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# EDITED TRANSCRIPT

NCS - Q3 2016 NCI Building Systems Inc Earnings Call

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AUGUST 31, 2016 / 1:00PM, NCS - Q3 2016 NCI Building Systems Inc Earnings Call

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Marshall Mentz** *RBC Capital Markets - Analyst*

**Steven Fisher** *UBS - Analyst*

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

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

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

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

## PRESENTATION

### Operator

Greetings and welcome to the NCI Building Systems third quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Darcey Matthews, Vice President of Investor Relations for NCI Building Systems. Thank you, you may begin.

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

Thank you, Melissa. Good morning and welcome to the NCI Building Systems call to review the Company's results for the third quarter of fiscal 2016. 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 would like to advise you that during the 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 that we filed last night. We undertake no obligation to update any forward-looking statements beyond what is required by applicable securities law.

In addition, our discussions of operating performance will include non-GAAP financial measures. A reconciliation of those measures with the most direct comparable GAAP measures are included in the earnings release and our quarterly supplement presentation, both of which are available on our website.

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

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

Thanks, Darcey. Good morning, everyone. As you know, our third quarter earnings were released last night. This morning I plan to provide a few brief comments before I turn the call over to Mark, who will offer additional details regarding our third quarter financial performance. After that we'll be happy to take your questions.



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I'll start by sharing with you key highlights from our third quarter. First, I'm pleased to say that, thanks to our improved platform of manufacturing supply chain management, combined with ongoing strong commercial focus and discipline, we have delivered a meaningful year-over-year improvement in gross profit margin and EBITDA in our third quarter. Gross profit margin expanded 380 basis points and adjusted EBITDA increased by 50% on a year-over-year basis. This operational platform that we have created and successfully put in place over the past two years is allowing us to generate both top- and bottom-line growth on a more predictable basis.

Second, and directly related to my platform, we were able to deliver better than originally anticipated financial performance this quarter in a rising steel price environment because of our manufacturing supply chain team's ability to convert higher volumes, supporting the excellent job our commercial team did working with their customers. While demand for our products was good across all of our businesses, we do believe that rising steel costs prompted some of our customers to pull forward as much as \$5 million to \$10 million in sales that would have likely occurred in Q4. Over the years, similar pull forward is rather routine in a rising steel price environment. While this has no impact on our fiscal year, it does impact the individual quarter's reported revenue.

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

Our commercial team has done a superb job in remaining very disciplined in the face of rapidly rising steel costs, something that we have dealt with many times in the past. Third, our year-over-year volume increased by 11.6% which, similar to the preceding several quarters, exceeded the underlying 9.9% growth in revenue. While all three of our segments, including the insulated metal products, performed very well, our components business was particularly strong due to increased demand for both our legacy single skin components and insulated metal panel products.

In addition, not only did the coating segment continue to benefit from robust internal volume, external volumes also showed very strong growth. Our building segment also delivered a strong year-over-year improvement in volume, gross profit, and margin. We have worked hard at reducing our manufacturing logistic costs to optimize our manufacturing in order to create the kind of operating leverage that allows increased volume to drive the higher efficiencies in our manufacturing and result in higher capacity utilization.

In fact, manufacturing efficiencies was again a contributor to improved margins this quarter, accounting for approximately 40 basis points of year-over-year improvement. Fourth, we continued to generate above-market growth in insulated metal panels driven in large part by the strength of our internal distribution network developed over the past -- several decades. And product substitution from traditional building products, resulting from a higher energy efficiency regulations throughout much of North America.

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

Strong demand from some large market segments in cold storage and higher-margin mix resulted in material increases in the IMP in both the volume and margin. We accomplished all this against a background of modest growth in non-res construction starts. Our buildings groups bookings improved on a year-over-year basis, which supported our backlog growth of 3.5%. On a consolidated basis including insulated metal panel projects, our backlog has increased by just over 10%. That's a very healthy backlog to take into Q4 and in the start of 2017.

Finally, the impact of the internal improvements we have implemented over the past 2 1/2 years can be seen in the 54% increase in our trailing 12 month EBITDA. And there should be more to come as we plan additional material ESG&A, both process improvements and manufacturing efficiencies. Now, a word about the industry. The leading indicators that correlate most closely to our actual volumes are low-rise, non-construction starts. The residential single-family starts, the ABI mixed-use index, and the leading economic indicator. Taken together, these indices continue to suggest 4% to 6% growth in low-rise construction starts for the remainder of this fiscal year and the first half of next year.

I would like to leave you with one last comment. The operating platform we have created, combined with the organizational changes we have implemented over the past 18 months, has given us the flexibility and speed to respond to increased demand and take advantage of market opportunities. This contributes to our confidence of continued success in execution and financial performance. Now, Mark will take you through more details.

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

Thank you, Norm. As usual, we have provided a review of our 2016 third quarter financials in both the earnings press release issued yesterday and the quarterly supplemental presentation posted on our website. I'll now take a few minutes to add some additional insights to our results. Overall, the third quarter was within the range of our expectations and in line with the midpoint of the revised guidance we gave on July 18.

Key drivers in the current quarter were similar to what we've seen so far this year: strong volume growth and solid margin improvement. As Norm mentioned, all of our business segments continue to benefit from the improvement initiatives that we began implementing about two years ago, including supply chain management, commercial focus and discipline, and manufacturing and operational restructuring. In addition, during the quarter we were able to successfully navigate the directional change in steel input costs, which began increasing and reached parity with the prior year during the last month of the quarter.

As a result of these initiatives and a successful pass-through of these cost increases, our gross margin grew by 380 basis points to 27.7%, which was at the upper end of the guidance we provided. It should also be noted that this improvement in margin is net of some incremental residual costs related to the ramp up of our Hamilton insulated panel plant in Canada and the discontinuance and relocation of another insulated metal panel facility. Both of these plants reside within the components segment and together these costs reduced margins by an estimated 60 basis points. These incremental costs are expected to dissipate over time as the facilities become fully operational.

Our adjusted EBITDA rose by 51% or about \$19.6 million to \$57.8 million during the quarter from the same period last year. As illustrated on slide 9 of our supplemental presentation, we estimate that approximately \$12 million of this increase can be attributed to underlying volume growth and about \$14 million resulted from margin expansion. Offsetting these positive items were approximately \$3 million of costs from the previously mentioned ramp up and relocation activities in our insulated panel facilities. In addition, by design, our incentive compensation costs are highly correlated to our operating performance and therefore increased by approximately \$5 million as compared to the same period of the prior year.

ESG&A expenses increased by approximately \$6 million from the same period last year due both to the increase in underlying volume of activity and because of higher incentive compensation accruals, which are timed to match operating performance. However, as a percentage of revenues, ESG&A expenses declined to 17.4% in the quarter from 17.7% in last year's third quarter.

Now I'll briefly turn to our segment operating results. Our components group was the largest contributor to year-over-year earnings growth again this period. So far this year, the components group has seen an increase in demand for both insulated panel products as well as our legacy metal components products, which continued in our third quarter, leading to a 15.4% increase in revenues. Importantly, we've seen a notable increase in the demand for insulated panel products through our legacy components and building sales channels on a year-over-year basis, with IMP related bookings in our buildings segment of the last five months increasing 65%.

The underlying demand improvement, enhanced by the commercial and manufacturing restructuring initiatives, as well as improvements in our supply chain effectiveness, have allowed us to improve our operating margins from approximately 7% last year to approximately 13% in the current quarter. The integration of CENTRIA into our operations, which was acquired in the first quarter of 2015, continues to progress as expected and we are beginning to see the favorable impacts from supply chain and costs synergies in our operating results.

The coaters group benefited from not only strong external demand but also from similar increases in internal volumes to support the components and building segments. Higher plant utilization, combined with commercial discipline in the face of rising raw material costs, resulted in operating margins expanding from approximately 9% in the prior year to 12% in the current quarter.

Our buildings group revenue grew approximately 2.6% to \$181 million. The growth rate in this segment has been more subdued when compared to our other two divisions as a result of higher exposure to the weaker industrial and manufacturing end markets. Operating margins in this business increased from 8% last year to 11% in the current quarter. Similar to the other divisions, higher plant utilization and commercial discipline, combined with supply chain effectiveness in the face of increasing steel input costs, are the primary contributors to the margin expansion.

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Now I'll take a brief look at some items on our balance sheet. We ended the quarter with a cash balance of \$50.7 million and pretax unlevered free cash flow -- defined as adjusted EBITDA minus CapEx and net changes in working capital -- was approximately \$38 million for the quarter. During the third quarter, we used cash to continue our debt reduction plan, as well as repurchase outstanding shares of common stock under our amended stock repurchase program. We paid down another \$10 million of long-term debt for a total reduction of \$30 million year to date on our term loan. Following the end of the quarter, we paid an additional \$10 million, bringing us to a total of \$40 million debt reduction in FY16 to date.

Our net debt leverage ratio at the end of the third fiscal quarter was 2.2 times as compared to the 3.4 times at the same time last year. In addition, during July, concurrent with an underwritten registered public secondary offering, we purchased and retired approximately 2.9 million shares of common stock from Clayton, Dubilier & Rice for \$45 million, for a net price of \$15.46 per share. This repurchase was completed at the same offering price less the underwriting discount as the secondary offering, in which approximately 9 million shares were sold by CD&R, which brought their ownership from 58% to approximately 42%.

Turning to our outlook for the remainder of the year. We continue to expect the fourth quarter to be broadly in line with the third quarter in terms of operating results. You may recall that we raised third quarter guidance in July, which included revenues, gross margin and adjusted EBITDA. As a result, the full second half of 2016 will represent a continuation of the trend of modest growth in underlying volumes with strong year-over-year margin expansion. In the fourth quarter, we estimate consolidated revenue will range between \$475 million and \$500 million, with gross margins ranging between 24.5% and 27%. As a reminder, we have provided additional financial guidance for the fourth quarter in the supplemental materials posted on our website.

We believe it is important to focus on the third and fourth quarter trends taken together because, while it is difficult to quantify, our guidance range accommodates the likelihood that some customers, particularly in our components group, may have accelerated project deliveries for as much as \$5 million to \$10 million into the third quarter to avoid some of the rapid increase in steel costs. In addition, the two quarters taken together will encompass the complete increase cycle for steel costs, with the majority of the steel increases and related pass-through to customers occurring in our fourth fiscal quarter. Sequential steel input costs are expected to be approximately 12% to 16% higher in the fourth quarter as compared to the third quarter, so the full steel increase cycle is not yet complete.

Based on our above market growth in backlog, particularly for insulated metal panels, we expect to continue to outpace the nonresidential construction markets through the end of the year. Our analysis of leading indicators for the low-rise, nonresidential new construction starts points to continued mid-single digit growth rates into 2017. With our operating platform solidly in place, we expect to outpace these trends as we have so far this year. Further, we are in the early stages of our three-year strategic initiatives and have only just begun to realize some of the benefits, and we will continue to look for opportunities to cut costs, eliminate redundancies, identify synergies and align our capabilities and capacity with our customers' needs.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Bob Wetenhall, RBC Capital Markets.

### Marshall Mentz - RBC Capital Markets - Analyst

This is actually Marshall Mentz on for Bob. Would you talk about the improved mix within your insulated metal panel products and the length of the runway you see there? And then more generally, your components margin really stands out; even if you compare it to last year's fourth quarter it still looks like about a 350 basis points improvement. How should we be thinking about the margin in that segment going forward?



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

Okay, so I'll start. The insulated metal panel part of our business has shown really good growth in their backlog. And we are particularly pleased because the high-end, the architectural panels that CENTRIA sells, have grown by something like 60% on a year-over-year as part of their backlog, and that's a very good trend for us. And as you know, the CENTRIA backlog takes longer to get out because the sales cycle in the building -- new part of that, because the projects are larger.

The growth that we've seen internally over the last five months again is up from the ICI, which is the industrial commercial and institutional piece, by something like 60%. And again, we see that as a very good trend. And overall, our backlog is very solid in terms of insulated metal panels. When I think about the components part, that's really a function of all the stuff that that team has done over the last two years on pricing ability, in systems and process, the sales force, the focus that the team are bringing to that, the next day delivery, the working with the customers, the outward bound calls, all of the things that we put in place. And they continue to do particularly well.

And they advantage themselves more in the commercial and retail part of the business, and that's been very strong for us. So, when we look forward, we continue to see the opportunity for growth. The components group continues to do very well and we are pleased with where we are there. Mark, do you want to add anything to that?

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

That was pretty fulsome, Norm. Thank you.

### **Operator**

Steven Fisher, UBS.

### **Steven Fisher** - *UBS - Analyst*

Just a couple of questions on backlog. Of that 10% growth in backlog, can you clarify how much of that is volume versus price?

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

I would say it's about 75% volume and 25% price -- so rough.

### **Steven Fisher** - *UBS - Analyst*

That's helpful. And then can you just talk about what the duration of that backlog is? I know you guys have talked about visibility through the first half of 2017. I'm just curious, how much of that backlog gives you visibility through that time frame and when you might get some visibility into the second half of next year.

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

Well, let's start there. The second half of next year we'll be building that visibility in the first two quarters of 2017. That's how that occurs in the buildings group. Because as you know, a backlog is the snapshot at the end of a period, and we are booking all the time and adding to that. So that kind of growth is -- what the market provides and what we are able to do will be visible in that period.



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In the insulated metal panel piece, particularly the CENTRIA piece as I said, that's a longer time to get out of that, so that gives us probably more visibility into 2017. One of the things that I think is encouraging, though, is that that backlog really gives us a starting point that is very good. And we take -- not comfort, but we are really pleased with that backlog. So we are very optimistic about our chances to continue doing exactly what we've been doing, and that's doing better than the market.

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**Steven Fisher** - UBS - Analyst

Okay, but just to be clear, so your current backlog, will that have basically been burned by the middle of 2017?

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

Certainly I would say something like three quarters of it will be burned that way and the insulated metal panels will go a little longer. So we say in the building backlog that it gives us a good two quarters' view of direction.

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**Steven Fisher** - UBS - Analyst

Okay. Thank you.

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**Operator**

Lee Jagoda, CJS Securities.

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**Lee Jagoda** - CJS Securities - Analyst

Just focusing on slide 9 in your commentary, where it talks about EBITDA and the bridge from last year to this year, there's a \$14.4 million increase from what you are calling margin expansion. Given it's the biggest delta there, could you provide a little more clarity?

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

Yes, no, the primary driver there is the improvement in gross margin, with some benefits that are also seen on the ESG&A line. But the predominant factor is the 380 basis point improvement in gross margin. So there's a really good walk forward on that on page 8 of the same presentation. And the same things that we've been talking about in each of the first three quarters of this year are driving that expansion in margin year-over-year. And they are all intertwined and all of the efforts we've made to restructure the business, restructure our focus in commercial, as well as supply chain, and then start utilizing our assets and facilities with a much wider view of their capabilities. So I've broken that margin expansion down into its component pieces on page 8.

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

So, one of the things that's important is to understand that the margin improvement as we go forward will be a function of all three parts of that business. Meaning the commercial activities and the good-better-best approach that we have there in terms of our pricing and positioning of our products. The second thing is our ability in manufacturing to add value and supply chain doing a great job on transportation, as well as their purchasing ability. And then finally, the cost reduction exercises that we are doing.

That, we are really in the fairly early stages of the part that we discussed in December last year. We are probably 50% into that, a little better, in terms of the manufacturing side. And then we have more to do there and get that run rate by -- in 2018 could be really very important. And then



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in addition to that, we have the ESG&A approach that we're taking right now as well, which is at the very early start of it. But together, it's a combination of not just the pricing, not just the spread; it's across the whole platform that we are looking at to increase our margin expansion.

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

Okay. And then just one quick one on tax rate. Can you go through the factors that push tax rate lower in 2016 and how we can think about starting to model that in 2017?

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

The predominant thing that's made our taxes lower is -- versus the prior year, is the fact that we have much stronger net income being produced. And that makes available to us the production tax credits that are available for manufacturing companies. And you can only have those deductions when you have relatively strong profits. So we are taking advantage of that, and we expect to continue to be able to take advantage of that as long as that's in place.

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

Great, thanks.

**Operator**

Alex Rygiel, FBR Capital Markets.

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

Nice quarter. A couple of quick questions. First on the sales that were pulled forward, would you characterize those as on the lower scale of margin opportunity or on the higher scale of margin opportunity?

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

It's probably a wash. And it's in that \$5 million to \$10 million range, and that was predominantly occurring with our single skin business, our legacy business. And again, as I said in my script, that's not unusual. We see stuff like that all the time in steel price increases and that's been the case over the last decade.

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

And then as it relates to your backlog, you mentioned a number of different times there's a little bit of a mix improvement in backlog. I suspect that's because you've seen a greater than anticipated growth in the IMP business, but if you could talk a little bit more about that improved mix, that would be helpful, in backlog.

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

Yes, we focus on three broad scopes of market IMP, and this is in the good-better-best. The cold storage piece is very good to us in terms of the opportunities we have there, in terms of long runs, and that's in our good product mix. And then the ICI, which is the part of the market which gives us the greatest opportunity for growth and penetration, and that's why I mentioned the internal aspects of that. Moving our products through



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our existing distribution channels that we've developed over the last two or three decades, grew in the last five months by 64% on a year-over-year basis. We really are pleased to see that, and that complements our direct third-party sales that we have in that as well. So we are very pleased with how that is coming together. The team is doing really a first-class job.

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

And then lastly on your fourth quarter guidance, what could play out that could cause you to be at the low end of your range?

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

We want to be prudent. We want to be thoughtful on how we go about this, because we are clearly going to see the highest increase in steel costs in our fourth quarter. Now, we are experienced in handling that and working with that. And as you know, over a year's period, that -- those increases are counterbalanced. So, it's a function of where we are in that steel price movement and cycle. So that's the reason why we want to be thoughtful and prudent about our Q4.

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

That's helpful. Thank you very much.

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**Operator**

Trey Grooms, Stephens Inc.

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

Mark, you mentioned in your comments opportunity for additional ESG&A efficiencies. I think you guys have touched on that in the past, but how should we be thinking about that as far as quantifying this opportunity and the timing there?

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

Sure. In the past, we have spoken about really two areas of focus. We've spoken about our restructuring views of manufacturing and efforts underway to really align our capabilities with what our customers' needs are, which is ongoing. And we have ranged that to be an opportunity between \$15 million and \$20 million of annual improvement in cost structure. And we are in the early stages of that.

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

About 50% on that one, right?

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

50% in the actions, but in terms of the actual savings to the bottom line, those are more back-end loaded, so we will start to see that strengthen in 2017 and 2018. In which case we'll get about half of the improvement in each of those two years until we are at the full run rate. And then the other area of focus has been on streamlining our processes and strategies with our ESG&A cost structure. And those have a similar range of \$15 million to \$20 million of process related improvements that we expect to mine over that same period. A little bit more back-end loaded there, where we will start to see some incremental improvements in 2017 and then a stronger improvement in 2018.



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

Okay, that's helpful. And as far as that second bucket there, the ESG&A piece, have you made any progress on that yet, or is that still all on the come?

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

No, we've made a lot of progress with that one. Within this current fiscal year of 2016, we expect we will have achieved about \$6 million of that \$15 million to \$20 million. And that's a little bit covered up by the fact that our operating performance has driven our incentive compensation costs up. So you don't see it quite as well, but it has more than offset inflation and incentive compensation accruals during the current year.

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

Got it. And then my second question is -- I don't know how much granularity you can give us on this, but Norm, if you could, talk about what you're seeing in the Texas market specifically. Last night there was some shaky data that came out from the Texas Comptroller's office around cement shipments in July, specifically in Texas. I know cement is obviously not your business, but a big chunk of cement does go to non-res, so I didn't know if you could maybe comment on what you're seeing there in Texas specifically from a demand standpoint.

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

We continue to see good business opportunities. We have had -- and I don't know what the cement guys are talking about but there certainly was a lot of rain, which is not great for the cement business, throughout this area. But I will say that we are still very active. All our brands are showing great activity. In fact, we even saw a pickup in oil and gas, which was a little bit surprising, but it was up about 2%. And when that's -- we don't expect oil and gas to come back very strong, but it's nice to see that it seems to be off the bottom.

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

All right. Well, that's super helpful. Thanks a lot and good luck in the rest of the quarter.

**Operator**

(Operator Instructions). Brent Thielman, D.A. Davidson Company.

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

Norm, with the backlog up 10% at quarter end, it doesn't really appear there was a lot of pull forward, at least by that measure. Is the comments around the pull forward based more on what you have seen play out in terms of booking and quoting for August?

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

No. The pull forward was strictly things we shipped in the quarter, in the third quarter. So, when we look at bookings, our bookings continue to be pretty good. It's still a choppy kind of environment, but our bookings last week were very good. We continue to do well in the market we have. And our expectations aren't above that. To the extent we get opportunities, we really try to exploit them.



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

Okay. So that overall pace of order activity sustained into August. Is that fair?

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

Yes, absolutely.

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

All right. And then thinking about the building segment in particular, any signs in your internal bookings data or quoting that indicates that industrial peace, which has been kind of a drag, is flattening or bottoming out?

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

It's interesting that when I look at that, we still have seen our industrial part of our business -- has been certainly slower than we have seen in the past. But if you just look at our core manufacturing and warehouse and storage, it's still a big chunk of business. It's down a little bit but it's still a big part of our business, and continues to be very good to us.

But we've seen improvement and things like governmental, churches, retail is up. Hangers are up. Commercial freight is up. So, again, we are generalists, the people that sell our products are generalists and therefore they go wherever the action is. So we always find that some things have a headwind and some things have a tailwind, and that's kind of the nature of our business and that's what we are used to dealing with. And if anything, we are much better off with the speed and efficiency of being able to take advantage of whatever part of the market is showing growth.

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

Okay. Thank you.

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**Operator**

Ms. Matthews, there are no further questions at this time. I would like to turn the floor back to you for final remarks.

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

Well, great. Thank you very much for joining us and we look forward to speaking to you at the end of the fourth quarter.

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**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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