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PRESENTATION

Operator

Greetings, ladies and gentlemen, and welcome to the Cornerstone Building Product's Third Quarter 2019 Earnings Conference Call. (Operator Instructions) And it is now my pleasure to introduce your host, Ms. Darcey Matthews, Vice President of Investor Relations. Thank you. You may begin.

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 located in the Investors section of our website. Please note that we will be referencing our investor presentation throughout today's call.

During this presentation, management may also refer to pro forma financial results. 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 acquisition of Silver Line, as if such acquisitions were consummated prior to the period presented.

This morning, Jim will provide an overview of our consolidated results, an update on the progress of the key strategic initiatives we are working on and then share some of the trends we are seeing in our end markets. Then Jeff will provide a detailed discussion of our consolidated and segment results, provide an update on our merger synergies and cost initiatives and share our guidance for the fourth quarter 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 taking the time this morning for our call. Overall, we're very encouraged with the third quarter results. We continue to execute on our strategic, operational and financial objectives of achieving margin expansion across our business segments despite sluggish year-over-year market demand. We're focused on improving our customers' experience with our expanded product portfolio for the residential, repair and remodel and commercial markets. Providing quality service, delivering on time and in full is a critical component to expanding our customer satisfaction.

During the quarter, our consolidated net sales were approximately $1.3 billion. We achieved gross profit of $310 million or 24.1% of net sales and adjusted EBITDA of $181 million. Our adjusted EBITDA margin expanded by 230 basis points from the third quarter of 2018 pro forma results. This was accomplished with pricing discipline and product mix while recognizing the benefits from our cost initiatives and integration of our recent acquisitions.

From a balance sheet perspective, our focus on cash flow generation, combined with a stronger seasonal impact, resulted in a paydown of net $50 million of our ABL facility during the quarter, reducing our net debt leverage from 6.2x to 5.9. As we've mentioned in prior calls, reducing our leverage is a key priority for the company, and we are making progress on this important front.

Working capital is another key area of opportunity for the company. With teams established across our organization focused on inventory management and accounts payable, we are making good strides to improve our working capital metrics. As we mentioned during the second quarter call, our working capital as a percent of sales are approximately 17%. If you will recall, every 0.5 percentage improvement generates about $25 million for further debt repayment or could be reallocated to other areas of investment.

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

Strengthening our core business is critical to our success. We have delivered margin expansion through the first 9 months of the year, and we have additional opportunities to drive towards a leaner organization and execute on cost reductions throughout our business. With the continued tightness in the labor markets, we are focused on investments in manufacturing automation, continuous improvement initiatives and lean Six Sigma implementation throughout our organization. Lean Six Sigma and continuous improvement are areas that our legacy Commercial segment had invested in, and we are taking those learnings across the entire Cornerstone organization.

We remain on track with respect to the merger synergies and cost initiatives that we've discussed with you previously. We now expect to realize merger synergies and cost initiatives of over $100 million this year. One example is on the commercial engineering and drafting front, where we have standardized software, consolidated locations and expanded our service offerings to our customers to improve the overall experience. Jeff will provide a more in-depth summary of our progress with these initiatives in a few minutes.

In terms of our second priority, extending our reach. This builds on our core as we're focused on delivering integrated solutions to our customers with a broader cross-selling opportunities while ensuring a superior level of customer service. We have strong builder, distributor, architect and retail customer networks because of our combined companies. Our customers are requesting a broader portfolio of exterior building solutions, and we will leverage our comprehensive product offering, product innovation and brands to provide them superior solutions. We see a great opportunity to expand and strengthen our existing customer relationships given the breadth of our product offerings and innovation pipeline.

Regarding our third priority, growing strategically. On this front, we had meaningful opportunity for organic growth through product innovation and product line extension. This is an area where our legacy residential business has made investments, and once again, we are leveraging this knowledge across our broader organization. For example, at our innovation center, we're working with our customers to better understand their needs such as ease of installation and labor savings. We're also leveraging our insulated metal panels and siding technologies to create product offerings for both the commercial and residential siding businesses.

Along with that, we're fostering a culture of innovation at Cornerstone Building Brands with an innovation challenge, where employees across the organization are actively contributing in identifying and creating the next set of breakthrough opportunities. We're making balanced investments in key growth categories and cost-out initiatives to ensure we are deploying our capital to areas where we believe it will drive the greatest long-term return for our shareholders.

Before I turn the call over to Jeff, I'd like to make some brief comments on the overall market. On the residential side, we expect to see positive growth in the fourth quarter, with orders coming in at a pace favorable to the pro forma prior year. On the repair and remodel front, equity values in homes continue to trend positively, enabling homeowners to spend on home improvement activities such as replacement windows and refurbishing their home's siding. The indicators for new construction and R&R continue to indicate low single-digit growth for the remainder of this year.

On the commercial front, we've seen some improvement on a sequential quarter basis, supported by an increase in backlog and order rates. We still do anticipate the fourth quarter volume to be down in the mid-single-digit range versus pro forma 2018. This is consistent with the trends we've seen much of the year in our addressable low-rise commercial market demand.

I want to wrap up by turning to Slide 4. On a consolidated level, we're experiencing approximately an 8.7% decline in sales in the quarter. Within the residential segment, the declines are primarily due to weaker new starts earlier in the year, which impacted our business with a typical lag of 90 to 120 days over the last few quarters. We've been disciplined on pricing and have also rationalized some business to increase the profitability of our residential portfolio. You can see the results in both gross profit margin and adjusted EBITDA margin expansion during the quarter for our residential business.

On the commercial side, we continue to hold market share, as supported by our industry association information. With the decline in overall market demand, we have emphasized pricing and margin initiatives to enhance the profitability of our commercial business. Today, our balanced exposure to new residential, repair and remodel and the commercial markets provide greater stability for our overall business, which was a key strategic underpinning for the merger of almost a year ago.

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

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

Thank you, Jim. I'm going to discuss our consolidated and segment results. I will provide an update on our cost initiatives and merger synergy efforts, and then we'll discuss our adjusted EBITDA guidance for the fourth quarter. I will conclude by walking through the key puts and takes on our anticipated cash flow for the year.

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 third quarter of 2018. As presented in our Form 10-Q that was filed earlier this morning, our third quarter 2019 sales for the company were approximately $1.3 billion compared to $549 million in the reportable period ended July 2018. Our third quarter gross profit was $309.8 million with gross profit margins of 24.1%. Adjusted EBITDA for the period of $180.8 million compared to $63.5 million in the reportable period ended July 29, 2018. The primary driver for the year-over-year change in third quarter sales, gross profit and adjusted EBITDA is the inclusion of Ply Gem, Silver Line and Environmental StoneWorks in our results.

As you turn to Slide 5, sales in the third quarter of 2019 were $1.3 billion. The decrease in 2019's third quarter sales versus pro forma 2018 was driven by lower volumes, primarily in our Commercial and Windows segments, partially offset by price discipline and mix.

Our third quarter 2019 adjusted EBITDA was $180.8 million compared to pro forma $165.5 million in 2018 for an increase of 9.2%. We captured favorable price and mix net of inflation, improved our manufacturing productivity and realized meaningful merger synergies and cost initiatives of $30 million in the quarter. In addition, each of our segments realized sequential increases in volume from the second quarter to the third quarter of 2019.

I will now review the results of our 3 business segments, beginning on Slide 6. In our Windows segment, sales for the third quarter were $504.3 million as compared to pro forma third quarter 2018 sales of $539.9 million. The decrease was driven primarily by low volumes within the market year-over-year, partially offset by price discipline and product mix. Gross profit margins in the third quarter of 2019 was 19.5%, up 150 basis points on a pro forma basis as a result of price discipline and product mix net of inflation, integration synergies and cost initiatives.

As a reminder, our Windows products go on a home approximately 90 to 120 days after the start of construction. Therefore, the market softness that we saw at the end of the first quarter and the beginning of the second quarter were reflected in our third quarter results. New construction starts began to improve at the end of the second quarter and continue into the third quarter, which should benefit our Windows volume in the fourth quarter.

Turning to Slide 7 to our Siding segment. Sales for the third quarter were $315.8 million, which was relatively flat with the pro forma prior year. Our third quarter 2019 gross margin was 28.7%, up 180 basis points compared to the pro forma prior year as a result of positive price discipline and product mix net of inflation combined with the benefit of cost initiatives.

As we look at Slide 8, Commercial sales for the third quarter of 2019 were $464.9 million, a decrease from $550.7 million in the pro forma third quarter of 2018. The decrease was primarily driven by lower tonnage volume on an overall softer addressable market for low-rise commercial construction.

For the quarter, gross profit margins were 26%, up 370 basis points pro forma year-over-year, driven by price discipline and mix net of inflation combined with cost initiatives. In both tons and dollars, backlog in the Commercial segment increased in both the year-over-year period and sequentially.

Turning to Slide 9. We are ahead of schedule and have line of sight to realize over $100 million of merger synergies and cost initiatives in 2019. We are presenting more detailed information on these crucial components in 2 buckets. The merger synergy category includes synergies on various deal savings to date, including the NCI-Ply Gem merger, the 2 windows acquisitions and the Environmental StoneWorks transaction. For 2019, year-to-date, we have realized $36 million in merger synergies, with another $17 million expected in the fourth quarter to achieve our annual target. The 3 big areas driving these synergies are sourcing and materials, SG&A reductions and plant rationalizations. Many of these initiatives will carry over into next year, and there are still some remaining initiatives that will commence in 2020.

Our cost initiatives include the legacy NCI and Ply Gem initiatives that started prior to the merger. We have realized $36 million through the first 3 quarters of the year and are expecting to achieve an additional $12 million of further savings in the fourth quarter. The key drivers of these initiatives are process and labor savings from automation, continuous improvement in lean activities within our segments, leveraging transportation savings with our larger combined spend as well as engineering and drafting offshoring in the Commercial segment.

In 2018, we captured $25 million. And year-to-date 2019, we have captured $72 million with line of sight to achieve over $100 million for the year. We still believe that our original guidance of $185 million over the cumulative 3 years will be achieved. The investment to achieve our 2019 and 2020 merger synergy and cost initiatives is expected to be $40 million to $50 million cumulatively across 2019 and '20.

Turning to Slide 10. I'd like to make some comments about our balance sheet and liquidity. The second half of the year typically generates stronger cash flow as working capital shifts from being a use of cash to a source. As we completed the third quarter, we experienced working capital improvement as expected. Furthermore, the increase in adjusted EBITDA, combined with the paydown on the ABL facility, resulted in a net debt to trailing 12-month adjusted EBITDA improvement from 6.2x at the end of the second quarter to 5.9x. In the third quarter, our net debt improved $68 million, and we paid down a net $50 million on our ABL facility. We expect our net debt to improve another $45 million in the fourth quarter, driving our leverage ratio in the range of 5.6 to 5.7x at year-end.

Turning to Slide 11. Our year-to-date adjusted EBITDA is $424.7 million. When added to our guidance of approximately $135 million to $150 million for the fourth quarter, our full year adjusted EBITDA is anticipated to be in the range of $560 million to $575 million.

The key drivers for the year remain as follows: capital expenditures to be in the 2.5% of sales or $120 million; cash interest of around $242 million; and our cash taxes to be in the $58 million range, exclusive of a $25 million TRA payment that will be made in the fourth quarter.

2019 contains 2 cash uses that will not repeat in 2020, including the $25 million TRA payment and the additional interest payments of approximately $16 million associated with our entry into interest rate swaps. Thus, a total of $41 million interest and tax cash this year will not recur in 2020.

As you see on this slide, if you back out M&A, debt financings and repayments, our ongoing cash flow was very strong in Q3 at $83 million and is $36 million positive year-to-date. We expect these figures to be strong again in Q4. Consistent with the prior guidance, fourth quarter volume is expected to expand at low single-digits for our residential businesses and a mid-single-digit contraction for our addressable markets in low-rise commercial construction. Based on these market expectations, we expect to achieve our adjusted EBITDA guidance for the fourth quarter.

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***

Thanks, Jeff. At the start of the year, we highlighted our focus on improving our free cash flow with an increased emphasis on working capital improvement, prioritizing our CapEx investment to maximize customer satisfaction and providing solid returns on those investments. As mentioned in our last quarterly call, we are concentrated 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 priority for the company, and I'd like to reiterate our goal to achieve a target leverage ratio of approximately 2 to 3x adjusted EBITDA. Additionally, our efforts to improve our working capital are generating results, which will further enhance our ability to delever our balance sheet.

In summary, we continue to find new ways to take advantage of our size and scale, identify avenues for growth across our product portfolio and execute on our plans to realize synergies across the entire enterprise. We continue to build on our 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 the areas where we believe it can drive the greatest long-term returns for our shareholders.

We appreciate your time this morning, and now we'll open up the line for questions.

QUESTIONS AND ANSWERS

Operator

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

Christina Chiu ***Barclays Bank PLC, Research Division - Research Associate***

This is actually Christina Chiu on for Matt. Some of the data points that we've seen this quarter on the non-res side have been choppy. And noting that you're expecting a mid-single-digit contraction in commercial in the fourth quarter, do you have an indication in your backlog of what commercial might look like in early 2020?

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

Well, thank you. Just to reiterate the addressable market, that is for the commercial business 5 stores or less, typically 500,000 square feet. And we've had about the last year of double-digit decline in demand. And we're starting to see that dissipate, as we've said earlier. What we're looking at the backlog is right now, our backlog is around a mid-single-digit backlog. And there is a lag there. Obviously depending on the complexity of the building, the lag can be anywhere from 30 to 60 days, all the way up to 4 months depending on the type of the building.

Christina Chiu ***Barclays Bank PLC, Research Division - Research Associate***

Okay, got it. Understood. And can you also provide some more color into 4Q and full year guidance? Just what are some of the puts and takes that might get you to the high or the low end of the guide? And then what is expected to incrementally improve in Q4?

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

Yes, let me address that one. So as we think about the fourth quarter versus 2018, we provided a range of $135 million to $150 million of EBITDA. That's about $6 million to $21 million over last year. The main drivers, as we've mentioned previously, are higher volumes within the residential and that mid-single-digit contraction within the commercial markets. However, with the things that we control as we meet some of our customer service levels, maintain our price discipline, manufacturing productivity and then the merger and cost initiative savings are the things that really drive the fourth quarter to beat or meet our expectations as we've -- as we outlined.

Operator

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

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

So if I start with the Commercial segment and I look at the quarter down, call it, mid-teens, can you just parse out volume versus price in the quarter? And then with steel prices likely down year-over-year in Q4, can you talk about how your current inventory position matches up with your -- with the expectations for demand and how you price products given that dynamic?

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

Yes, Lee, let me talk about some of the components within the third quarter itself. So as we look at just reconciling the sales itself, if you look at last year being $551 million of sales, this year coming out at roughly $465 million of sales, it's primarily a volume drop. So if you take that 15% drop, 13% of that's coming in from volume. And we got a little bit of contraction in price. Now keep in mind, we did see the high steel price increases in the back half of last year, and we've seen steel prices come down at the first half of this year. If you look at -- we've typically talked about the spread within the commercial business and you look at the third quarter in particular, we continue to see positive spread in the business. So our net economics, which is price and mix and our inflation combined, is a positive $12.4 million.

So if you look at EBITDA and reconciling those components, we did see that volume fall through down to EBITDA of about $21 million. And then we saw the benefit come in from net economics of $12.4 million, and then we have the cost initiatives that really make up the difference on that.

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

And then can you talk about the expectation in Q4 volume and price?

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

Yes. So we do -- as we talked about, we do see the mid-single-digit contraction. It's split between kind of the price and volume. And again, it's really more of the dynamic between the steel fluctuations as that continues to move down. We don't -- we're not seeing margin contractions, right? So again, as you look at the spread across the business, we see positive economics inside the fourth quarter, and we do expect to see the benefit between cost initiatives and manufacturing productivity being positive.

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

Okay. And then just one quick question on the cost synergies. Obviously, you're doing a great job, well ahead of expectations for this year. And you reiterated the $180 million total goal. Is that to say that the $15-or-so million got pulled forward? Or is there really more room? And as we model this, should we just assume that at the end of this, there'll be either another round or more given that it's exceeding your internal expectations?

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

Yes. It's a great question. So the $185 million, just to make sure that we all have the same numbers, we realized about $25 million of savings in 2018. We're expecting to be around that $100 million for 2019, which will leave $60 million in 2020.

Now every year, this company, if you look at the legacy Ply Gem and NCI business, we have cost-out initiatives. And so that's not going to slow down as we move into 2020. And with that, the numbers around those have been between the $40 million and $50 million range historically, and we think that will continue into the future, not only 2020 but as we continue into the future years as well. So we will see some of the merger synergies start to conclude as we get into 2020. But the ongoing cost-out initiatives through lean Six Sigma, continuous improvement, automation, those types of things will continue to move forward in 2020 and beyond.

Operator

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

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

So I guess can we maybe dig into the puts and takes on the free cash flow front a little bit? It looks like you maybe reduced your outlook there a little bit. And if I'm looking at the components, it looks like CapEx, interest and cash tax all came in some, so there were some positives there. Where were the offsets to result in the free cash flow guide coming in, it looks like, about $30 million?

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

Yes. So Reuben, just to make sure we're talking about the same numbers, I think you're referring to the full year cash flow versus the quarter itself.

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

Yes, the full year. The last quarter, I think you guided to the back half being $130 million to $150 million. Now if I'm doing the math correctly, I think that's maybe $25 million to $30 million lower than that. Am I doing it right?

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

That's correct. So I'd say 2 things on that. We did come in about on expectations for cash flow in the third quarter. We did see some softening in the markets, in particular, across our commercial business that carries into the fourth quarter. So when you take that $30 million to $50 million reduction in the guidance that we gave inside of the second quarter for the full year cash flow, that's -- primarily about half of that comes in from EBITDA, and the other half comes in from working capital and noncash -- or non-EBITDA expenses. And I would say that the non-EBITDA expenses that are coming in there are onetime in nature. They are cash, but they will go away as we go into 2020. We do see positive working capital inside the fourth quarter. It was a little bit less than we anticipated with the lower volumes, but we do have positive working capital inside that quarter.

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

Jeff, and by lower volumes, meaning your inventory is going to be higher than you want it to be exiting the year? Is that what you're implying?

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

That's correct. As we think about the lower volumes, we have backlog in steel and different components within our business with that anticipation, and so we weren't able to get as much inventory out as we would have liked. Although if I think about the fourth quarter, we saw $22 million, $23 million worth of positive working capital inside the third quarter. And as I think about the fourth quarter, it's going to be a higher number, closer to the $40 million, $45 million number. So we will see a little benefit coming in from working capital, just not quite at the higher levels that we anticipated last quarter.

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

Okay. And then so maybe help us with -- since this year has kind of been funky in terms of working capital and onetime items, can you maybe provide us with what kind of a normalized free cash flow profile looks like as we head into 2020 so people can -- investors can get an understanding of how the deleveraging path is going to look like as we move into next year?

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

Yes. Let me walk through the components of cash, and let's start with consensus EBITDA for next year as kind of a way to start, right? We're not giving guidance on EBITDA for next year at this point, but let's take a point that is out there in the public markets on consensus, which is $616 million. So if we take the $616 million of EBITDA, we expect to have about $125 million worth of CapEx. There would be cash taxes of about $60 million and cash interest of $230 million. And then I put in about $10 million worth of other expenses that would be adjustments to EBITDA, and then we put in the extra $25 million roughly for the cost to realize some of the synergies. So if you take all those together, you can see the benefit that we'll have on a year-over-year basis inside of our cash available to pay down debt.

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

Okay. And you didn't mention working capital. I know that's come up quite a few times on the call today. Can you talk about -- Jim mentioned you're at 17% of sales. Where do you think you can get it to? How quickly? And maybe some examples of how you're able to do that and the benefits to cash flow? And that's it for me.

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

Reuben, just -- that's a major focus of working capital. 17% is at the high end. We feel there's some opportunities there, particularly on the inventory side on our Siding business. We're really focused in on inventory reduction, also on payables. And we aren't putting any guidance out there, but we feel that the focus that we've had in the first year of the merger as we're coming up have really been on the cost-out and the synergies and some of the things that we're hitting on this $185 million. So the $185 million has been a really top priority. Now we're digging into the working capital, and we think there -- over the next year or so, there could be at least $100 million of working capital that we can release. But we're very focused on getting that to a level that is acceptable with some of our peers.

Operator

Our next question comes from the line of Sam McGovern at Crédit Suisse.

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

I just wanted to follow up on that prior question. I just want to clarify, did you say $100 million of working capital release? And if so, over what time frame?

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

Yes. So I'd say a couple of things. The $100 million is -- are areas that we have looked at within the business that we think, in particular, we can address. The time frame, we're still working through. We're going through a sales operating planning process to make sure that we've got consistency across our businesses. As that process becomes more and more ingrained within the business, we should start to have a much better indication of how quickly we can pull that out and how much we can pull out, right? As Jim mentioned, we think there's at least $100 million there. But as we get through that, we'll be able to determine how much exactly that could be. So I would say that as we think about the next couple of years, the $100 million feels very comfortable over the next 2 years. And the quicker we can pull in those processes, the faster we can take some of that working capital out.

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

Okay. Great. And then with regard to the free cash flow that you sort of enumerated earlier, you mentioned in your prepared remarks that primarily sort of debt repayment and other areas of interest. How do you think about where you want to put that money? Is it primarily debt repayment? Are you looking at acquisitions? Or do you have the ability? And are you looking at the potential for dividends or buybacks for the equity?

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

As we've been saying really since the merger, focus on our balance sheet has been a -- is a priority for us, and we still have a target of getting to 2 to 3x, as we've said, over the next few years of debt to EBITDA. But along with that, we want to have a balanced approach to look at investments, both on the organic side, new product innovation. We're investing in our product pipeline and our Sidings and our Windows business, also in our IMP business. But also, we will look at acquisitions that make strategic and financial sense that don't go into the face of our overall financial strategy.

Operator

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

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

Q4 last year was a pretty soft quarter, I think, overall just in residential housing markets. Can you talk a little bit about why you still expect low single-digit growth this year? I thought maybe it would be a bit better.

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

We're really looking at the lag, as we talked about in our prepared comments. And particularly in single family, we have about a 120-day lag. And if you look at -- if you pull the lag forward for the third quarter, the overall number was down about 7%, particularly in 2 areas, in the Midwest and the Northeast, were areas that we have a big footprint. We're down double digits on -- from a lag basis. So we were -- that was the demand we had in the third quarter.

If you look at the fourth quarter lag, we're looking -- the consensus of single-family is about 1%, which the Midwest is up about 4%. So there's been a big change from that lag factor. So if you look back a year ago, housing starts were going the wrong way. We're working on a 120-day lag now, and that's where we come up with our single digit -- for the fourth quarter, low single-digit approach for our residential business.

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

Okay. I see. And then to follow up on Sam's question about capital allocation, can you guys talk a little bit about the M&A pipeline, how it looks for you right now? And particular product areas where you might be focused on some things?

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

We obviously don't talk about specific M&A, but we do look at the overall opportunities, as we've said, that are strategic to us that -- where we can add to our portfolio that are really critical to our customers. So it's one of those things that we have a very diligent process to make sure that we don't overpay, but also that -- acquisitions that would come into our portfolio that would really provide value to our overall customers. We're really looking at both from a residential and the commercial side what products that we can add to our portfolio, but not get way out of our swim lane.

Operator

Our next question comes from the line of Bill Newby with D.A. Davidson.

William James Newby ***D.A. Davidson & Co., Research Division - Senior Research Associate***

Jim, maybe -- I know we talked about single-family a little bit. Any expectations for the multifamily sector as you guys move into 2020? And I guess, how large of a portion of your business is that now?

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

We look at -- the single-family is the larger proportion of the residential business, it's broken down about 60-40.

William James Newby ***D.A. Davidson & Co., Research Division - Senior Research Associate***

Okay. And then, I guess, any expectations for multifamily as we move? Or is it, I mean, pretty similar to what you're seeing on the single-family side?

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

Yes, I think it's pretty similar. We're looking at low single-digit growth, particularly with the lag. I was calling out single-family, but the overall housing starts to be low single digit. And we're just really -- we aren't being the industry forecasters here. We're just looking at what consensus is and what we're seeing from the individual groups that look at housing.

William James Newby ***D.A. Davidson & Co., Research Division - Senior Research Associate***

Got it. Got it. Okay. And then I guess -- I mean, plenty to talk about the...

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

And if I could just add to that, we're really focused as a company on what we can control. The demand will be the demand. We're focused on our -- taking costs out, delivering on the synergies that we talked about earlier, focusing on innovation and continuous improvement in our plants. So we've really taken the approach here over the last year. Let's focus on what we can control, the market demand is the market demand, and we want to take care of our customers and continue to grow the business. But we're going to continue to have margin expansion, and that's really our key objective here, is grow our margins, and the market will do what the market does.

William James Newby ***D.A. Davidson & Co., Research Division - Senior Research Associate***

Understood. And then, I guess, just from a synergy perspective, obviously, plenty of talk about the cost synergies and the progress you guys are making there, which is good to see. But I mean have you seen any benefit from a sales standpoint as you guys have gotten deeper into this transaction? Are you seeing kind of revenue synergies top up that maybe you weren't expecting? Or just any color there?

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

Yes, that's a great question. As we talked a few times and a little bit today about cross-selling -- and that really was not a top priority coming with the merger. We really wanted to focus on the integration of the companies. As we indicated, we had a few acquisitions here, and we're really focused on the cost-out and the synergies and the commitments that we made to the Street. But now we -- we're now in a phase that we're really looking at what are some of the opportunities for cross-selling and having that larger portfolio to our customers. That's including stone cladding, metal roofing and windows, just to name a few. And we're in the early stages of this, but this -- we've had some good reactions from our customers. And I've talked in previous calls on our metal building business, where we make -- we manufacture about 12,000 a year. The average buyout is anywhere between $5,000 and $6,000. And those key buyouts are windows, man doors and products that we make. So we think there's some great opportunities for our stone business, on our commercial -- our commercial buildings. The teams are already working together on that. We've started to pick up some jobs. Nothing of significance, but we think long term, there's some nice opportunities here.

Just to -- just a couple of facts. If we leverage our product lines with our customers, the residential metal roofing market is about a $0.5 billion market, and we have a very, very low percentage of that market, very small single digits. So we're leveraging our residential relationships with our large retailers and the large distributors that are now part of the portfolio to really expand our footprint here. So it's early, but our team is focused. Our Environmental Stone team and our commercial team are working really well together on mutual job leads. And we think as the year unfolds into 2020, we'll be able to talk a little more about some early wins.

But it's early, but there's some great opportunities there. And our customers that we've talked to are really excited about the expanded portfolio because a lot of our large residential distributors are also in the commercial business. And now they have one place to call one-stop shopping, which really, a lot of our competitors don't have that advantage.

Operator

Ladies and gentlemen, at this time, there are no further questions. I would like to turn it back to management for closing comments.

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

Thank you. I really appreciate the questions and the time that you spent on the call here today for Cornerstone Building Brands. And as most of you know, we're coming up on a year of the merger. I'd like to say we're very proud of the hard work the entire team at Cornerstone has put into really, as I said a minute ago, is focused on the controllables. We've really focused on sitting down with our large customers and presenting Cornerstone with our enhanced product portfolio; extremely focused and proud of margin expansion across the board and quite frankly, some pretty trying markets, particularly our commercial market; reenergizing our innovation pipeline for some of our legacy businesses; and last, but absolutely not least, is focused on our balance sheet and getting our debt levels to that 2 to 3x over the next few years.

There's -- obviously there was a pause in demand in the first half, and it was more of a pause in the commercial business, and the seasonality really got pushed back this year. But as I said, we are not going to focus as much on the demand as what we can do is on our controllables. So we have institutional knowledge and foundation of balancing price and volume to maximize earnings in spite of demand. We've put processes in place for our pricing. We've really focused on providing value for our customers. So we're going to continue to focus on the controllables. We still have work to be done, but the organization is very focused on maximizing the shareholder value for all of you, and we really appreciate all of the support we've had in the market.

So with that, we'll close the call, and we appreciate the time you've spent with us this morning.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.