolio Manager***
Don, just a quick follow-up on the lifting of some the hesitancy. As you're talking to customers, is -- does the pending tax bill come up as a frequent factor in that? And then secondly, are there any either end markets or geographies that stand out in that change, or not?

Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Yes. I think when I talk to all the customers, they're, right now, candidly, more focused on their business and what they see in front of them. And I think they evolved to themselves into not betting on the come on what's going to happen in Washington. And so their optimism is genuine on what they're seeing in front of them. And when you then delve a little bit more and talk to them about some of these factors, they're all clearly supportive and excited if this gets through, but they're not betting on the come associated with it. As you know, they -- this group of customers went through some really difficult periods in the past, and they don't want to get over their skis associated with that. But they are definitely optimistic about it and would like to see it come to fruition. Mark, would you like to...

Mark E. Johnson ***NCI Building Systems, Inc. - CFO, EVP and Treasurer***
No, I think that's a great summary. The underlying optimism is there, and it isn't dependent on tax reform. But I would say that if tax reform didn't pass, it probably would derail a little bit of that.

Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
Be a little dampening on the organization. And in the underlying markets, there's not any one market that's actually out of line right now for us across the country. I think we laid out in the supplemental and in Mark's comments where we see activity. As you would expect right now, people rushing to get work in, in the Northeast associated with winter. But all in all, we're seeing good balance across-the-board.

Barry George Haimes ***Sage Asset Management, LLC - Managing Partner and Portfolio Manager***
And then just one quick follow-up on the tax bill. Do your products, Metal, Buildings and so forth, would they qualify for the 100% depreciation write-off? Should that be part of the bill or not? Just what kind of impact could there be from that?

Donald R. Riley ***NCI Building Systems, Inc. - CEO, President & Director***
I can't give you a precise answer on that, but I would expect that the answer is yes.

Operator
There are no further questions at this time. I would like to turn the conference back over to management for closing comments.

Darcey Matthews ***NCI Building Systems - VP Investor Relations***
We thank everyone very much for your interest in NCI today, and we look forward to speaking with you soon. Have a good day.

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