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PRESENTATION

Operator

Greetings, and welcome to Cornerstone Building Brands Second Quarter Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Darcey Matthews. Thank you. Please go ahead.

K. Darcey Matthews ***Cornerstone Building Brands, Inc. - VP of IR***

Good morning, and thank you for your interest in Cornerstone Building Brands.

Joining me today for the call are Jim Metcalf, our Chairman and Chief Executive Officer; and Jeff Lee, our Chief Financial Officer.

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 our investor 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 a reconciliation of these non-GAAP financial measures and other related information in the earnings release and investor presentation that is located in the Investors section of our website. Please note that we will be referencing our investor presentation during today's call.

Throughout this presentation, management may also refer to pro forma financial results including the company's fiscal second quarter ended April 2018. Such pro forma results give effect to both the change in the company's fiscal calendar as well as the recently completed acquisitions of Ply Gem and Environmental StoneWorks, including Ply Gem's acquisitions of Atrium and Silver Line as if such acquisitions were consummated prior to the period presented.

This morning, Jim will introduce our new CFO Jeff Lee, provide an overview of our progress to date and highlight some of the key strategic initiatives we are working on. Then Jeff will provide an overview of our consolidated and segment results, details on our cost initiatives and share our outlook for the second half before we take your questions.

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

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Thank you, Darcey, and I appreciate everyone joining us this morning. As we get started, I'd like to take a moment to welcome Jeff Lee as a new CFO of Cornerstone Building Brands. We're very excited to have Jeff on board. He joins our organization with a great combination of public market and private equity experience, giving him a strong perspective on how to drive both short- and long-term value. We look forward to leveraging his experience here at Cornerstone Building Brands.

Now I'd like to spend some time this morning reviewing the quarterly results and our strategic priorities for the remainder of the year. During the quarter, our consolidated sales were approximately $1.3 billion. We continue to make progress on our strategic, operational and financial objectives. During the period, we captured price over cost inflation and achieved adjusted EBITDA margin expansion across all of our business segments while facing a headwind of lower year-on-year demand.

We achieved gross profit of $305 million or 23.5% of net sales, and adjusted EBITDA of $172 million.

Our adjusted EBITDA margin expanded by 60 basis points from the pro forma 2008 (sic) [2018] quarter results reflecting pricing discipline across all business segments, offsetting higher raw material, freight and labor cost, while recognizing the benefits from our cost initiatives in integration of our recent acquisitions.

Turning to Slide 3 of our investor presentation. We are focused on strategic priorities in 3 key areas: strengthening the core, extending our reach and growing strategically. With these priorities, we expect to drive profitable growth, gain further margin expansion in each segment and deliver strong cash flow generation. These priorities will be supported by our synergies, ongoing cost initiatives and a disciplined capital allocation strategy.

Strengthening our core business is critical to our success. With margin expansion as a key theme, we have opportunities within our control to create a lean organization and drive cost reductions within our business. At the same time, delivering superior customer service with high-quality products that arrive on time and in full to our customers, which makes us a top priority for the business.

Another key component to strengthening the core are the synergies and cost initiatives underway in our business. These include the investments in manufacturing automation, our size and scale on procuring raw materials, driving process improvements to realize greater manufacturing efficiencies and an ongoing focus on continuous improvement to link Six Sigma.

Moving in on track to achieve our synergies and cost initiatives during the year. We now expect to realize synergies and cost initiatives of $85 million to $95 million this year, as we focus on areas within our control. These initiatives, many of which were started during the first quarter, are making an impact and allowing us to drive margin improvement despite lower volumes that we're seeing in the overall market. The actions taken to date and those remaining will result in further margin expansion throughout the remainder of this year.

Additionally, we continue to have a line of sight on achieving cost initiatives and synergies of $185 million by the end of 2020. Jeff will provide a more in-depth summary of our progress on these initiatives.

At the start of the year, we highlighted our focus on improving free cash flow to an increased focus on working capital, managing our inventory, focusing our CapEx investment to maximize customer satisfaction and providing solid returns on those investments.

As mentioned in our last quarterly call, we are focused on a capital allocation framework, which is designed to achieve our goal of debt reduction while preserving financial flexibility to pursue our growth strategies. Reducing leverage continues to be a top priority for the company, and I'd like to reiterate our goal is to achieve a target leverage ratio of approximately 2 to 3x adjusted EBITDA. Additionally, we expect to improve our working capital utilization this year, which will further enhance our free cash flow generation and help delever our balance sheet.

In terms of our second priority, extending our reach. It builds on our core as we are creating a culture of continuous improvement and innovation to improve processes that support our customer service. We are leveraging the market expertise and product know-how within our business segments to drive innovation. For example, leaders from our insulated metal panels and siding businesses are working together to share product dynamics, energy efficiency techniques and manufacturing best practices to expand our existing product lines. Different and yet remarkably similar, these are significant ways our combined organization can best utilize resources to develop the next generation of building solutions for our customers.

Regarding our third priority, growing strategically. On this front, we've meaningful opportunities for organic growth through product line expansion and cross-selling to expand penetration across our extended customer base. We have strong builder, distributor, architect and a retail customer network. And going forward, we have a great opportunity to strengthen our existing customer relationships.

Our customers have expectations from their business partners to provide a broad set of building solutions, and we plan to leverage our comprehensive product offering, our product innovation and strong brands to exceed those expectations.

As for as an update on our integration efforts, our Windows segment is nearing the completion of the integrations of Atrium and Silver Line with key milestones occurring during the quarter. Each acquisition has allowed us to provide a broader solution set to our customer and create a more balanced exposure to new construction and the repair and remodel markets. While the cost initiatives will continue to be realized throughout the year and into next year, and as we plan, we consolidated our Ply Gem and Atrium facility in the Dallas, Texas area during the second quarter.

As for our Environmental StoneWorks acquisition, which we closed in the first quarter of this year, ESW contributed meaningful to net sales during the quarter. The acquisition, which makes Cornerstone Building Brands a market leader in decorative stone cladding, is a great example of the cross-selling opportunities we have across our residential and commercial businesses.

2 years ago, the residential market represented a majority of ESW sales and the company was working on expanding its presence into the commercial buildings. Today, we see opportunities to leverage the relationships in our Commercial segment to drive growth for our entire organization.

Before I turn the call over to Jeff, I'd like you to turn to Slide 4. On a consolidated level, the company experienced both gross profit margin and adjusted EBITDA margin expansion during the period despite lower volumes. Each of our business segments represents a significant part of net sales, and the combination creates an organization leveraged to a balanced exposure to the commercial, new residential and repair and remodel markets. This is an important dynamic for our long-term strategy as each of these markets have a different cadence.

Now I'd like to turn the call over to Jeff, who is going to walk through our financial results. Jeff?

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Thank you, Jim. As Darcey mentioned, I'm going to provide an overview of our consolidated and segment results. Then I'll provide an update on our cost initiatives and synergy efforts, our viewpoint on the markets and will conclude with our adjusted EBITDA guidance for the third quarter.

As a reminder, with the change in the company's reporting periods and the effect of the merger, I'm going to discuss both GAAP and pro forma figures for the second quarter of 2018. As presented in our Form 10-Q that was filed earlier this morning, our second quarter 2019 sales for the company were approximately $1.3 billion compared to $457 million in the reportable period ended April 29, 2018. Our second quarter gross profit was $305 million with gross profit margins of 23.5%. Adjusted EBITDA for the period was $172 million compared to $40 million in the reportable period ended April 29, 2018.

The primary driver for the year-over-year change in second quarter sales, gross profit and adjusted EBITDA is the inclusion of Ply Gem and the change to our new fiscal calendar.

As you turn to Slide 5 on a pro forma basis, sales in the second quarter of 2019 were $1.3 billion. The decrease in 2019 second quarter sales versus 2018 was driven by lower volume across all our business segments partially offset by price discipline and mix.

Our second quarter 2019 adjusted EBITDA was $172 million compared to a pro forma $174 million for 2018. We did experience low volume within the markets we serve. However, we did capture favorable price and mix over inflation. With lower volumes, we were challenged to get our variable labor out of our facilities and experienced lower manufacturing productivity of $21 million in the quarter. We have put actions in place to adjust our workforce for the volume anticipated during the remainder of the year.

We are seeing the benefit of our cost initiatives and synergies in the quarter, which help contribute to the 20 basis point improvement in gross margins and 60 basis point improvement in adjusted EBITDA margins.

I will now review the results of the 3 business segments beginning on Slide 6. Commercial net sales in the second quarter of 2019 were $480 million, a decrease of $46 million or 8.7% from the second quarter of 2018. The decrease was primarily driven by lower tonnage volume on an overall softer market partially offset by price discipline and the pass-through of higher material costs. For the quarter, gross profit margin was 25.3%, up 80 basis points driven by price discipline and our cost initiatives partially offset by unfavorable operating leverage on lower volumes.

As I mentioned earlier, we believe we've put the proper actions in place to mitigate the labor challenge we faced in the quarter.

For our Siding segment on Slide 7, net sales for the second quarter were $307 million, a decrease of $9 million or 2.7% from the second quarter 2018 primarily driven by lower market demand both in the U.S. and Canada. Our second quarter 2019 gross profit margin was 27.7%, up 70 basis points as a result of pricing discipline and mix combined with the realization of cost initiatives.

And on Slide 8, in our Windows segment, net sales for the second quarter were $509 million as compared to second quarter 2018 net sales of $528 million. The year-over-year decline is $19 million, was driven primarily by lower volumes in our Canadian businesses, partially offset by price discipline and mix within the markets.

Gross profit margins for the second quarter of 2019 was 19% contracting 70 basis points on a pro forma basis. Excluding $21 million of the Canadian Windows gross margin and the segments restructuring and integration costs, the U.S. Windows gross margin improved 60 basis points on a year-over-year with relatively flat pro forma net sales. The improvement in the U.S. Windows' gross margin was a result of price discipline and mix combined with realized benefits from our synergy and cost initiatives.

Turning to Slide 9. As Jim discussed earlier, we now expect to realize $85 million to $95 million of synergy and cost initiatives in 2019. Across all of our businesses, we have line of sight to achieving these targets this year. We are now presenting more detailed information on these crucial components in 2 buckets. The merger synergies category includes the synergies on our various yield savings to date including the NCI-Ply Gem merger, the 2 Windows acquisitions and the ESW transaction. Year-to-date, we have realized $19 million in merger synergies with another $26 million to $30 million expected in the second half of the year. The 2 big areas driving these synergies are sourcing the materials and SG&A reductions. This includes plant consolidation within our Windows business and 2 facility closures within our Sidings business of fencing and a stone facility. Procurement savings for key commodity purchases along with back-office consolidations.

Our cost initiatives categories include the legacy NCI and Ply Gem initiatives that started prior to the merger. We have realized $23 million in 2019 and are expecting to achieve $17 million to $23 million of further realized savings in the second half of the year. The key drivers of these initiatives are engineering and drafting offshoring in the commercial segment, process and labor savings from automation, continuous improvement and lean activities within all our segments and leveraging transportation savings with our larger combined spend.

So over the first half of the year, we have captured $42 million in our cost initiatives and merger synergies.

As a reminder, the investment required to achieve our 2019 and 2020 synergy and cost initiatives is expected to be a total of $45 million to $50 million in 2019 and 2020 combined.

Turning to Slide 10. As we look towards the second half of the year, the indicators for our addressable market in low-rise, nonres construction are guiding to mid-single-digit contraction. Market consensus for new construction and the repair and remodel end-use market continues to be in the range of 2% growth. Based on these market indicators and our synergy and cost-out initiatives, we expect to achieve an adjusted EBITDA range of $170 million to $185 million for the third quarter.

Annually, for 2019, we still expect our capital expenditures to be in the range of 2% to 2.5% of sales, cash interest expense of around $246 million and our cash taxes to be in the $60 million range exclusive of the $25 million TRA payment that would be made in the fourth quarter.

I would like to close with some comments around our cash flow and balance sheet. So please turn to Slide 11. As you can see, year-to-date free cash flow defined as adjusted EBITDA less CapEx is $185 million, a strong improvement from Q1 to Q2 due to the seasonality of our business. During the quarter, we paid down $6 million of debt.

As we entered the second half of the year, which historically generates a higher amount of free cash flow and the time on working capital becomes a source versus use of cash, we would expect to see an improvement in working capital utilization. As Jim mentioned, reducing leverage continues to be a top priority for the company. For the remainder of the second half, we expect to generate $130 million to $150 million of free cash flow and would expect to pay down the ABL facility.

And now I'd like to turn the call over to Jim for some closing remarks.

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Thank you, Jeff. In summary, we continue to find new ways to take advantage of our scale, identify new avenues for growth across our product portfolio and execute on our plan to realize synergies across the entire enterprise. While we can't control the end-market demand, we are very focused on executing on the areas of the business that are within our control including capturing price, realizing synergy and cost initiative savings and a focused approach to capital allocation.

To outperform the market and drive year-on-year margin improvement, we remain focused on exceeding our customer expectations in each one of our businesses.

In our second quarter together as one company, Cornerstone Building Brands, we are building on a culture of safety, integrity, teamwork and innovation to drive operational excellence and execute on our vision to be the leading exterior building products company in North America.

This includes making balanced investments in our key growth categories to ensure we are deploying our capital to areas that we feel that will drive the greatest returns for our shareholders.

And with that, we appreciate your time, and we'll open the line for investor questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

So I wanted to start on the guidance. You're assuming it looks like another $50 million or so further synergies in the second half between the 2 quarters, but the Q3 guide still sort of brackets last year's Q3 EBITDA. So I guess could you just help us understand the offsets whether between volume, what you're seeing on inflation and the manufacturing productivity side that you called out this quarter? How are those areas kind of offsetting the synergies and playing out in the second half?

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes, Matt, this is Jeff. Let me address that question. So let me take you back to the slide that we actually have the -- that performance inside of Q2, if you look at Slide #5 inside of our deck. So I'm going to talk in Q2 to Q3, and I think it's a nice way for us to understand kind of what's happening inside of Q3. So starting from Q2 on a sequential basis, the third quarter, which has historically been our largest revenue quarter of the year, we're forecasting modest consolidated volume declines of about 1.5% to 1%. So 1.5% to 1% increase inside of the projections, which is pretty close to what the market expectations are. Those volumes should drop through to about 25% margin rate, and we expect the incremental savings as you look at that synergies and cost savings bucket there to be about the keep on pace with Q2 and have some improvement coming in from our manufacturing productivity, which we did see some headwinds inside of Q2 and that should improve inside of Q3.

Operator

Our next question is from the line of Lee Jagoda with CJS Securities.

Lee M. Jagoda ***CJS Securities, Inc. - Senior MD & Analyst***

So can you talk about just the end-market outlook and how it might differ from when you completed the merger? And then maybe touch on the current trends and your outlook for the various raw materials you have exposure to? But I know you had some pricing that you put in place earlier this year. I assume if things have stabilized or even gotten a little bit better, you don't necessarily have to give that back on all of your business?

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Yes. Thank you, Lee. This is Jim. Obviously, when we completed the merger in November, we were looking at the year, which was going to have some volume growth, particularly demand growth in the residential market. Obviously, on the commercial side of the business, we were coming off a very weak fourth quarter If you recall, with a lot of the talk about steel increases in tariffs, there was a lot of pull-forward into the fourth quarter on the steel business on the commercial business, which had a big impact on our overall volume on commercial in the first, really, half of the year. The overall market in commercial in tonnage for the first half was down double-digit and that is something that is really carried in and we did not have a seasonality until later maybe in the last 30 days in the commercial business. So we did not see the typical seasonality on the commercial business.

On the residential business, I think, everyone sees consensus housing got weak during the year. We balanced price and volume. We did not lose share, but we did see really the key to our change of our numbers is from a volume and demand standpoint. If you look at the second quarter, it was about $39 million of EBITDA. So looking at the overall market, we think the second half on the commercial side is going to minimize that double-digit decrease in tonnage volume. We are looking at, as we said in the deck, a mid-single-digit decline in demand, which is better than we had in the first half on the commercial side. We did not see the seasonality in either business until later. Typically, as you know, the business, both on the commercial and residential side, starts kicking up in the second quarter. We did not see that seasonality and that's why you saw some of the comments that we made on from a labor standpoint. We were expecting that historic seasonality to come in, in the second -- mid-second quarter, which didn't happen. We're starting to see a little bit of it now, but we lost 3 months. So really the seasonality of the business really has been pushed back by a quarter both on the commercial and on the residential side. So the way we're looking at the business now is we're going to control what we can. We can't control demand. We're going to focus on margin expansion, our cost reductions and synergies. Hopefully, that's a lot more transparent from your standpoint on where they're falling on the SG&A, we're expecting another $43 million to $50 million of synergies and cost-outs in the second half of the year. We are very focused on automation that will help eliminate some of the labor issues that we talked about on the business. We're expecting the business to come back, which it did not. We are also focused -- from a pricing standpoint, we're focused on mix. If you picked up with -- the mix of the products has really been important, particularly in our Windows business, our higher-end window really has helped our position in our window business. We continue to grow our IMP business on the commercial side. Our IMP business has gone from about 14% of the commercial business 4 to 5 years ago to almost 25% of the business. So we have a growth business there. But we want to create our own -- we want to create on our own results, and we are not expecting any help in the second half from demand. So we're really focused on margin, cost, deleveraging the balance sheet and really sticking to what we can control.

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

And Lee, on the -- and Lee, on side of the commodity increases, the expectation on commodities, overall, our view is that commodities are that -- those prices have stabilized. For PVC resin, we think that the prices follow the typical seasonal pattern, so they typically have a little bit of an increase in spring, flatten out by the summer and then they've a little bit of pullback in the fall. And we think that no significant change within our aluminum or steel prices as well.

Operator

Our next question comes from the line of Reuben Garner with Seaport.

Reuben Garner ***Seaport Global Securities LLC, Research Division - Associate Analyst***

So I guess on the synergies front, looks like you're tracking ahead of schedule. Two-part question is how much of this is pull-forward from future years? You guys just accelerating the initiatives versus maybe having some upside to the broader target. And then maybe what's your outlook for kind of the timing in the second half? What are you including in Q3? And is there maybe a ramp in Q4 as you move through the year?

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Let me start with that, and I'll turn it over to Jeff. We really found some additional savings and really focused on really on procurement and back-office SG&A. So that was really the big difference of moving our guidance up to the $85 million to $95 million for the year. As we said, we've already booked year-to-date about $40 million to $45 million, and we're expecting anywhere between $40 million and $50 million in the back half and it's pretty steady or it's pretty balanced through each one of the categories. Procurements, a really big category, SG&A, and we feel it's a pretty balanced through each, the third and the fourth quarter.

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. Reuben, when you look at the timing in the third quarter and then on our savings in particular, as I mentioned, we do expect it to increase over second quarter slightly. And so in the second quarter, we did about -- we did have $27 million in savings, and so we expect it to be higher than that based on the momentum we have and the new projects and initiatives that have begun.

Reuben Garner ***Seaport Global Securities LLC, Research Division - Associate Analyst***

Okay. Great. And then let's see -- maybe, on the free cash flow outlook, jeff, just trying to parse out what your comments. It sounds like you've got some working capital opportunity maybe near term and longer term. What's -- and you also said second half is typically a stronger free cash flow period. Did I mishear those comments? And then can you repeat what's your outlook was for the second half? It sounded like your free cash flow guidance for the second half was a little bit lower than the first half. So just wanted to make sure I heard all that correctly.

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. Let me make sure and clarify that. So our second half traditionally has more cash flow generation. Second half is higher than our first half. As you look at the second half, we expect to generate an additional $130 million to $150 million in free cash flow. And just as a reminder, on a full year basis, right, our interest expense for 2019, we expect that to be around $246 million. We expect the cash taxes to be $60 million, and our TRA that's coming due, that's the last TRA payment that we have to make is $25 million. And then our capital spending right now on a full year basis is still around that 2% to 2.5% or about $125 million.

Operator

Our next question is from the line of Sam McGovern with Crédit Suisse.

Samuel Thomas McGovern ***Crédit Suisse AG, Research Division - Research Analyst***

I'm just following up on the last question on working capital. So can you talk a little bit more about how you look at overall working capital opportunity as you go forward into 2020 and 2021? Is there an opportunity to take out working capital as a source of cash over the full year?

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. With regards to working capital, we do see an enhanced opportunity to leverage and improve our combined working capital utilization, which will further enhance that free cash flow position that we talked about and delever the balance sheet. Working -- we're defining working capital as a combination of inventories, receivables and payables. As a percentage of net sales, just to give you an example, we are about 17% as a company, and we think there is a nice opportunity for us to address that. As a reminder, about -- it's math, but every 0.5% change represents about a $25 million opportunity for us inside of the company. And we have put teams in place to address the working capital. We think we're going to see some -- achieve some benefits from those in 2019 and continue those initiatives into 2020.

Samuel Thomas McGovern ***Crédit Suisse AG, Research Division - Research Analyst***

Got it. And just to make sure I heard correctly. You said you plan to pay down the revolver in the second half. Is that -- should we expect a 0 balance at year-end? Or is that just a partial paydown for the revolver?

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. As I talked about that $130 million to $150 million generation inside of second half, our intentions would be to pay down the ABL revolver and that puts the ABL revolver close to 0. Keep in mind, we did buy the ESW acquisition, which is around $180 million, and so that would basically pay for the acquisition inside of the current year.

Operator

Our next question is from the line of Steven Fisher with UBS.

Steven Fisher ***UBS Investment Bank, Research Division - Executive Director and Senior Analyst***

Any sense for why the commercial tonnage was down so much in the first half of the year? How much was weather versus other factors? And what might those factors be? And is there implied second half to get to the mid-single-digit contraction? Is that actually continue to be down? Is it flat? Is it up a little bit?

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Yes. The first half numbers -- first, let me -- this is in tonnage, not in dollars and that is the industry of building 5 storeys or less that was -- the total industry was down in the first half about 13%. That contraction really started in the fourth quarter of 2018. That had a lot to do with steel prices, the increase in steel prices in 2018, tremendous amount of labor shortages that were incurring. There was a lot of pull-forward in 2018, as I mentioned earlier, from the business, which impacted the first 2 quarters as an industry.

We balanced price and volume with our product portfolio of our commercial business. And with that volume of the industry being down double-digit, we maintained and held our market share. So we really are focused on the -- in the second half of the projections that we're seeing and this is consensus projections that the lag on commercial, nonresidential starts is anywhere from 9 to 14 months. So we are looking 9 to 14 months ago, we're starting to see single-digit declines in the second half. So it's really just looking at the projections and the lag that we see on the nonresidential 5 storeys addressable market. So we plan and we're very focused on outperforming that.

As I mentioned earlier, our Insulated Metal Panels is one of our growth products. That is the product within our commercial business that is growing. It's growing at high single digits. We feel that the addressable market is still a great opportunity for us because it does take labor out of the business. For example, we have a product in our Insulated Metal Panels business that's called Formawall, a Formawall system, that's the name of the product, and it basically is a sustainable exterior curtain wall system that takes 6 components and makes it 1, and this is really a sustainable product that is also taking labor out. So we're looking at growing our commercial business with new products expansion as well. So even with the market demand being down mid-single digits in the back half of the year, we're going to balance our price and volume. We've segmented our customers, and we plan to really continue to grow our Insulated Metal Panels business.

Steven Fisher ***UBS Investment Bank, Research Division - Executive Director and Senior Analyst***

Great. And then any help you can give us on, say, the segment level margin direction or ranges for the balance of the year? I know you've got these cost synergy programs, but I don't know if they're going through the segments or not, if you're going to just be sort of below line, but any help you can give us on sort of marginal -- margin direction by segment would be very helpful.

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

Yes, let me just make a couple of comments, I'll turn it over to Jeff. That's a really important point, and we want to make sure that we had a line of sight of the cost savings and the synergies because I know in previous calls, there might have been a little bit of confusion, so we wanted to have more transparency on that. And we've done a very focused approach over the last quarter to really put those cost savings and synergies savings into the individual business units. So let me turn that over to Jeff, and he can give you some more color on that.

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. So let's address it maybe from the total company a little bit first just because I -- sensitivity in some of the segments, we don't traditionally give a lot of margin guide by company, especially EBITDA margins. We've been providing gross margins. So as a company, we do expect to see margin expansion, and we saw that inside the second quarter, right. So our second quarter basically went from 12.6% up to 13.2% inside the second quarter. And that a lot of those -- a lot of that margin improvement does come from the few things really is the price, overinflation and mix and then it also has the cost savings and the synergy benefits that are coming through on those. And we expect that to continue into the second half as well. And so we're getting momentum on the cost synergies and the synergy savings inside the second half. So we do expect those margins could improve as we move forward into the second half.

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

And that is one of the things that is really key on -- and our headlines and our talking points too today as we are expecting, we have margin expansion in each one of our businesses and each one of our segments. And with the market demand that we're talking about, we cannot control that. So we are focused on cost reductions in the synergies in each one of our businesses. So margin expansion in our commercial business, even with the demand that I just talked about, we have some headwinds there. Margin expansion both in Windows and in Siding with the initiatives that we've been discussing this morning. So margin expansion in each one of our businesses, new product expansion and continue to delever our balance sheet are really our 3 key points.

Operator

Our next question is from the line of Richard Kus with Jefferies.

Richard E. Kus ***Jefferies LLC, Fixed Income Research - Analyst***

You guys have been active, obviously, historically, on the M&A front. What are you considering in terms of M&A right now, particularly with Masco looking to sell their windows unit?

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

As we said, our first priority, as we look at our capital allocation, is deleveraging our balance sheet. That is a top priority, and we've been talking about that. We're very focused. But in conjunction with that, we are -- we do look at what are opportunistic opportunities for us that are -- that have a strategic fit, that are -- that make financial sense and don't go to the face of our strategy of deleveraging our balance sheet. I think a great example of that was we talked about the Environmental Stone acquisition that we made, Environmental StoneWorks. It made sense, it was strategic, it was financial. So we focused on our balance sheet as well as looking at opportunities that are strategic for us. We are going to continue to keep our eyes open.

Richard E. Kus ***Jefferies LLC, Fixed Income Research - Analyst***

Okay. And then with respect to the synergies, maybe I'm reading this slide incorrectly, so I apologize if I am. But it seems to me like your -- the run rate that you expect on a quarterly basis from the back half of the year isn't very different from what you have realized so far in Q2. Why isn't that increasing as we progress through rest of the year?

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

So we do see a modest increase as we go into the back half of the year. A lot of the benefits that we put in place in Q2 are going to continue over. You can see a nice jump from Q1 to Q2 and a lot of those initiatives are complete, and so they're going to carry over into Q3 and Q4. And then we have additional initiatives that we're going to be putting in place to hit the 2020 target that we provided.

Operator

(Operator Instructions) Our next question is from the line of Reuben Garner with Seaport.

Reuben Garner ***Seaport Global Securities LLC, Research Division - Associate Analyst***

Just a couple of quick follow-ups. So one, any -- did -- are you guys able to quantify any weather impact in the quarter? I know it's something we've heard a lot and obviously your products are primarily outdoors. So I'd assume you see just as big as an impact as anyone. Is there any way you can give us a thought on what you lost out on the quarter and maybe you can catch up later in the year potentially?

James Shane Metcalf ***Cornerstone Building Brands, Inc. - Chairman of the Board & CEO***

I hate to use weather as an excuse, but it did have an impact on the business. As we look -- mentioned, the typical seasonality, we really saw a pushback. If you look at the business, the second and third quarters are typically the stronger 2 quarters. We just didn't see it. April started out fine and then May. May, we had a lot of weather. It really affected the commercial business, a lot of job sites were, really the first half, were just underwater in the Midwest. The far west was another geographic area that was negatively impacted, mostly on the residential new commercial side. I mean if you look at just the recent -- the single-family housing year-to-date, the West 2019 starts are down 13% versus plus 9% in 2018. If you look at the Midwest, housing starts were down 8% and 5% last year. And then the Northeast was down 14%. So those were some areas that we saw that were hit with weather. But again, we want to create our own results, and we have not quantified weather, I don't like using that as an excuse, but it did have an impact, particularly on our commercial business.

Reuben Garner ***Seaport Global Securities LLC, Research Division - Associate Analyst***

Okay. Great. And then Jeff, one clarification -- sorry for the confusion, but the free cash flow guidance that you're giving, is that the definition that's in the presentation or is EBITDA minus CapEx or is that -- because you mentioned your interest expense and your cash tax rate? I'm just trying to understand or maybe you can frame it in where you think leverage stands at your end or what's your full year free cash flow target is, just to make sure we're all on the same page.

Jeffrey S. Lee ***Cornerstone Building Brands, Inc. - Executive VP & CFO***

Yes. I appreciate the question. I understand maybe where the confusion came from. The $130 million to $150 million of cash that I referred to is the cash generation, right? So it's the incremental cash that we expect to get from today until the end of the year. And so I think that might have caused a little bit confusion as I might have called that free cash flow, but it's the incremental cash.

Operator

Thank you. We have now reached the end of our question-and-answer session. I would like to turn the floor back to Darcey Matthews for closing comments.

K. Darcey Matthews ***Cornerstone Building Brands, Inc. - VP of IR***

Thank you, Brenda, and thank you, everyone, for your interest in Cornerstone Building Brands. We look forward to speaking with everyone 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.