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PRESENTATION

Operator

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

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

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

Good morning, and thank you for your interest in NCI Building Systems.

Joining me today for the call are Jim Metcalf, our Chairman and Chief Executive Officer; and Brian Boyle, our Chief Accounting Officer. Shawn Poe, our Chief Financial Officer, has taken ill and won't be joining on today's call.

Please be reminded that comments regarding the company's results and projections may include forward-looking statements that are subject to risks and uncertainties. These risks are described in detail in the company's SEC filings, earnings release and supplemental slide presentation. The company's actual results may differ materially from the anticipated performance or results expressed or implied by these forward-looking statements. In addition, management will refer to certain non-GAAP financial measures. You will find a reconciliation of these non-GAAP financial measures and other related information in the earnings release and supplemental presentation located on our website. Throughout this presentation, management may also refer to pro forma financial results including for the company's fiscal first quarter ended January 2018. Such pro forma results give effect to both the change in the company's fiscal calendar as well as the recent recently completed acquisition of Ply Gem and Environmental Stoneworks including Ply Gem's acquisition of Atrium and Silver Line.

The company's first quarter 2019 earnings were released this morning. A copy of both the release and our supporting supplemental presentation can be found in the Investor section of our website.

On the call this morning, Jim will provide an overview on our progress to date and highlight some of the key areas we are working on; then Brian will provide an overview of our consolidated and segment results, discuss the cadence for the year and then he will conclude with an update on our cost savings initiatives.

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

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Thank you, Darcey and thank you, everyone, for joining us today for our first quarter results. I'd like to spend some time this morning reviewing our progress and priorities for the year. And as Darcey said, Brian will provide more detail on our results for the quarter including a review of pro forma financials to provide a better understanding of our performance. You may have seen a recent announcement on our new name, Cornerstone Building brands. We will officially begin operating under our new name and trading a new ticker, CNR, on the New York Stock Exchange on May 24. We're now in a new, exciting chapter as the leading North America exterior building products company that is uniquely positioned to serve the residential, commercial and repair and remodel markets.

During the quarter, our consolidated sales were approximately $1.1 billion. While January and February sales volumes were negatively impacted by poor weather conditions across most of our key markets, demand improved significantly as we moved through March. We achieved gross profit of $185.9 million or 17.5% of sales and adjusted EBITDA of $71.7 million or 6.7% of sales, which reflects price improvement in all 3 of our business segments to offset higher raw material, freight and labor costs. A majority of our $60 million to $70 million of cost-savings initiatives and synergies were in flight during the first quarter, which will result in margin expansion through the remainder of the year.

After a slow start in the quarter, we started to see momentum in the overall business. So it was critical for us to manage the business dynamics that were within our control, outperforming the market and driving EBITDA growth in the business. As a result, we remain focused on driving margin expansion in each of our businesses. When coupled with our ongoing savings initiatives including procurement, automation, continuous improvement and SG&A savings, we expect to drive year-over-year margin improvement as we move into the second quarter and the remainder of the year. We are focused on being a one-stop solution for exterior building products for our customers. Our 3 segments: Commercial, Siding and Windows serve as a strong foundation from which we can build, given our end use markets that are very differentiated. When we talk to our customers and our team members about the future of Cornerstone Building Brands, it is about an organization built for growth. When we think about strategic advantages in our industry, diversification and scale are key levers. Our sales diversity will enable Cornerstone to better withstand fluctuations throughout the economic cycle.

Our scale will give us advantage across the entire supply chain, delivering cost efficiencies while enhancing our customer service and the ability to offer an integrated solution to our customers. I'd now like to spend the next few minutes laying out our roadmap of our strategic priorities. We focus these priorities on 3 key areas: strengthening our core, extending our reach and growing strategically. I'd like to say, strengthen, extend and grow. With these focused priorities, we expect to drive profitable growth, margin expansion in each business and 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 with margin expansion as a central theme, we must deliver superior customer service with on time and in full deliveries. We also targeted opportunities to create a leaner organization and drive margin expansion by reducing costs within our business. With the tight labor market and an eye on superior product quality, investment and automation in our plant solidifies our core and provides flexibility throughout the cycle.

Our integration initiatives are on track. Key leaders from both organizations had been focused on ensuring it goes smoothly for our customers, and we deliver a superior level of service. We ended 2018 having captured $25 million in costs and deal synergies, and we remain on track to achieve an additional $60 million to $70 million in 2019, with a run rate at the end of 2019 of approximately $100 million. We continue to expect to achieve total cost in transaction synergies of $185 million by the end of 2020. While still in the early days for Cornerstone, we're still in a culture of operational excellence, data-driven decision making and continuous improvement across our organization.

Our second priority: extending our reach. This builds on our core as we are investing in an efficient supply chain and logistics network to improve services to our customers, lower costs and to support margin expansion. We have a strong builder, distributor, architect and retail-customer network and going forward, we have a great opportunity to deepen our customer relationships and further extend our go-to-market model across our customer channels. Our customers are asking for business partners that can provide a broader portfolio of exterior building solutions, and we plan to leverage our comprehensive product offering, product innovation and strong brands to extend our reach.

The third priority: growing strategically. On this front, we had meaningful opportunity for organic growth through product line extension, innovation of new systems and cross selling of products to deepen penetration across our customer channels. This includes making balanced investments in our key growth categories to ensure we are deploying our capital to areas where we believe it will drive the greatest returns for our shareholders over the long-term. And as I mentioned, our scale and platform positions us to take advantage of opportunities for consolidation across the fragmented exterior building products industry as we've already successfully done in our Windows business. We have a disciplined approach, exploring inorganic opportunities with a strict criteria. Any asset must be highly strategic and a consolidation opportunity will enable us to enter into a new product adjacency.

Our recent acquisition of Environmental Stoneworks demonstrates this approach in action. This is a business that has a great residential presence and creates a significant leadership position for Cornerstone in one of the fastest growing residential cladding products. Additionally, it's a product, which is extremely relevant to our commercial customers, allowing us to provide them with another exterior building product solution.

Turning now to our capital allocation framework, which is designed to achieve a goal of debt reduction while preserving financial flexibility to pursue our growth strategy. Reducing leverage continues to be a priority for the company, and I'd like to reiterate our goal is to achieve a target leverage ratio of approximately 2% to 3% within the next 3 years. Additionally, we see an enhanced opportunity to leverage and improve our combined working capital utilization, which will further enhance our free cash flow generation and help delever our balance sheet.

Before I turn the call over to Brian, I'd like to take a step back and talk about our new name and vision for the company going forward.

The name Cornerstone Building Brands encompasses our values, our strategy for growth and how we think about the communities we serve. A cornerstone is a foundational part of principle, upon which something greater is built. We want to play an essential role in our communities where people live, work and play to enable those communities to grow and thrive. As a combined company, we are bringing together 2 industry leaders with a relentless commitment to our customers and a focus on operational excellence every day. Cornerstone, our company, describes how we envision our platform for future growth by building on our incredible network of businesses, both commercial and the residential markets; comprehensive product portfolio; and a commitment to innovation, we'll be positioned to deliver growth in shareholder value creation.

Now I'd like to turn the call over to Brian to walk through the financial results.

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Thank you, Jim. As Darcey mentioned, I'm going to provide an overview of our consolidated and segment results and then discuss the business cadence for the year. I'll conclude with an update on our cost savings initiatives. As presented in our Form 10-Q, that was filed earlier this morning, our first quarter 2019 sales for the consolidated company were approximately $1.1 billion compared to $421 million in the reportable period ended January 28 2018. Our first quarter gross profit margins were 17.5% in 2019, which includes a $16.2 million noncash purchase accounting charge to cost of goods sold, for the fair value inventory step-up for the Ply Gem and Environmental Stoneworks transactions. Excluding the impact of purchase accounting, our first quarter 2019 gross margins would have been 19% versus 21.8% in the reported period of Q1 2018. Adjusted EBITDA for the period was $71.7 million compared to $32.4 million in the reportable period ended January 28, 2018. The primary driver for the year-over-year change in first quarter sales, gross profit and adjusted EBITDA in our reported results is the inclusion of Ply Gem and the change to our new fiscal calendar.

For comparability purposes, we have provided some detailed quarterly pro forma information for 2018 and our LTM Q1 2019 in the supplemental deck, which can be found in the Investor section of our website. On a pro forma basis, sales in Q1 2018 were $1.1 billion. The modest increase in 2019 first quarter sales versus 2018 was driven by the favorable impact of higher selling prices, which were implemented across all of our core products partially offset by lower unit volumes in each of our 3 segments due in part to unfavorable weather conditions in January and February in many of the key markets that we serve. Our first quarter pro forma adjusted EBITDA of $70 million was flat compared to pro forma Q1 2018.

Now I will review the results of our 3 business segments, which I will compare to pro forma prior year results as shown in the presentation that we've made available on our website. I will start with our Commercial segment. Net sales in the first quarter of 2019 were $425 million, an increase of $15.3 million or 3.7% from $409.7 million in first quarter of 2018.

The increase was primarily driven by the pass-through of higher input costs partially offset by lower tonnage volumes. Pro forma gross margins were 21.3% down 50 basis points as a result of lower operating leverage and lower volumes partially offset by price discipline across all the Commercial products and improved Insulated Metal Panel mix. For our Siding segment, net sales for the first quarter were $234.5 million, an increase of $6.8 million or 3% from first quarter 2018, primarily driven by price and product mix partially offset by lower market demand that resulted in part from unfavorable weather conditions. Excluding the $16.2 million noncash purchase accounting charge, our pro forma 2019 adjusted gross margin was 21.8% compared to 21.4% for pro forma Q1 2018.

In our Windows segment, net sales for the first quarter were $421.6 million as compared to first quarter 2018 net sales of $437.7 million. The year-over-year decline was driven primarily by lower unit volumes that resulted from a pull back in single-family housing starts in the latter part of 2018 and early 2019.

As a reminder, our residential products are installed 90 to 120 days after the start of a new home. In addition, unusual wet weather conditions in the West and Midwest regions of the country negatively impacted first quarter demand. Gross margins were 14.8%, contracting 10 basis points as a result of lower unit volumes that were partially offset by the net favorable impact of selling price increases that we'll implement to offset higher input cost. And as Jim mentioned, despite fluctuations in both commercial and residential demand, we saw improvements as we moved through March, and are seeing that trend continue in April. While market demand has been choppy, we are driving fundamental improvement in our business through our pricing actions to offset higher raw material, freight and labor cost. And when coupled with our ongoing cost savings initiatives, we expect to drive year-over-year margin improvement as we move into the second and third quarters of the year.

As a reminder, with our new calendar year end, the cadence and seasonality of the company going forward will change.

The second and third quarters will be the strongest quarters of the year in line with the seasonality of the commercial and residential construction cycles followed by the fourth quarter and the first quarter that typically is the seasonal slowest period for the industry. On our cost synergy and initiatives, we remain on track to capture $60 million to $70 million in 2019 results with a run rate at the end of the year of approximately $100 million.

Across all our businesses, we have line of sight to achieving these targets for this year and in 2020. A majority of our initiatives are focused on manufacturing efficiencies and automation, which are crucial to managing the cyclicality of our business and variable cost; procurement where we leverage the size and purchasing power of the consolidated businesses in areas such as paint and aluminum and continuous process improvements. We have an ongoing commitment to invest in automation in all of our plans, reduce our G&A expenses and leverage lean manufacturing to drive further operational excellence. I will now conclude my remarks with our outlook.

Although there continues to be some uncertainty in end-market demand, we expect to achieve low to mid-single digit sales growth driven by modest market improvement in the second half of the year and the continued favorable impact of our pricing initiatives. While we are not providing detailed guidance, we have provided historical pro forma information that should assist with your models. Looking forward, keep in mind, our second quarter is one of our strongest quarters. As we look at the first half of the year combined, we anticipate being in the range of current estimates, and we continue to anticipate achieving double-digit growth and EBITDA for the full year. Annually, we still expect our capital expenditures to be in the range of 2% to 2.5% of sales; interest expense of around $230 million; and our cash taxes to be in the $50 million range. Finally, I want to touch on our capital allocation strategy going forward. As Jim mentioned, we are focused on delevering the balance sheet and reducing our debt levels while preserving our financial flexibility to drive organic growth and evaluate strategic M&A opportunities.

Our goal is to delever the company 2 to 3x, which we will delever through EBITDA growth and strong free cash flow generation.

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

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Thank you, Brian. In summary, these are certainly the early days of our new combined company. We continue to find new ways to take advantage of scale, identify new avenues for growth across our product portfolio, sharpen our go-to-market capabilities across channels and execute on our plan to realize significant synergies available.

And our first quarter together as one company, we're building on our culture of safety, integrity, teamwork and innovation to drive operational excellence in anything we do and execute on our ambition to be the leading exterior building products company in North

America.

With that, we'll open the line for questions, and we'll be happy to take them. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first questions are from the line of Matthew Bouley with Barclays.

Marshall Harrison Mentz ***Barclays Bank PLC, Research Division - Research Analyst***

This is actually Marshall Mentz on for Matt. First, just bigger picture on the demand side. Appreciate the comments you gave about demand improving meaningfully in March, but can you just give us a better sense of what you saw in March and then into April from a shipments perspective both on the residential and commercial sides?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Yes. This is Jim, Marshall. Let's start on the commercial side. As we said in some of our prepared comments, there was a pull-forward in the fourth quarter because of steel prices. We had wet weather that really our customers had a lot of inventory or high inventory so that really put a pause on the Commercial business, particularly in January and February. We started to see our bookings increase, and our order rate increase in mid-March into April, and we're still seeing it into April. So we're -- from a commercial standpoint, we're still focused on low single-digit growth, demand growth on the back half of the year. As Brian said, the second and third quarters are historically our strongest quarters. We think the pull-forward on steel 4 or 5 months ago really impacted the first quarter. So we have customers on the commercial side that are really concerned about labor rates, so there was some job that were paused because of labor and soggy conditions. So from the commercial side, we're still looking at low single-digit demand as we get into the second and third quarter. If you look at the -- on the residential side as we said from a unit standpoint, the Siding business in the first quarter, overall the industry was down about 3% but was very regional particularly in the wet areas. The Northeast area, the East or Central area was down; unit-wise about 11%, but Mid-Atlantic was up 11%.

So there were some -- it was all -- it was a very regional demand in the first quarter, and we're expecting the second quarter demands to improve as some of these areas dry out. So we're expecting again low to mid-single digit growth on the Siding business. And on the Windows business overall in the first quarter, we saw demand overall down about 5%. But as Brian said, in the West, it was down significantly about 10% because of the wet weather, and we're seeing bookings in demand coming back on Windows as well. So we're -- all in all, we're still -- in that second and third quarter, we're seeing things turn around but we're still in that low single digit 2% to 3% each one of the businesses of demand growth. The way we're running our business, if I could just put a commentary on that, we're looking at market growth, slight market growth but we want to create our own recovery. That's why it's really -- we're really focused on margin expansion, on automation and really we aren't banking on the market to help us here. So we want to create our own recovery so that's why some of the initiatives that we talked about on our prepared comments are so critical about focused on cost efficiency, supply chain and logistics and with -- we'll work with the market conditions -- we'll work with whatever market conditions we're faced with, but we're starting to see some positive trends into the second and third quarter.

Marshall Harrison Mentz ***Barclays Bank PLC, Research Division - Research Analyst***

That's all really helpful. And then another one on price, looks like you realized pretty healthy pricing to begin the year. How are you thinking about price levels during the balance of the year? Just given -- on one hand, you're seeing steel prices come back down; and then on the other, maybe oil derivatives. You're seeing some more inflation in resins potentially.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Let me just take it in 2 sections here: first on commercial, we've been very successfully -- we've been very successful historically of offsetting steel inflation, and we're obviously keeping an eye on steel cost. We've been very sticky on our pricing at this point, and that's why some of the margin improvement you're seeing with some very low volumes on the commercial side of the commercial discipline has been tremendous on steel pricing. So regardless of where steel prices go, we really have a system that we know how to manage that with steel prices coming down as well as going up.

So we're keeping an eye on steel. And if there's some dramatic inflation on steel, we will react very quickly of offsetting that inflation on steel so we have a line of sight on that.

On the residential side, in the Windows business, we've announced price increases as Brian and I mentioned, in the quarter of between 6% and 8%. Those were announced in -- on Windows and on Siding. It's between 4% and 6% of price improvement. And really it varies by channel of what the price improvement is, product mix, regionality but we're pleased with the progress we've made on price improvement in the quarter, and we expect to see majority of those results come through in the second quarter. So pricing on the residential side, we'd like to set that at the beginning of the year. But if there's some dramatic inflation, we will be prepared to offset that as well.

Operator

Our next questions are from the line of Lee Jagoda with CJS Securities.

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

So just going back on the volume and price discussion. If I look at the slide that shows sort of your medium-term goals, I guess, of that low to mid-single digit sales growth, is that guidance for calendar '19 or medium term?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

That would be calendar '19.

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

Okay. So -- and I guess you just wrapped up the discussion about window pricing up 6% to 8%, Siding pricing up 4% to 6%. You had pretty good pricing trends in Q1. What do you think is for volume if pricing is already kind of mid-single digit?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

On Windows and Siding, is that your question?

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

Well I guess in total, right? There's Windows, there's Siding and there's the commercial business. But if the Windows and Siding piece is up, presumably you're raising price for steel cost increases as well. It would almost imply a negative volume assumption in the guidance and I don't know that that's your intention.

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Lee, this is Brian. I'll take the residential side and Jim can comment on the commercial aspect of it.

If you look at the residential side, if you think about what starts are done, on a lag basis -- 120-day lag basis for the volume for the first quarter layer down 4.1%. We talk a little bit about the regional impact on the Midwest versus the Northeast. And if you look at what consensus is on single family housing starts, it's going to be about 900 -- around 900,000 starts. So I think from that standpoint, you're talking about loaded growth rates on the Siding side of the house. From a U.S. windows and from a residential perspective, quarter to date, new construction as a result of that 4.1%. Our new construction window units were down about 5.4% and our R&R units were down about 2.2% for the quarter so that should give you a little bit an indication of what the volume is perspective on the U.S. window side.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

And on the commercial side, we talked about the lag with our customers having quite a bit of inventory.

That inventory is getting worked out. We're starting to see -- our quote activity has been strong. We're also seeing the backlog increasing as well into the second quarter so we're -- we think the market -- what we're going to do is we believe on the steel side, on the commercial side, we want to outperform. And when we say outperform, that's also with our IMP business, what we're doing on service with on-time deliveries. We've done a really good job to improve our on-time and in-full delivery in the high 90% range from basically in the mid-70s a couple of years ago. So we're looking at low single digit growth, unit growth for the back half of the year in the commercial business.

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

Okay. Great. And then just one more on the synergy. So on the synergy slide, you're now calling out $60 million to $70 million of actual realized synergies in 2019. I assume that's not a change versus the original $100 million. It's just a function of realized versus run rate.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Correct. Correct. We wanted to be very focused on what's going to hit the P&L for this year.

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

And can you talk about sort of the -- what has been done in Q1 already? And how we should think about the cadence of those realizations as we go through the year?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Yes. Q1 was minimal impact to the results. It's really started. We had initiatives in flight as we said in the prepared comments. We have swim lanes on each one of the areas: procurement, manufacturing, SG&A and this will really start hitting the second and third quarter. Really the way it's broken down just to kind of put some color around it it's -- if you look at the Ply Gem-NCI merger synergies, it's about 20% of the 60% to 70%; and if you look at the Atrium, Silverline combined, that's about 20% each so that's 40%; and then the Ply Gem cost initiatives and the NCI cost initiatives are each 20%. So if you look at the buckets of where it would end up in each segment, you would have Commercial getting about 20%; Windows, 50% of the cost reduction in synergies; and Siding in Canada about 10%; and then Corporate is another 20%.

So I just wanted -- hopefully that gives you a little color of where each one of those in the 60% to 70% from a percentage basis will land on the P&L.

Operator

Our next questions are from the line of Reuben Garner with Seaport Global.

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

So maybe just to follow up on Lee's questions. So

I'm just trying to understand, Q1 your volume overall looks like it was down maybe mid -- maybe high single digits and you had some price to offset that. What is your outlook for the next few quarters for volume and price for the overall business? I mean you can -- if you want to break it down by segment. I'm just not -- maybe you said it. I just didn't catch it so if I could get you to say it again, I appreciate it.

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Yes. This is Brian. I think you hit the nail on the head there, Reuben, on -- when you look at what the fourth quarter did and the first quarter from a winter weather and wet weather perspective was really depressed conditions, which contributed to decreases in our U.S. Window business. As we look for the outlook for the remainder of the year, we look for that to recover that in the low single digit growth rate perspective. When you look at the vinyl Siding perspective, we told you 65% of our businesses is R&R and vinyl Siding was about 35% is on new construction. So when you evaluate both of those together, you're looking at a low single digit growth rate from that perspective.

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

Are these growth numbers or revenue that you expect for those 2 businesses?

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Well I'll give you the perspective in the first quarter. On the first quarter, the VSI in that indice was down 1% in units. On the VSIR, units were down about 2% of the units perspective and that's going to contribute. When you look at all our price, we were able to get in the first quarter, about a 1% increase on the price perspective. So we were able to offset that unit decrease with favorable pricing, and we expect that to continue in the Q2 and Q3 and the remainder of the year.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

And on the commercial side, on the unit basis, it's -- as we said, the fourth quarter of last year and the first 2 months of this year, tonnage was down, volume was down but price was up. So we're looking -- we're talking about low single digits. We're talking about dollars in -- versus units. And that's what the price discipline we have on commercial and driving additional sales through our Insulated Metal Panels group as well so that is dollars just so to clarify.

Operator

Our next questions are from the line of Scott Schrier with Citi.

Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***

You've been talking a lot about a lot of your expectations and my question is especially given the way the stock has traded, what are the reservations in giving us guidance? You're talking about low single digit growth, you have cost tick-ups, you have pricing, you have synergy target. So if you could just talk about why you don't want to bracket a range. And if not, I mean if the way I'm thinking about $538 million pro forma; $50 million, $60 million of realized synergies even $70 million what you said, it looks like we should be at least a decent amount over $600 million for the year. Am I thinking about things the right way?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Well the key to this year really is delivering on the cost reduction, the synergies and getting margin expansion. This is all built around margin expansion. As we were talking just on the previous question, the market really -- we aren't banking on the market or having a lot of tailwinds on the market. We're going to get price improvement where we can. We had the disciplines in. We're very pleased with the price improvement both on the residential side that has been announced in stock in the first quarter. And on the commercial side, the commercial discipline with the low throughput, that's all about our margin expansion. So the year ahead on the demand side, we are cautiously optimistic. We feel a heck of a lot better than we did a couple of months ago about demand, but we are really focused on not having the market help us here.

This is really -- we're going to do it with margin expansion really focused on cost. Your question on are -- we aren't giving guidance on the year, but we have $60 million to $70 million of synergies. Those are -- we're very confident on those numbers. We have line of sight on each one of those. They're focused on procurement, on indirect, on SG&A. Both the Silver Line and the Atrium integrations have gone well. In fact in the second quarter, they're going to be basically complete so we can check the box there. So that $60 million to $70 million, I have a high confidence that we will deliver those numbers into the P&L and working from your $538 million. Directionally, you're correct. We expect to grow the business with IMP. We have some good opportunities on some new product introductions. We've done some new product introductions on Windows, but we're really focused on margin expansion and growing EBITDA double digits.

Scott Evan Schrier ***Citigroup Inc, Research Division - Senior Associate***

For my follow-up, I wanted to ask a little bit about the comments on inorganic growth and maybe what kind of adjacencies would you look at. What size of deals are interesting? I'm just thinking about obviously, you laid out whatever your EBITDA is not -- CapEx is pretty light so it looks like you're going to have a significant amount of cash flow out there. So if we can get some context around some deals. Or does a wait-and-see approach make more sense as you integrate the 2 companies and not try to throw another wrench into the mix? Just trying to get more of a sense of how you're thinking about the potential for inorganic growth.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Sure. First and foremost, we're -- as I just mentioned about integration, we're very focused on integration following the recent transactions we have had.

As I mentioned, both Silver Line and Atrium are nearing completion. Environmental Stoneworks, we have a line of sight there, and we have already made some moves with some plant consolidations and SG&A there. So those are really -- those things are really getting the green light and we're checking the box there but we're focused on integration. But beyond that as we mentioned, we prioritized our capital allocation frame work to achieve our debt reduction. We're really focused and you had mentioned the strong free cash flow. We're targeted to -- we've said a turn year to get to that 2 to 3x that Brian was alluding to over the next 2 to 3 years if not sooner. We're very focused on working capital as well. We think there's some great opportunity to release working capital so that we have a Blue Ribbon team put together to look at our working capital, and investment in automation and that's really key. When you look at the amount of the labor shortages that we're seeing and our customers are seeing, we have a very focused approach on automation in all of our plans.

Commercial has a nice job with automation as well as automation in both our Windows business and Siding. But of course, we're going to look at acquisitions opportunistically, and we have a disciplined approach. We have strict criteria and really the focus is on value creation. And what -- we want to look at opportunities of possibly consolidation. I use the example of what the windows industry or the Windows business has done with both the Silver Line and the Atrium. And going back a few years, the Simonton acquisition, which now we are the leader in vinyl windows. We are acting like a leader. We're going to grow the business. And so that is something that's -- is one area that would interest us. The other area is new product adjacency is really to complement our existing portfolio. These are adjacencies similar to Environmental Stone and that was a nice tuck-in acquisition. And as I mentioned in the prepared comments, it's a great product to cross sell over on our commercial building business. So again, I just want to reiterate that we have a well-defined capital allocation strategy, strict acquisition criteria and we're focused on creating value really for all of our shareholders.

Operator

Our next questions are from the line of [Richard Close] with Jefferies.

Unidentified Analyst

So first for me, can you talk a little bit about the amount of synergy capture that you actually ended up getting in Q1 relative -- that would be included in that $60 million to $70 million you expect in 2019?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

We had -- I'm sorry. I had some feedback. Yes. This is Jim. We put -- as we said, we had most of the swim lanes in flight in the first quarter, so the impact was really minimal in the first quarter on the P&L. The impact really is we're going to see as the year unfolds, and we're still committed on that $60 million to $70 million to the P&L as we get into the second through the fourth quarter. So we're making great progress but the first quarter was minimal.

Unidentified Analyst

But presumably, you should have gotten cost saves out of Atrium and Silver Line on a year-over-year basis in Q1, right?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Yes. Yes.

Operator

Our next questions are from the line of James Finnerty with Citi.

James Peter Finnerty ***Citigroup Inc, Research Division - Director***

Just had a quick question on the synergies. You had a cash cost target out there. Can you just give us an update on that? Has that changed? And how much has been spent so far to date? And how much do you anticipate spending in 2019?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

It's between $45 million and $50 million and it's over 2 years.

James Peter Finnerty ***Citigroup Inc, Research Division - Director***

Is that -- that's a bit lower than you had previously discussed, I think, potentially?

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

It is. It is. When we dug into the numbers, there were some areas that were not onetime charges that we pulled out of that. So yes, those were lower than our original estimation. I think we were probably another $10 million higher. But we're -- we have a line of sight and it's $40 million to $55 million right now.

Operator

(Operator Instructions) Our next questions are from the line of Brent Thielman with D.A. Davidson.

Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***

Great. First up, I know you're not offering specific guidance but when we think about the last 12 months, pro forma adjusted EBITDA, $538 million. At a high level, is there a run rate for housing starts we need to think about seen in order to hit that range?

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Yes. This is Brian. When you think about that, that $538 million was based on the prior year so you're north of 800,000 housing starts and what we are estimating here consensus is 900,000. So when you think about where we are from a projected on an LTM basis that produced $538 million, it's not -- housing starts, on average, could still be 1.1. We're not building that into the equation. It's still that low single digit growth rate that we're anticipating from a U.S. residential siding perspective that will help contribute to that. And that will -- same follow through on the U.S. window side as well.

Brent Edward Thielman ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***

Okay. Great. Appreciate the comment on getting the leverage down. Could you sort of address when we should begin to see debt reduction progressed and how much you think you could address this year?

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

Yes. So when you look and evaluate what our free cash flow is, if you tick the big buckets, $230 million of cash interest. We said $2 million to $2.5 million of CapEx so $120 million, $130 million there and let's say around $50 million of cash taxes. So that rounds up to about $400 million on average. You think about what our projections we have the LTM, adjusted EBITDA out there plus the synergies that you're going to get into -- you can get to a number very quickly in excess of $200 million around that number. If you think about the Environmental Stone acquisition that was completed on February 20, '19, we did have an ABL borrowing that's reflected in our 10-Q. So in the current year, to pay off that Environmental Stone acquisition that will be with that free cash flow generation we used in year 1. But on a go-forward basis, you can evaluate around $400 million of costs, cash that's going out of the business excluding any working capital improvement. And that excess cash flow can be used for debt reduction on a go-forward basis.

Operator

Our next questions are from the line of James Finnerty with Citi.

James Peter Finnerty ***Citigroup Inc, Research Division - Director***

Sorry. Got cut off before. Just on the cash costs, how much will be spent in '19? Will it be all of the cash cost? And I had a follow-up after that.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Cash cost. So on our cash cost, our cash cost will have $230 million in cash interest; $50 million in cash tax expense; about 2% to 2.5% on CapEx, which will equate to around $120 million to $130 million. And if you sum all those together, you get around approximately $400 million on cash flow outflow on a go-forward basis somewhat on a fixed perspective.

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

I think James was looking for cost synergies this year.

James Shane Metcalf ***NCI Building Systems, Inc. - Chairman of the Board & CEO***

Okay.

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

James, what was your question so we get it correctly?

James Peter Finnerty ***Citigroup Inc, Research Division - Director***

Yes, Darcey is correct. It's just with regards to how much cash payments will be made for the synergies in 2019. Will all of it be spent this year, the synergies?

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

We'll have to get back to you on that information.

James Peter Finnerty ***Citigroup Inc, Research Division - Director***

Sure thing. And just one other question just to make sure I understood the pro forma EBITDA correctly, the LTM. What amount of EBITDA was in that figure, the $538 million from Environmental Stoneworks?

Brian P. Boyle ***NCI Building Systems, Inc. - Senior VP, CAO & Treasurer***

So Environmental Stoneworks, the -- if you look at our pro forma EBITDA, we have $1.6 million will be in the January and February period of time period. That is the incremental that you fluctuate from the $72 million down to the $70 million. When you think about on a go-forward basis, we have about $6 million of synergies that's built in from Environmental Stone plus around $24 million, $25 million on ongoing EBITDA from Environmental Stoneworks.

Operator

Thank you. This concludes our question-and-answer session. I'd like to turn the floor back to Darcey Matthews for closing comments.

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

Great. Thank you, Brenda. Thank you, everyone, for your interest in Cornerstone Building Brands. We're excited about where the organization is going and look forward to speaking with you soon. Have a good day.

Operator

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