

NCI BUILDING SYSTEMS INC  
Form 10-Q  
March 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark  
One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended January 28, 2018

or

..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from to

Commission file number: 1-14315

NCI BUILDING SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 76-0127701  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

10943 North Sam Houston Parkway West 77064  
Houston, TX  
(Address of principal executive offices) (Zip Code)

(281) 897-7788  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/>   | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/>    |
|  | Emerging growth company <input type="checkbox"/>      |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   
Yes  No

#### APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value - 66,142,248 shares as of February 27, 2018.

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## PART I — FINANCIAL INFORMATION

## Item 1. Unaudited Consolidated Financial Statements.

## NCI BUILDING SYSTEMS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|   | Fiscal Three Months<br>Ended |                     |
|---|------------------------------|---------------------|
|   | January 28,<br>2018          | January 29,<br>2017 |
| Sales   | \$421,349                    | \$391,703           |
| Cost of sales   | 329,432                      | 307,752             |
| Gross profit  | 91,917                       | 83,951              |
| Engineering, selling, general and administrative expenses | 74,786                       | 69,039              |
| Intangible asset amortization                             | 2,412                        | 2,405               |
| Strategic development and acquisition related costs       | 727                          | 357                 |
| Restructuring and impairment charges                      | 1,094                        | 2,264               |
| Income from operations                                    | 12,898                       | 9,886               |
| Interest income   | 33                           | 5                   |
| Interest expense  | (7,492)                      | (6,886)             |
| Foreign exchange gain (loss)                              | 471                          | (78)                |
| Other income, net   | 457                          | 387                 |
| Income before income taxes                                | 6,367                        | 3,314               |
| Provision for income taxes                                | 1,118                        | 1,275               |
| Net income  | \$5,249                      | \$2,039             |
| Net income allocated to participating securities          | (38)                         | (8)                 |
| Net income applicable to common shares                    | \$5,211                      | \$2,031             |
| Income per common share:                                  |                              |                     |
| Basic   | \$0.08                       | \$0.03              |
| Diluted   | \$0.08                       | \$0.03              |
| Weighted average number of common shares outstanding:     |                              |                     |
| Basic   | 66,434                       | 70,875              |
| Diluted   | 66,546                       | 71,088              |

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands)  
 (Unaudited)

|   | Fiscal Three<br>Months Ended |                     |
|---|------------------------------|---------------------|
|   | January 28,<br>2018          | January 29,<br>2017 |
| Comprehensive income:                                       |                              |                     |
| Net income  | \$5,249                      | \$ 2,039            |
| Other comprehensive income, net of tax:                     |                              |                     |
| Foreign exchange translation gains and other <sup>(1)</sup> | 237                          | 86                  |
| Other comprehensive income                                  | 237                          | 86                  |
| Comprehensive income  | \$5,486                      | \$ 2,125            |

(1) Foreign exchange translation gains and other are presented net of taxes of \$0 in both the three months ended January 28, 2018 and January 29, 2017.

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)  
(Unaudited)

|   | January 28,<br>2018 | October 29,<br>2017 |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 12,420           | \$ 65,658           |
| Restricted cash   | 180                 | 136                 |
| Accounts receivable, net  | 169,059             | 199,897             |
| Inventories, net  | 200,533             | 198,296             |
| Income taxes receivable   | 1,244               | 3,617               |
| Investments in debt and equity securities, at market  | 6,802               | 6,481               |
| Prepaid expenses and other  | 33,761              | 31,359              |
| Assets held for sale  | 10,601              | 5,582               |
| Total current assets  | 434,600             | 511,026             |
| Property, plant and equipment, net  | 220,465             | 226,995             |
| Goodwill  | 148,291             | 148,291             |
| Intangible assets, net  | 134,743             | 137,148             |
| Deferred income taxes   | 2,679               | 2,544               |
| Other assets, net   | 5,216               | 5,108               |
| Total assets  | \$ 945,994          | \$ 1,031,112        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Current portion of long-term debt   | \$ 10,000           | \$—                 |
| Note payable  | —                   | 440                 |
| Accounts payable  | 116,567             | 147,772             |
| Accrued compensation and benefits   | 47,611              | 59,189              |
| Accrued interest  | 1,383               | 6,414               |
| Other accrued expenses  | 95,742              | 102,233             |
| Total current liabilities   | 271,303             | 316,048             |
| Long-term debt, net of deferred financing costs of \$6,522 and \$6,857 on January 28, 2018 and October 29, 2017, respectively   | 387,625             | 387,290             |
| Deferred income taxes   | 2,620               | 4,297               |
| Other long-term liabilities   | 18,141              | 18,230              |
| Total long-term liabilities   | 408,386             | 409,817             |
| Stockholders' equity:   |                     |                     |
| Common stock, \$.01 par value, 100,000,000 shares authorized; 66,251,796 and 68,677,684 shares issued at January 28, 2018 and October 29, 2017, respectively; 66,142,107 and 68,386,556 shares outstanding at January 28, 2018 and October 29, 2017, respectively | 663                 | 687                 |
| Additional paid-in capital  | 519,224             | 562,277             |
| Accumulated deficit   | (244,148 )          | (248,046 )          |
| Accumulated other comprehensive loss, net   | (7,294 )            | (7,531 )            |
| Treasury stock, at cost (109,689 and 291,128 shares at January 28, 2018 and October 29, 2017, respectively)   | (2,140 )            | (2,140 )            |
| Total stockholders' equity  | 266,305             | 305,247             |
| Total liabilities and stockholders' equity  | \$ 945,994          | \$ 1,031,112        |

See accompanying notes to consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|   | Fiscal Three Months<br>Ended |                     |
|---|------------------------------|---------------------|
|   | January 28,<br>2018          | January 29,<br>2017 |
| Cash flows from operating activities:                                       |                              |                     |
| Net income  | \$5,249                      | \$ 2,039            |
| Adjustments to reconcile net income to net cash from operating activities:  |                              |                     |
| Depreciation and amortization   | 10,358                       | 10,315              |
| Amortization of deferred financing costs                                    | 435                          | 477                 |
| Share-based compensation expense  | 5,870                        | 3,042               |
| (Gains) losses on assets, net   | (320 )                       | 125                 |
| Provision for doubtful accounts   | (20 )                        | 1,586               |
| Provision for deferred income taxes   | (1,676 )                     | 26                  |
| Changes in operating assets and liabilities, net of effect of acquisitions: |                              |                     |
| Accounts receivable   | 30,858                       | 19,181              |
| Inventories   | (2,237 )                     | (4,932 )            |
| Income taxes  | 2,373                        | (6,777 )            |
| Prepaid expenses and other  | (2,567 )                     | 2,157               |
| Accounts payable  | (31,205 )                    | (30,199 )           |
| Accrued expenses  | (23,183 )                    | (27,240 )           |
| Other, net  | (515 )                       | (163 )              |
| Net cash used in operating activities                                       | (6,580 )                     | (30,363 )           |
| Cash flows from investing activities:                                       |                              |                     |
| Capital expenditures  | (8,109 )                     | (4,120 )            |
| Proceeds from sale of property, plant and equipment                         | 2,249                        | —                   |
| Net cash used in investing activities                                       | (5,860 )                     | (4,120 )            |
| Cash flows from financing activities:                                       |                              |                     |
| (Deposit) refund of restricted cash   | (44 )                        | 117                 |
| Proceeds from stock options exercised                                       | 1,040                        | 1,019               |
| Proceeds from Amended ABL facility  | 43,000                       | 30,000              |
| Payments on Amended ABL facility  | (33,000 )                    | (30,000 )           |
| Payments on term loan   | —                            | (10,000 )           |
| Payments on note payable  | (441 )                       | (431 )              |
| Payments of financing costs   | (275 )                       | —                   |
| Payments related to tax withholding for share-based compensation            | (4,610 )                     | (2,389 )            |
| Purchases of treasury stock   | (46,705 )                    | (3,533 )            |
| Net cash used in financing activities                                       | (41,035 )                    | (15,217 )           |
| Effect of exchange rate changes on cash and cash equivalents                | 237                          | 86                  |
| Net decrease in cash and cash equivalents                                   | (53,238 )                    | (49,614 )           |
| Cash and cash equivalents at beginning of period                            | 65,658                       | 65,403              |
| Cash and cash equivalents at end of period                                  | \$ 12,420                    | \$ 15,789           |

See accompanying notes to consolidated financial statements.





NCI BUILDING SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands, except share data)  
(Unaudited)

|   | Common Stock |        | Additional         | Retained              | Accumulated                                | Treasury Stock |           | Stockholders'<br>Equity |
|---|--------------|--------|--------------------|-----------------------|--|----------------|-----------|-------------------------|
|   | Shares       | Amount | Paid-In<br>Capital | Earnings<br>(Deficit) | Other<br>Comprehensive<br>(Loss)<br>Income | Shares         | Amount    |                         |
| Balance, October 29,<br>2017                                    | 68,677,684   | \$ 687 | \$562,277          | \$(248,046)           | \$ (7,531 )                                | (291,128 )     | \$(2,140) | \$ 305,247              |
| Treasury stock<br>purchases                                     | —            | —      | —                  | —                     | —  | (2,916,930)    | (51,315 ) | (51,315 )               |
| Retirement of treasury<br>shares                                | (2,916,930 ) | (29 )  | (51,286 )          | —                     | —  | 2,916,930      | 51,315    | —                       |
| Issuance of restricted<br>stock                                 | 397,406      | 4      | (4 )               | —                     | —  | 181,439        | —         | —                       |
| Stock options<br>exercised                                      | 93,636       | 1      | 1,039              | —                     | —  | —              | —         | 1,040                   |
| Foreign exchange<br>translation gain and<br>other, net of taxes | —            | —      | (23 )              | —                     | 237  | —              | —         | 214                     |
| Share-based<br>compensation                                     | —            | —      | 5,870              | —                     | —  | —              | —         | 5,870                   |
| Cumulative effect of<br>accounting change                       | —            | —      | 1,351              | (1,351 )              | —  | —              | —         | —                       |
| Net income  | —            | —      | —                  | 5,249                 | —  | —              | —         | 5,249                   |
| Balance, January 28,<br>2018                                    | 66,251,796   | \$ 663 | \$519,224          | \$(244,148)           | \$ (7,294 )                                | (109,689 )     | \$(2,140) | \$ 266,305              |

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 28, 2018

(Unaudited)

#### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. (together with its subsidiaries, unless otherwise indicated, the “Company,” “NCI,” “we,” “us” or “our”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments, which consist of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Operating results for the fiscal three month period ended January 28, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2018. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 29, 2017 filed with the Securities and Exchange Commission (the “SEC”) on December 18, 2017.

##### Reporting Periods

We use a four-four-five week calendar each quarter with our fiscal year end being on the Sunday closest to October 31. The year end for fiscal 2018 is October 28, 2018.

##### Change in Operating Segments

On February 22, 2018, the Company announced changes to NCI’s reportable business segments, effective January 28, 2018 starting with the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources.

As of the first quarter, the Company began reporting results under four reportable segments: Engineered Building Systems; Metal Components; Insulated Metal Panels; and Metal Coil Coating. Previously, operating results for the Insulated Metal Panel product line were included in the Metal Components segment. In addition, CENTRIA’s coil coating operations, which had also been included in the Metal Components segment since the Company’s acquisition of CENTRIA in January 2015, will now be reported within the Metal Coil Coating segment. The Company began reporting its financial results under the new reportable segments with the filing of this Form 10-Q for the quarter ending January 28, 2018.

#### NOTE 2 — ACCOUNTING PRONOUNCEMENTS

##### Adopted Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires that inventory that has historically been measured using first-in, first-out (FIFO) or average cost method should now be measured at the lower of cost and net realizable value. We adopted this guidance in our first quarter in fiscal 2018 on a prospective basis. The adoption of this guidance did not have a material impact on our financial position or results of operations.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires all deferred tax assets and liabilities to be presented on the balance sheet as noncurrent. The requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this update. We adopted ASU 2015-17 in our first quarter in fiscal 2018 on a retrospective basis. As a result deferred tax assets of \$20.1 million that were presented on our October 29, 2017 consolidated balance sheet have been reclassified to non-current deferred tax liabilities and the remaining \$2.5 million deferred tax assets have

been reclassified to non-current deferred tax assets to be consistent with the current year classification. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies certain aspects of the accounting for share-based payment transactions, including income tax effects, forfeitures, minimum statutory tax withholding requirements, classification as either equity or liability, and classification on the statement of cash flows. We adopted ASU 2016-09 in our first quarter in fiscal 2018. ASU 2016-09 requires all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement, thus eliminating additional paid-in capital pools. The Company

applied the new standard guidance prospectively to all excess tax benefits and tax deficiencies resulting from settlements after October 29, 2017. The standard also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company recognized a cumulative effect adjustment of \$1.4 million to increase retained earnings on a modified retrospective basis as of October 29, 2017 and has elected to account for forfeitures when they occur on a prospective basis. The standard requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of the excess tax benefits as cash inflows from financing activities. The Company elected to apply this provision using the retrospective transition method and reclassified \$1.5 million of excess tax benefits from financing activities to operating activities on the statement of cash flows for the fiscal three months ended January 29, 2017. Additionally, the standard requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the statement of cash flows as a financing activity. Payments for shares withheld for tax withholding purposes of \$4.6 million and \$2.4 million are classified on the consolidated statements of cash flows for the three months ended January 28, 2018 and January 29, 2017, respectively.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During 2016, the FASB also issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-11, Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting; and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (collectively, the "new revenue standard"), all of which were issued to improve and clarify the guidance in ASU 2014-09. These ASUs are effective for our fiscal year ending November 3, 2019, including interim periods within that fiscal year, using either a full or modified retrospective approach. To adopt the new revenue standard, we anticipate applying the modified retrospective approach, pursuant to which we will record an adjustment to the opening balance of accumulated deficit as of October 29, 2017 (the first day of our fiscal year ending November 3, 2019) for the impact of applying the new revenue standard to all contracts existing as of the date of application. At this time, our assessment is not yet complete and therefore we are unable to quantify the potential impacts to our consolidated financial statements; however, we do anticipate the adoption will have a material impact on our financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which will require lessees to record most leases on the balance sheet and modifies the classification criteria and accounting for sales-type leases and direct financing leases for lessors. ASU 2016-02 is effective for our fiscal year ending November 1, 2020, including interim periods within that fiscal year. The guidance requires entities to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. While we are evaluating the impact that the adoption of this guidance will have on our consolidated financial statements, we currently believe that most of our operating leases will be reflected on the consolidated balance sheet upon adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires an entity to measure all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now incorporate forward-looking information based on expected losses to estimate credit losses. ASU 2016-13 is effective for our fiscal year ending October 31, 2021, including interim periods within that fiscal year. We are evaluating the impact that the adoption of this ASU will have on our consolidated financial position, result of operations and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight cash flow classification issues with the objective of reducing differences in practice. We will be required to adopt the amendments in this ASU in annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. Adoption is required to be on a retrospective basis, unless impracticable for any of the amendments, in which case a prospective application is permitted. We are evaluating the impact that ASU 2016-15 will have on our consolidated financial statements. In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory, which eliminates the exception that prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. We will be required to adopt the amendments in this ASU in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. The application of the amendments will require the use of a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are evaluating the standard and the impact it will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. We will be required to adopt this guidance on a retrospective basis in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. We are evaluating the impact ASU 2016-18 will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, if a single asset or group of similar identifiable assets comprise substantially all of the fair value of the gross assets acquired (or disposed of) in a transaction, the assets and related activities are not a business. Also, a minimum of an input process and a substantive process must be present and significantly contribute to the ability to create outputs in order to be considered a business. We will be required to adopt this guidance on a prospective basis in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. We are evaluating the impact ASU 2017-01 will have on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for employer sponsored defined benefit pension and other postretirement benefit plans. Under the new guidance, an entity must disaggregate and present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs arising from services rendered during the period, and only the service cost component will be eligible for capitalization. Other components of net periodic benefit cost will be presented separately from the line items that include the service cost. We will be required to adopt this guidance in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. Entities must use a retrospective transition method to adopt the requirement for separate presentation of the income statement service cost and other components, and a prospective transition method to adopt the requirement to limit the capitalization of benefit cost to the service component. We are evaluating the impact of adopting this guidance.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides clarity on the accounting for modifications of stock-based awards. We will be required to adopt this guidance on a prospective basis in the annual and interim periods for our fiscal year ending November 3, 2019 for share-based payment awards modified on or after the adoption date. We are evaluating the impact ASU 2017-09 will have on our consolidated financial statements.

#### NOTE 3 —RESTRUCTURING

As part of the plans developed in the fourth quarter of fiscal 2015 primarily to improve ESG&A and manufacturing cost efficiency and to optimize our combined manufacturing footprint given the Company's acquisitions, dispositions and restructuring efforts, we incurred restructuring charges of \$1.1 million, including \$1.2 million and \$1.3 million in the Engineered Building Systems segment and Insulated Metal Panels segment, respectively, partially offset by a gain of \$1.4 million on a sale of a facility in our Metal Components segment during the three months ended January 28, 2018. During the three months ended January 29, 2017, we incurred restructuring charges of \$2.3 million, including \$1.9 million, \$0.3 million, and \$0.1 million in the Engineered Building Systems, Metal Components, and Corporate segments, respectively.

The following table summarizes the costs and charges associated with the restructuring plans during the three months ended January 28, 2018, which are recorded in restructuring and impairment charges in the Company's consolidated statements of operations (in thousands):

|        |          |
|--------|----------|
| Fiscal | Cost     |
| Three  | Incurred |
| Months |          |

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|                           | Ended<br>January 28,<br>2018 | To Date<br>(since<br>inception) |
|---------------------------|------------------------------|---------------------------------|
| General severance         | \$ 1,316                     | \$ 10,278                       |
| Plant closing severance   | —                            | 3,279                           |
| Asset impairments         | 1,100                        | 7,069                           |
| Gain on sale of facility  | (1,424 )                     | (1,424 )                        |
| Other restructuring costs | 102                          | 1,415                           |
| Total restructuring costs | \$ 1,094                     | \$ 20,617                       |

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The following table summarizes our severance liability and cash payments made pursuant to the restructuring plans from inception through January 28, 2018 (in thousands):

|                                  | General<br>Severance | Plant<br>Closing<br>Severance | Total    |
|----------------------------------|----------------------|-------------------------------|----------|
| Balance at November 2, 2014      | \$ —                 | \$ —                          | \$ —     |
| Costs incurred                   | 3,887                | 1,575                         | 5,462    |
| Cash payments                    | (2,941 )             | (1,575)                       | (4,516 ) |
| Accrued severance <sup>(1)</sup> | 739                  | —                             | 739      |
| Balance at November 1, 2015      | \$ 1,685             | \$ —                          | \$ 1,685 |
| Costs incurred <sup>(1)</sup>    | 2,725                | 165                           | 2,890    |
| Cash payments                    | (3,928 )             | (165 )                        | (4,093 ) |
| Balance at October 30, 2016      | \$ 482               | \$ —                          | \$ 482   |
| Costs incurred                   | 2,350                | 1,539                         | 3,889    |
| Cash payments                    | (2,549 )             | (1,539)                       | (4,088 ) |
| Balance at October 29, 2017      | \$ 283               | \$ —                          | \$ 283   |
| Costs incurred                   | 1,316                | —                             | 1,316    |
| Cash payments                    | (1,410 )             | —                             | (1,410 ) |
| Balance at January 28, 2018      | \$ 189               | \$ —                          | \$ 189   |

During the second and fourth quarters of fiscal 2015, we entered into transition and separation agreements with certain executive officers. Each terminated executive officer was entitled to severance benefit payments issuable in (1) two installments. The termination benefits were measured initially at the separation dates based on the fair value of the liability as of the termination date and were recognized ratably over the future service period. Costs incurred during fiscal 2016 exclude \$0.7 million of amortization expense associated with these termination benefits. We expect to fully execute our plans in phases over the next 15 months and estimate that we will incur future additional restructuring charges associated with these plans. We are unable at this time to make a good faith determination of cost estimates, or ranges of cost estimates, associated with future phases of these plans.

#### NOTE 4 — INVENTORIES

The components of inventory are as follows (in thousands):

|                                    | January 28,<br>2018 | October 29,<br>2017 |
|------------------------------------|---------------------|---------------------|
| Raw materials                      | \$ 146,813          | \$ 150,919          |
| Work in process and finished goods | 53,720              | 47,377              |
|                                    | \$ 200,533          | \$ 198,296          |

#### NOTE 5 — ASSETS HELD FOR SALE

We record assets held for sale at the lower of the carrying value or fair value less costs to sell. The following criteria are used to determine if property is held for sale: (i) management has the authority and commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition; (iii) there is an active program to locate a buyer and the plan to sell the property has been initiated; (iv) the sale of the property is probable within one year; (v) the property is being actively marketed at a reasonable sale price relative to its current fair value; and (vi) it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

In determining the fair value of the assets less cost to sell, we consider factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals and any recent legitimate offers. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. During the three months ended January 28, 2018, we reclassified \$5.0 million from property, plant and equipment to assets held for sale for idled facilities in our Insulated Metal Panels segment that met the held for sale criteria. We recorded an impairment of \$1.1 million on this property based on its appraised value, less estimated cost to sell. The total carrying value of assets held for sale was \$10.6 million and \$5.6 million as

of January 28, 2018 and October 29, 2017, respectively. All of these assets continued to be actively marketed for sale or are under contract as of January 28, 2018.

Due to uncertainties in the estimation process, it is reasonably possible that actual results could differ from the estimates used in our historical analysis. Our assumptions about property sales prices require significant judgment because the current market is

highly sensitive to changes in economic conditions. We determined the estimated fair values of assets held for sale based on current market conditions and assumptions made by management, which may differ from actual results and may result in impairments if market conditions deteriorate. Certain assets held for sale are valued at fair value and are measured at fair value on a nonrecurring basis. Assets held for sale are reported at fair value, if, on an individual basis, the fair value of the asset is less than carrying value. The fair value of assets held for sale is estimated using Level 3 inputs, such as broker quotes for like-kind assets or other market indications of a potential selling value that approximates fair value. Assets held for sale, reported at fair value, less costs to sell, totaled \$5.5 million as of January 28, 2018.

#### NOTE 6 — SHARE-BASED COMPENSATION

Our 2003 Long-Term Stock Incentive Plan (“Incentive Plan”) is an equity-based compensation plan that allows us to grant a variety of types of awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance share units (“PSUs”), phantom stock awards, long-term incentive awards with performance conditions (“Performance Share Awards”) and cash awards. Awards are generally granted once per year, with the amounts and types of awards determined by the Compensation Committee of our Board of Directors (the “Committee”). As a general rule, option awards terminate on the earlier of (i) 10 years from the date of grant, (ii) 30 days after termination of employment or service for a reason other than death, disability or retirement, (iii) one year after death or (iv) one year for incentive stock options or five years for other awards after disability or retirement. Awards are non-transferable except by disposition on death or to certain family members, trusts and other family entities as the Committee may approve. Awards may be paid in cash, shares of our Common Stock or a combination, in lump sum or installments and currently or by deferred payment, all as determined by the Committee.

As of January 28, 2018, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants, PSUs and stock option grants, none of which can be settled through cash payments, and Performance Share Awards. Both our stock options and restricted stock awards are subject only to vesting requirements based on continued employment at the end of a specified time period and typically vest in annual increments over three to four years or earlier upon death, disability or a change of control. Restricted stock awards issued after December 15, 2013 do not vest upon attainment of a specified retirement age, as provided by the agreements governing such awards. The vesting of our Performance Share Awards is described below.

Our time-based restricted stock awards are typically subject to graded vesting over a service period, which is typically three or four years. Our performance-based and market-based restricted stock awards are typically subject to cliff vesting at the end of the service period, which is typically three years. We recognize compensation cost for these awards on a straight-line basis over the requisite service period for each annual award grant. In the case of performance-based awards, expense is recognized based upon management’s assessment of the probability that such performance conditions will be achieved. Certain of our awards provide for accelerated vesting upon qualified retirement, after a change of control or upon termination without cause or for good reason. We recognize compensation cost for such awards over the period from grant date to the date the employee first becomes eligible for retirement.

We adopted the provisions of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, in our first quarter in fiscal 2018. For additional information see Note 2 - Accounting Pronouncements.

##### Stock option awards

During the three month period ended January 29, 2017, we granted 10,424 stock options. The grant date fair value of options granted during the three month period ended January 29, 2017 was \$6.59 per share. We did not grant stock options during the three month period ended January 28, 2018.

There were 0.1 million options with an intrinsic value of \$0.6 million exercised during the three month period ended January 28, 2018. Cash received from options exercised was \$1.0 million during the three month period ended January 28, 2018.

##### Restricted stock and performance awards

Long-term incentive awards granted to our senior executives generally have a three-year performance period.

Long-term incentive awards include restricted stock units and PSUs representing 40% and 60% of the total value, respectively. The restricted stock units vest upon continued employment. Vesting of the PSUs is contingent upon

continued employment and the achievement of targets with respect to the following metrics, as defined by management: (1) cumulative free cash flow (weighted 40%); (2) cumulative earnings per share (weighted 40%); and (3) total shareholder return (weighted 20%), in each case during the performance period. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts. The PSUs vest pro rata if an executive's employment terminates prior to the end of the performance period due to death, disability, or termination by the Company without cause or by the executive for good reason. If an executive's employment terminates for any other reason prior to the end of the performance period, all outstanding unvested PSUs, whether earned or unearned, will be forfeited and cancelled. If a change of control occurs prior to the end of the performance period, the PSU payout will be calculated and paid assuming that the maximum benefit had been achieved. If an executive's employment terminates due to death or disability while any of the restricted stock is unvested, then all of the unvested restricted stock will become vested. If

an executive's employment is terminated by the Company without cause or after reaching normal retirement age, the unvested restricted stock will be forfeited. If a change of control occurs prior to the end of the performance period, the restricted stock will fully vest. The fair value of the awards is based on the Company's stock price as of the date of grant. During the three month periods ended January 28, 2018 and January 29, 2017, we granted PSUs with a total fair value of approximately \$4.5 million and \$4.6 million, respectively, to the Company's senior executives.

Long-term incentive awards granted to our key employees generally have a three-year performance period. Long-term incentive awards are granted 50% in restricted stock units and 50% in PSUs. Vesting of PSUs is contingent upon continued employment and the achievement of free cash flow and earnings per share targets, as defined by management, over a three-year performance period. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 150% of target amounts. The PSUs vest earlier upon death, disability or a change of control. A portion of the awards also vests upon termination without cause or after reaching normal retirement age prior to the vesting date, as defined by the agreements governing such awards. The fair value of PSUs is based on the Company's stock price as of the date of grant. During the three month periods ended January 28, 2018 and January 29, 2017, we granted awards to key employees with equity fair values of \$2.1 million and \$2.0 million, respectively, and during the three month period ended January 29, 2017 we granted awards to key employees with cash values of \$2.0 million, respectively. We did not grant awards with cash value to key employees during the three month period ended January 28, 2018.

On December 15, 2017, the performance period ended for certain PSUs granted to senior executives and key employees in December 2014. The PSUs vested at 69.4%, and resulted in the issuance of 0.1 million shares, net of shares withheld for taxes.

During the three month periods ended January 28, 2018 and January 29, 2017, we granted time-based restricted stock units with a fair value of \$6.7 million, representing 0.3 million shares, and \$3.8 million, representing 0.2 million shares, respectively.

During the three month periods ended January 28, 2018 and January 29, 2017, we recorded share-based compensation expense for all awards of \$5.9 million and \$3.0 million, respectively. Included in the share-based compensation expense during the three month period ended January 28, 2018 were accelerated awards of \$3.6 million due to the retirement of the Company's former CEO.

#### Deferred Compensation

In accordance with the Company's Deferred Compensation Plan, amounts deferred into the Company Stock Fund must remain invested in the Company Stock Fund until distribution. The deferred compensation obligation related to the Company's stock may only be settled by the delivery of a fixed number of the Company's common shares held on the participant's behalf. As a result, we have a deferred compensation obligation of \$1.2 million related to the Company Stock Fund that is recorded within equity in additional paid-in capital on the consolidated balance sheet as of January 28, 2018. Subsequent changes in the fair value of the deferred compensation obligation classified within equity are not recognized. Additionally, the Company currently holds 109,689 shares in treasury shares, relating to deferred, vested PSU awards, until participants are eligible to receive benefits under the terms of the Deferred Compensation Plan.

## NOTE 7 — EARNINGS PER COMMON SHARE

Basic earnings per common share is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding. Diluted earnings per common share, if applicable, considers the dilutive effect of common stock equivalents. The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per common share is as follows (in thousands, except per share data):

|  | Fiscal Three<br>Months Ended |                     |
|--|------------------------------|---------------------|
|  | January 28,<br>2018          | January 29,<br>2017 |
| Numerator for Basic and Diluted Earnings Per Common Share:   |                              |                     |
| Net income applicable to common shares                       | \$5,211                      | \$ 2,031            |
| Denominator for Basic and Diluted Earnings Per Common Share: |                              |                     |
| Weighted average basic number of common shares outstanding   | 66,434                       | 70,875              |
| Common stock equivalents:                                    |                              |                     |
| Employee stock options                                       | 71                           | 135                 |
| PSUs and Performance Share Awards                            | 41                           | 78                  |
| Weighted average diluted number of common shares outstanding | 66,546                       | 71,088              |
| Basic earnings per common share                              | \$0.08                       | \$ 0.03             |
| Diluted earnings per common share                            | \$0.08                       | \$ 0.03             |

Incentive Plan securities excluded from dilution<sup>(1)</sup> 1 2

(1) Represents securities not included in the computation of diluted earnings per common share because their effect would have been anti-dilutive.

We calculate earnings per share using the “two-class” method, whereby unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are “participating securities” and, therefore, these participating securities are treated as a separate class in computing earnings per share. The calculation of earnings per share presented here excludes the income attributable to unvested restricted stock units related to our Incentive Plan from the numerator and excludes the dilutive impact of those shares from the denominator. Awards subject to the achievement of performance conditions or market conditions for which such conditions had been met at the end of any of the fiscal periods presented are included in the computation of diluted earnings per common share if their effect was dilutive.

## NOTE 8 — WARRANTY

We sell weathertightness warranties to our customers for protection from leaks in our roofing systems related to weather. These warranties generally range from 2 years to 20 years. We sell two types of warranties, standard and Single Source™, and three grades of coverage for each. The type and grade of coverage determines the price to the customer. For standard warranties, our responsibility for leaks in a roofing system begins after 24 consecutive leak-free months. For Single Source™ warranties, the roofing system must pass our inspection before warranty coverage will be issued. Inspections are typically performed at three stages of the roofing project: (i) at the project start-up; (ii) at the project mid-point; and (iii) at the project completion. These inspections are included in the cost of the warranty. If the project requires or the customer requests additional inspections, those inspections are billed to the customer. Upon the sale of a warranty, we record the resulting revenue as deferred revenue, which is included in other accrued expenses on our consolidated balance sheets.

The following table represents the rollforward of our accrued warranty obligation and deferred warranty revenue activity for the fiscal three months ended January 28, 2018 and January 29, 2017 (in thousands):

|  | Fiscal Three Months<br>Ended |                     |
|--|------------------------------|---------------------|
|  | January 28,<br>2018          | January 29,<br>2017 |

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|                    |          |           |
|--------------------|----------|-----------|
| Beginning balance  | \$27,016 | \$ 27,200 |
| Warranties sold    | 747      | 606       |
| Revenue recognized | (724 )   | (772 )    |
| Ending balance     | \$27,039 | \$ 27,034 |

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## NOTE 9 — DEFINED BENEFIT PLANS

RCC Pension Plan — With the acquisition of Robertson-Ceco II Corporation (“RCC”) on April 7, 2006, we assumed a defined benefit plan (the “RCC Pension Plan”). Benefits under the RCC Pension Plan are primarily based on years of service and the employee’s compensation. The RCC Pension Plan is frozen and, therefore, employees do not accrue additional service benefits. Plan assets of the RCC Pension Plan are invested in broadly diversified portfolios of government obligations, mutual funds, stocks, bonds, fixed income securities and master limited partnerships.

CENTRIA Benefit Plans — As a result of the CENTRIA Acquisition on January 16, 2015, we assumed noncontributory defined benefit plans covering certain hourly employees (the “CENTRIA Benefit Plans”) and are closed to new participants. Benefits under the CENTRIA Benefit Plans are calculated based on fixed amounts for each year of service rendered, although benefits accruals for one of the plans previously ceased. Plan assets of the CENTRIA Benefit Plans are invested in broadly diversified portfolios of domestic and international equity mutual funds, bonds, mortgages and other funds. CENTRIA also sponsors postretirement medical and life insurance plans that cover certain of its employees and their spouses (the “OPEB Plans”).

In addition to the CENTRIA Benefit Plans, CENTRIA contributes to a multi-employer plan, Steelworkers Pension Trust. The minimum required annual contribution to this plan is \$0.3 million. The current contract expires on June 1, 2019. If we were to withdraw our participation from this multi-employer plan, CENTRIA may be required to pay a withdrawal liability representing an amount based on the underfunded status of the plan. The plan is not significant to the Company’s consolidated financial statements.

We refer to the RCC Pension Plan and the CENTRIA Benefit Plans collectively as the “Defined Benefit Plans” in this Note.

The following table sets forth the components of the net periodic benefit cost, before tax, and funding contributions, for the periods indicated (in thousands):

|                                      | Fiscal Three Months Ended |            |        | Fiscal Three Months Ended |            |        |
|--------------------------------------|---------------------------|------------|--------|---------------------------|------------|--------|
|                                      | January 28, 2018          |            |        | January 29, 2017          |            |        |
|                                      | Defined Benefit Plans     | OPEB Plans | Total  | Defined Benefit Plans     | OPEB Plans | Total  |
| Service cost                         | \$22                      | \$ 7       | \$29   | \$24                      | \$ 9       | \$33   |
| Interest cost                        | 494                       | 62         | 556    | 513                       | 64         | 577    |
| Expected return on assets            | (729 )                    | —          | (729 ) | (700 )                    | —          | (700 ) |
| Amortization of prior service credit | 15                        | —          | 15     | (2 )                      | —          | (2 )   |
| Amortization of net actuarial loss   | 248                       | —          | 248    | 344                       | —          | 344    |
| Net periodic benefit cost            | \$50                      | \$ 69      | \$119  | \$179                     | \$ 73      | \$252  |
| Funding contributions                | \$271                     | \$ —       | \$271  | \$234                     | \$ —       | \$234  |

We expect to contribute an additional \$2.3 million to the Defined Benefit Plans for the remainder of fiscal 2018. Our policy is to fund the CENTRIA Benefit Plans as required by minimum funding standards of the Internal Revenue Code. The contributions to the OPEB Plans by retirees vary from none to 25% of the total premiums paid.



## NOTE 10 — LONG-TERM DEBT AND NOTE PAYABLE

Debt is comprised of the following (in thousands):

|  | January 28,<br>2018 | October 29,<br>2017 |
|--|---------------------|---------------------|
| Credit Agreement, due June 2022, as amended (variable interest, at 4.62% and 4.24% on January 28, 2018 and October 29, 2017, respectively) | \$ 144,147          | \$ 144,147          |
| 8.25% senior notes, due January 2023   | 250,000             | 250,000             |
| Amended Asset-Based lending facility, due June 2019 (variable interest, at our option as described below)                                  | 10,000              | —                   |
| Less: unamortized deferred financing costs <sup>(1)</sup>  | 6,522               | 6,857               |
| Total long-term debt, net of deferred financing costs  | 397,625             | 387,290             |
| Less: current portion of long-term debt  | 10,000              | —                   |
| Total long-term debt, less current portion   | \$ 387,625          | \$ 387,290          |

Includes the unamortized deferred financing costs associated with the Notes and Credit Agreement. The unamortized deferred financing costs associated with the Amended ABL Facility of \$0.6 million and \$0.7 million as of January 28, 2018 and October 29, 2017, respectively, are classified in other assets on the consolidated balance sheets.

**8.25% Senior Notes Due January 2023**

The Company's \$250.0 million in aggregate principal amount of 8.25% senior notes due 2023 (the "Notes") bear interest at 8.25% per annum and will mature on January 15, 2023. Interest is payable semi-annually in arrears on January 15 and July 15 of each year.

On or after January 15, 2018, the Company may redeem all or a part of the Notes at redemption prices (expressed as percentages of principal amount thereof) set forth below, plus accrued and unpaid interest, if any, to the applicable redemption date of the Notes, if redeemed during the 12-month period beginning on January 15 of the year as follows:

| Year                | Percentage |
|---------------------|------------|
| 2018                | 106.188%   |
| 2019                | 104.125%   |
| 2020                | 102.063%   |
| 2021 and thereafter | 100.000%   |

**Credit Agreement**

The Company's Credit Agreement provided for a term loan credit facility ("Term Loan") in an original aggregate principal amount of \$250.0 million. The Term Loan amortizes in nominal quarterly installments equal to one percent of the aggregate initial principal amount thereof per annum.

On May 2, 2017, the Company entered into Amendment No. 2 (the "Amendment") to its existing Credit Agreement, dated as of June 22, 2012, between NCI Building Systems, Inc., as borrower, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent and the other financial institutions party thereto from time to time (as previously amended by Amendment No. 1, dated as of June 24, 2013, the "Existing Term Loan Facility" and, as amended, the "Term Loan Facility"), primarily to extend the maturity date and reduce the interest rate applicable to all of the outstanding term loans under the Term Loan Facility.

Prior to the Amendment, approximately \$144.1 million of term loans (the "Existing Term Loans") were outstanding under the Existing Term Loan Facility. Pursuant to the Amendment, certain lenders under the Existing Term Loan Facility extended their Existing Term Loans, in an aggregate amount, along with new term loans advanced by certain new lenders of approximately \$144.1 million (the "New Term Loans"). The proceeds of the New Term Loans advanced by the new lenders were used to prepay in full all of the Existing Term Loans that were not extended as New Term Loans. Pursuant to the Amendment, the maturity date of the New Term Loans was extended to June 24, 2022.

Pursuant to the Amendment, the New Term Loans bear interest at a floating rate measured by reference to, at the Company's option, either (i) an adjusted LIBOR not less than 1.00% plus a borrowing margin of 3.00% per annum or (ii) an alternative base rate plus a borrowing margin of 2.00% per annum. At January 28, 2018, the interest rate on the

Term Loans was 4.62%.

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The New Term Loans are secured by the same collateral and guaranteed by the same guarantors as the Existing Term Loans under the Existing Term Loan Facility. Voluntary prepayments of the New Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months. The Amendment also includes certain other changes to the Term Loan Facility.

During the three month periods ended January 29, 2017, the Company made a voluntary prepayments of \$10.0 million, respectively, on the outstanding principal amount of the Term Loan. We are not required to make any quarterly installment payments until June 24, 2019.

#### Amended ABL Facility

The Company's Asset-Based Lending Facility, dated as of May 2, 2012, ("Amended ABL Facility") provides for revolving loans of up to \$150.0 million (subject to a borrowing base) and letters of credit of up to \$30.0 million. Borrowing availability under the Amended ABL Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of the value of qualified cash, eligible inventory and eligible accounts receivable, less certain reserves and subject to certain other adjustments. At January 28, 2018 and October 29, 2017, the Company's excess availability under the Amended ABL Facility was \$129.7 million and \$140.0 million, respectively. At January 28, 2018, the Company had \$10.0 million of revolving loans outstanding under the Amended ABL Facility and at October 29, 2017, the Company had no revolving loans outstanding under the Amended ABL Facility. In addition, at January 28, 2018 and October 29, 2017, standby letters of credit related to certain insurance policies totaling approximately \$10.0 million and \$10.0 million, respectively, were outstanding but undrawn under the Amended ABL Facility. The Amended ABL Facility will mature on June 24, 2019.

The Amended ABL Facility includes a minimum fixed charge coverage ratio of 1.00:1.00, which will apply if we fail to maintain a specified minimum borrowing capacity. The minimum level of borrowing capacity as of January 28, 2018 and October 29, 2017 was \$19.5 million and \$21.0 million, respectively, and as such, the Amended ABL Facility did not require any financial covenant compliance at January 28, 2018 and October 29, 2017.

Loans under the Amended ABL Facility bear interest, at NCI's option, as follows:

- (1) Base Rate loans at the Base Rate plus a margin. The margin ranges from 0.75% to 1.25% depending on the quarterly average excess availability under such facility; and
- (2) LIBOR loans at LIBOR plus a margin. The margin ranges from 1.75% to 2.25% depending on the quarterly average excess availability under such facility.

An unused commitment fee is paid monthly on the Amended ABL Facility at an annual rate of 0.50% based on the amount by which the maximum credit exceeds the average daily principal balance of outstanding loans and letter of credit obligations. Additional customary fees in connection with the Amended ABL Facility also apply.

For additional information on the Notes, Credit Agreement and the Amended ABL Facility, including guarantees and security, see our Annual Report on Form 10-K for the fiscal year ended October 29, 2017.

#### Debt Redemption and Refinancing

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement, the proceeds of which, together, was used to redeem the Notes and to refinance the Company's existing term loan credit facility and the Company's existing asset-based revolving credit facility. For additional information, see Note 17 — Subsequent Events.

#### Debt Covenants

The Company's outstanding debt agreements contain a number of covenants that, among other things, limit or restrict the ability of the Company and its subsidiaries to incur additional indebtedness, dispose of assets, make acquisitions and engage in mergers. As of January 28, 2018, the Company was in compliance with all covenants that were in effect on such date.

#### Insurance Note Payable

As of October 29, 2017, the Company had an outstanding note payable in the amount of \$0.4 million, respectively, related to financed insurance premiums. Insurance premium financings are generally secured by the unearned premiums under such policies.



**NOTE 11 — CD&R FUNDS**

On August 14, 2009, the Company entered into an Investment Agreement (as amended, the “Investment Agreement”), by and between the Company and Clayton, Dubilier & Rice Fund VIII, L.P. (“CD&R Fund VIII”). In connection with the Investment Agreement and the Stockholders Agreement dated October 20, 2009 (the “Stockholders Agreement”), the CD&R Fund VIII and the Clayton, Dubilier & Rice Friends & Family Fund VIII, L.P. (collectively, the “CD&R Funds”) purchased convertible preferred stock, which was converted into shares of our common stock on May 14, 2013. Among other provisions, the Stockholders Agreement entitles the CD&R Funds to certain nomination or designation rights with respect to our board of directors; subscription rights with respect to future issuances of common stock by us; corporate governance rights; and consent rights with respect to certain types of transactions we may enter into in the future.

On December 11, 2017, the CD&R Funds completed a registered underwritten offering of 7,150,000 shares of the Company’s Common Stock at a price to the public of \$19.36 per share (the “2017 Secondary Offering”). Pursuant to the underwriting agreement, at the CD&R Funds request, the Company purchased 1.15 million of the 7.15 million shares of the Common Stock from the underwriters in the 2017 Secondary Offering at a price per share equal to the price at which the underwriters purchased the shares from the CD&R Funds. The total amount the Company spent on these repurchases was \$22.3 million.

As of January 28, 2018, and October 29, 2017, the CD&R Funds owned approximately 34.5% and 43.8%, respectively, of the outstanding shares of our common stock.

**NOTE 12 — STOCK REPURCHASE PROGRAM**

On September 8, 2016, the Company announced that its board of directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. On October 10, 2017, the Company announced that its board of directors authorized a new stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. Under these repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that it deems appropriate in accordance with all applicable securities laws and regulations. Shares repurchased are usually retired. There is no time limit on the duration of the programs.

During the three months ended January 28, 2018, the Company repurchased approximately 2.7 million shares for \$46.7 million under the stock repurchase programs, which included 1.15 million shares for \$22.3 million purchased pursuant to the CD&R Funds 2017 Secondary Offering (see Note 11 — CD&R Funds). As of January 28, 2018, approximately \$5.6 million remained available for stock repurchases, all available under the program announced on October 10, 2017. The timing and method of any repurchases, which will depend on a variety of factors, including market conditions, are subject to results of operations, financial conditions, cash requirements and other factors, and may be suspended or discontinued at any time.

The Company canceled the 2.7 million shares repurchased under the stock repurchase programs during the three months ended January 28, 2018, resulting in a \$46.7 million decrease in both additional paid in capital and treasury stock during the quarter.

In addition to the common stock repurchased during the three months ended January 28, 2018, the Company also withheld 0.2 million shares of stock to satisfy minimum tax withholding obligations arising in connection with the vesting of stock awards, which are included in treasury stock purchases in the consolidated statements of stockholders’ equity.

**NOTE 13 — FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, restricted cash, trade accounts receivable, accounts payable and notes payable approximate fair value as of January 28, 2018 and October 29, 2017, respectively, because of their relatively short maturities. The carrying amount of revolving loans outstanding under the Amended ABL Facility approximates fair value as the interest rates are variable and reflective of market rates. The fair values of the remaining financial instruments not currently recognized at fair value on our consolidated balance sheets at the respective fiscal period ends were (in thousands):

|                  |                  |
|------------------|------------------|
| January 28, 2018 | October 29, 2017 |
|------------------|------------------|

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|                                      | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
|--------------------------------------|--------------------|------------|--------------------|------------|
| Credit Agreement, due June 2022      | \$144,147          | \$144,147  | \$144,147          | \$144,147  |
| 8.25% senior notes, due January 2023 | 250,000            | 266,250    | 250,000            | 267,500    |

The fair values of the Credit Agreement and the Notes were based on recent trading activities of comparable market instruments, which are level 2 inputs.

## Fair Value Measurements

ASC Subtopic 820-10, Fair Value Measurements and Disclosures, requires us to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the assets or liabilities.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

There have been no changes in the methodologies used as of January 28, 2018 and October 29, 2017.

Money market: Money market funds have original maturities of three months or less. The original cost of these assets approximates fair value due to their short-term maturity.

Mutual funds: Mutual funds are valued at the closing price reported in the active market in which the mutual fund is traded.

Assets held for sale: Assets held for sale are valued based on current market conditions, prices of similar assets in similar condition and expected proceeds from the sale of the assets, representative of Level 3 inputs.

Deferred compensation plan liability: Deferred compensation plan liability is comprised of phantom investments in the deferred compensation plan and is valued at the closing price reported in the active markets in which the money market and mutual funds are traded.

The following tables summarize information regarding our financial assets and liabilities that are measured at fair value on a recurring basis as of January 28, 2018 and October 29, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

|  | January 28, 2018 |         |         |          |
|--|------------------|---------|---------|----------|
|  | Level 1          | Level 2 | Level 3 | Total    |
| <b>Assets:</b>   |                  |         |         |          |
| Short-term investments in deferred compensation plan: <sup>(1)</sup> |                  |         |         |          |
| Money market   | \$1,021          | \$—     | \$      | —\$1,021 |
| Mutual funds – Growth  | 1,056            | —       | —       | 1,056    |
| Mutual funds – Blend   | 2,179            | —       | —       | 2,179    |
| Mutual funds – Foreign blend   | 1,006            | —       | —       | 1,006    |
| Mutual funds – Fixed income  | —                | 1,540   | —       | 1,540    |
| Total short-term investments in deferred compensation plan           | 5,262            | 1,540   | —       | 6,802    |
| Total assets   | \$5,262          | \$1,540 | \$      | —\$6,802 |
| <b>Liabilities:</b>  |                  |         |         |          |
| Deferred compensation plan liability                                 | \$—              | \$5,633 | \$      | —\$5,633 |
| Total liabilities  | \$—              | \$5,633 | \$      | —\$5,633 |

|  | October 29, 2017 |         |         |          |
|--|------------------|---------|---------|----------|
|  | Level 1          | Level 2 | Level 3 | Total    |
| <b>Assets:</b>   |                  |         |         |          |
| Short-term investments in deferred compensation plan: <sup>(1)</sup> |                  |         |         |          |
| Money market   | \$1,114          | \$—     | \$—     | —\$1,114 |
| Mutual funds – Growth  | 958              | —       | —       | 958      |
| Mutual funds – Blend   | 1,948            | —       | —       | 1,948    |
| Mutual funds – Foreign blend   | 915              | —       | —       | 915      |
| Mutual funds – Fixed income  | —                | 1,546   | —       | 1,546    |
| Total short-term investments in deferred compensation plan           | 4,935            | 1,546   | —       | 6,481    |
| Total assets   | \$4,935          | \$1,546 | \$—     | —\$6,481 |
| <b>Liabilities:</b>  |                  |         |         |          |
| Deferred compensation plan liability                                 | \$—              | \$4,923 | \$—     | —\$4,923 |
| Total liabilities  | \$—              | \$4,923 | \$—     | —\$4,923 |

Unrealized holding gain (loss) for the three months ended January 28, 2018 and January 29, 2017 was \$0.3 million (1) and \$(0.5) million, respectively. These unrealized holding gains (losses) were substantially offset by changes in the deferred compensation plan liability.

#### NOTE 14 — INCOME TAXES

The reconciliation of income tax computed at the statutory tax rate to the effective income tax rate is as follows:

|   | Fiscal Three Months Ended |   |                  |   |
|---|---------------------------|---|------------------|---|
|   | January 28, 2018          |   | January 29, 2017 |   |
| Statutory federal income tax rate                                       | 23.3                      | % | 35.0             | % |
| State income taxes  | 3.3                       | % | 4.1              | % |
| Domestic production activities deduction                                | (1.5)                     | % | (3.3)            | % |
| Non-deductible expenses   | 0.7                       | % | 1.4              | % |
| Tax credits   | (0.6)                     | % | (1.1)            | % |
| China valuation allowance   | 0.2                       | % | 1.9              | % |
| Revaluation of U.S. deferred income tax due to statutory rate reduction | (16.4)                    | % | —                | % |
| One-time repatriation tax on foreign earnings                           | 11.3                      | % | —                | % |
| Other   | (2.7)                     | % | 0.5              | % |
| Effective tax rate  | 17.6                      | % | 38.5             | % |

The decrease in the effective tax rate was primarily the result of the impact of the Tax Cuts and Jobs Act (“U.S. Tax Reform”) which was enacted by the United States on December 22, 2017. U.S. Tax Reform incorporates significant changes to U.S. corporate income tax laws including, among other things, a reduction in the statutory corporate income tax rate from 35% to 21%, an exemption for dividends received from certain foreign subsidiaries, a one-time repatriation tax on deemed repatriated earnings from foreign subsidiaries, immediate expensing of certain depreciable tangible assets, limitations on the deduction for net interest expense and certain executive compensation and the repeal of the Domestic Production Activities Deduction. The majority of these changes will be effective for the Company’s fiscal year beginning October 29, 2018. However, the corporate income tax rate reduction is effective December 22, 2017. As such, the Company’s statutory federal corporate income tax rate for the fiscal year ending October 28, 2018 will be 23.3%. In addition, the one-time repatriation tax will be recognized by the Company for the tax year ending October 28, 2018.

Under ASC Topic 740, Income Taxes (“ASC 740”), a company is generally required to recognize the effect of changes in tax laws in its financial statements in the period in which the legislation is enacted. U.S. income tax laws are deemed to be effective on the date the president signs tax legislation. The President signed the U.S. Tax Reform



legislation on December 22, 2017. As such, the Company is required to recognize the related impacts to the financial statements in the quarter ended January 28, 2018. In acknowledgment of the substantial changes incorporated in the U.S. Tax Reform, in conjunction with the timing of the enactment being just weeks before the majority of the provisions became effective, the SEC staff issued Staff Accounting Bulletin ("SAB")

118 to provide certain guidance in determining the accounting for income tax effects of the legislation in the accounting period of enactment as well as provide a measurement period within which to finalize and reflect such final effects associated with U.S. Tax Reform. Further, SAB 118 summarizes a three-step approach to be applied each reporting period within the overall measurement period: (1) amounts should be reflected in the period including the date of enactment for those items which are deemed to be complete, (2) to the extent the effects of certain changes due to U.S. Tax Reform for which the accounting is not deemed complete but for which a reasonable estimate can be determined, such provisional amount(s) should be reflected in the period so determined and adjusted in subsequent periods as such effects are finalized and (3) to the extent a reasonable estimate cannot be determined for a specific effect of the tax law change associated with U.S. Tax Reform, no provisional amount should be recorded but rather, continue to apply ASC 740 based upon the tax law in effect prior to the enactment of U.S. Tax Reform. Such measurement period is deemed to end when all necessary information has been obtained, prepared and analyzed such that a final accounting determination can be concluded, but in no event should the period extend beyond one year. In consideration of this guidance, the Company has obtained, prepared and analyzed various information associated with the enactment of U.S. Tax Reform. Based upon this review, the Company has recognized a discrete estimated net income tax benefit with respect to U.S. Tax Reform for the first quarter of fiscal 2018 of \$0.3 million. This net income tax benefit reflects a \$1.0 million net estimated income tax benefit associated with the remeasurement of the Company's net U.S. deferred tax liability, partially offset with a \$0.7 million estimated income tax expense associated with the impact of the deemed repatriated earnings from the Company's foreign subsidiaries, including the one-time repatriation tax of \$2.1 million. Due to the Company's fiscal year-end of October 28, 2018 and the timing of the various technical provisions provided for under U.S. Tax Reform, the financial statement impacts recorded in the first quarter of fiscal 2018 relating to U.S. Tax Reform are not deemed to be complete but rather are deemed to be reasonable, provisional estimates based upon the current available information. As such, the Company will update and finalize the accounting for the tax effect of the enactment of U.S. Tax Reform in future quarters in accordance with the guidance as outlined in SAB 118, as deemed necessary.

#### NOTE 15 — OPERATING SEGMENTS

Operating segments are defined as components of an enterprise that engage in business activities and by which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources to the segment and assess the performance of the segment. On February 22, 2018, the Company announced changes to NCI's reportable business segments, effective January 28, 2018 for the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources. We have revised our segment reporting to represent how we now manage our business, restating prior periods to conform to the current segment presentation.

We have four operating segments: Engineered Building Systems; Metal Components; Insulated Metal Panels; and Metal Coil Coating. All operating segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Products of our operating segments use similar basic raw materials enabling us to leverage our supply chain. The Metal Coil Coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The Metal Components segment products include metal roof and wall panels, doors, metal partitions, metal trim, and other related accessories. The Insulated Metal Panels segment produces panels consisting of rigid foam encased between two sheets of coated metal in a variety of modules, lengths and reveal combinations which are used in architectural, commercial, industrial and cold storage market applications. The Engineered Building Systems segment manufactures custom designed and engineered products such as structural frames, Long Bay® Systems, metal roofing and wall systems, and the related value-added engineering and drafting, to provide customers a complete building envelope solution. The operating segments follow the same accounting policies used for our consolidated financial statements.

We evaluate a segment's performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of (i) hot-rolled, light gauge painted and slit material and other services provided by the Metal Coil Coating segment to

the Engineered Building Systems, Metal Components and Insulated Metal Panels segments; (ii) building components provided by the Metal Components and Insulated Metal Panels segment to the Engineered Building Systems segment; and (iii) structural framing provided by the Engineered Building Systems segment to the Metal Components segment. Corporate assets consist primarily of cash, but also include deferred taxes and property, plant and equipment associated with our headquarters in Houston, Texas. These items (and income and expenses related to these items) are not allocated to the operating segments. Corporate unallocated expenses include share-based compensation expenses, and executive, legal, finance, tax, treasury, human resources, information technology, strategic sourcing, and corporate travel expenses. Additional unallocated amounts primarily include interest income, interest expense and other (expense) income.

The following table represents summary financial data attributable to these operating segments for the periods indicated (in thousands):

|                                | Fiscal Three Months<br>Ended |                     |
|--------------------------------|------------------------------|---------------------|
|                                | January 28,<br>2018          | January 29,<br>2017 |
| Total sales:                   |                              |                     |
| Engineered Building Systems    | \$ 156,964                   | \$ 151,263          |
| Metal Components               | 146,832                      | 134,173             |
| Insulated Metal Panels         | 110,794                      | 95,195              |
| Metal Coil Coating             | 88,343                       | 88,340              |
| Intersegment sales             | (81,584 )                    | (77,268 )           |
| Total sales                    | \$421,349                    | \$ 391,703          |
| External sales:                |                              |                     |
| Engineered Building Systems    | \$ 148,288                   | \$ 145,021          |
| Metal Components               | 127,528                      | 115,557             |
| Insulated Metal Panels         | 97,513                       | 82,441              |
| Metal Coil Coating             | 48,020                       | 48,684              |
| Total sales                    | \$421,349                    | \$ 391,703          |
| Operating income (loss):       |                              |                     |
| Engineered Building Systems    | \$8,263                      | \$6,503             |
| Metal Components               | 17,089                       | 12,376              |
| Insulated Metal Panels         | 7,071                        | 2,192               |
| Metal Coil Coating             | 5,376                        | 6,706               |
| Corporate                      | (24,901 )                    | (17,891 )           |
| Total operating income         | \$12,898                     | \$9,886             |
| Unallocated other expense, net | (6,531 )                     | (6,572 )            |
| Income before income taxes     | \$6,367                      | \$3,314             |

|                             | January 28,<br>2018 | October 29,<br>2017 |
|-----------------------------|---------------------|---------------------|
| Total assets:               |                     |                     |
| Engineered Building Systems | \$ 181,030          | \$ 195,426          |
| Metal Components            | 182,228             | 186,369             |
| Insulated Metal Panels      | 370,927             | 380,308             |
| Metal Coil Coating          | 172,159             | 175,046             |
| Corporate                   | 39,650              | 93,963              |
| Total assets                | \$ 945,994          | \$ 1,031,112        |

#### NOTE 16 — CONTINGENCIES

As a manufacturer of products primarily for use in nonresidential building construction, the Company is inherently exposed to various types of contingent claims, both asserted and unasserted, in the ordinary course of business. As a result, from time to time, the Company and/or its subsidiaries become involved in various legal proceedings or other contingent matters arising from claims, or potential claims. The Company insures against these risks to the extent deemed prudent by its management and to the extent insurance is available. Many of these insurance policies contain deductibles or self-insured retentions in amounts the Company deems prudent and for which the Company is responsible for payment. In determining the amount of self-insurance, it is the Company's policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability and general liability. The Company regularly reviews the status of ongoing proceedings and other contingent matters along with legal counsel. Liabilities for such items are recorded when it is probable that the liability has been incurred and when

the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the

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Company's results of operations, financial position or cash flows. However, such matters are subject to many uncertainties and outcomes are not predictable with assurance.

#### NOTE 17 — SUBSEQUENT EVENTS

##### Sale of China Manufacturing Facility

On January 29, 2018, the Company closed on the sale of CENTRIA International LLC, which owned our China manufacturing facility. We estimate we will record a loss on the transaction between \$6.0 million and \$7.5 million during the quarter ending April 29, 2018. The disposition does not represent a strategic shift that has or will have a major effect of the Company's operations or financial results.

##### Debt Redemption and Refinancing

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement (each defined below), the proceeds of which, together, were used to redeem the Notes and to refinance the Company's existing term loan credit facility and the Company's existing asset-based revolving credit facility.

The Term Loan Credit Agreement provides for an aggregate principal amount of \$415.0 million. Proceeds from borrowings under the Term Loan Credit Agreement were used, together with cash on hand, (i) to refinance the existing term loan credit agreement, (ii) to redeem and repay the Notes (the foregoing, collectively, the "Refinancing") and (iii) to pay any fees, premiums and expenses incurred in connection with the Refinancing. The term loans under the Term Loan Credit Agreement will mature on February 7, 2025 and, prior to such date, will amortize in nominal quarterly installments equal to one percent of the aggregate principal amount thereof per annum. At the Company's election the interest rates applicable to the term loans under the Term Loan Credit Agreement will be based on a fluctuating rate of interest measured by reference to either (1) an adjusted LIBOR, or (2) an alternate base rate, in each case, plus a borrowing margin.

The ABL Credit Agreement provides for an asset-based revolving credit facility which allows aggregate maximum borrowings by the ABL Borrowers of up to \$150.0 million (the "ABL Credit Facility"). As set forth in the ABL Credit Agreement, extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible accounts receivable, eligible credit card receivables and eligible inventory, less certain reserves and certain adjustments. Initial availability under the ABL Credit Facility will be approximately \$140.0 million. Availability will be reduced by issuance of letters of credit as well as any borrowings. The termination date of the ABL Credit Agreement is February 8, 2023, subject to acceleration of maturity under certain circumstances. In addition, the ABL Credit Agreement provides the right for individual ABL Lenders to extend the maturity date of their commitments and loans upon request of the ABL Borrowers and without the consent of any other ABL Lenders. Interest rates per annum applicable to borrowings under the ABL Credit Agreement will be based on a variable rate of interest measured by reference to either (1) an adjusted LIBOR, or (2) an alternate base rate, in each case, plus a borrowing margin that will vary depending on the quarterly average excess availability under such facility.

We estimate we will record a loss, primarily on the extinguishment of the notes, ranging between \$23.0 million and \$25.0 million, of which approximately \$15.5 million represents the call premium paid on the redemption of the Notes.

NCI BUILDING SYSTEMS, INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with the unaudited consolidated financial statements included herein under "Item 1. Unaudited Consolidated Financial Statements" and the audited consolidated financial statements and the notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended October 29, 2017.

**FORWARD LOOKING STATEMENTS**

This Quarterly Report includes statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, our forward-looking statements can be identified by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will" or other similar words. We based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on any forward-looking information, including any earnings guidance, if applicable. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these expectations and the related statements are subject to risks, uncertainties, and other factors that could cause the actual results to differ materially from those projected. These risks, uncertainties, and other factors include, but are not limited to:

- industry cyclicality and seasonality and adverse weather conditions;
- challenging economic conditions affecting the nonresidential construction industry;
- volatility in the United States ("U.S.") economy and abroad, generally, and in the credit markets;
- substantial indebtedness and our ability to incur substantially more indebtedness;
- our ability to generate significant cash flow required to service or refinance our existing debt, and obtain future financing;
- our ability to comply with the financial tests and covenants in our existing and future debt obligations;
- operational limitations or restrictions in connection with our debt;
- increases in interest rates;
- recognition of asset impairment charges;
- commodity price increases and/or limited availability of raw materials, including steel;
- our ability to make strategic acquisitions accretive to earnings;
- retention and replacement of key personnel;
- our ability to carry out our restructuring plans and to fully realize the expected cost savings;
- enforcement and obsolescence of intellectual property rights;
- fluctuations in customer demand;
- costs related to environmental clean-ups and liabilities;
- competitive activity and pricing pressure;
- increases in energy prices;
- volatility of the Company's stock price;
- dilutive effect on the Company's common stockholders of potential future sales of the Company's Common Stock held by our sponsor;
- substantial governance and other rights held by our sponsor;





breaches of our information system security measures and damage to our major information management systems; hazards that may cause personal injury or property damage, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance; changes in laws or regulations, including the Dodd–Frank Act; costs and other effects of legal and administrative proceedings, settlements, investigations, claims and other matters; timing and amount of any stock repurchases; and other risks detailed under the caption “Risk Factors” in Part I, Item 1A in our most recent Annual Report on Form 10-K as filed with the SEC.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report, including those described under the caption “Risk Factors” in our most recent Annual Report on Form 10-K as filed with the SEC and other risks described in documents subsequently filed by the Company from time to time with the SEC. We expressly disclaim any obligations to release publicly any updates or revisions to these forward-looking statements to reflect any changes in our expectations unless the securities laws require us to do so.

#### OVERVIEW

NCI Building Systems, Inc. (together with its subsidiaries, unless the context requires otherwise, the “Company,” “NCI,” “we,” “us” or “our”) is one of North America’s largest integrated manufacturers and marketers of metal products for the nonresidential construction industry. We design, engineer, manufacture and market Engineered Building Systems, Metal Components and Insulated Metal Panels primarily for nonresidential construction use. We manufacture and distribute extensive lines of metal products for the nonresidential construction market under multiple brand names through a nationwide network of plants and distribution centers. We sell our products for both new construction and repair and retrofit applications. We also provide Metal Coil Coating services for commercial and construction applications, servicing both internal and external customers.

Engineered Building Systems offer a number of advantages over traditional construction alternatives, including shorter construction time, more efficient use of materials, lower construction costs, greater ease of expansion and lower maintenance costs. Similarly, Metal Components and Insulated Metal Panels offer builders, designers, architects and end-users several advantages, including lower long-term costs, longer life, attractive aesthetics and design flexibility.

We use a 52/53 week year with our fiscal year end on the Sunday closest to October 31. In fiscal 2018, our year end will be October 28, 2018.

We assess performance across our operating segments by analyzing and evaluating, among other indicators, gross profit and operating income, as well as whether each segment has achieved its projected sales goals. In assessing our overall financial performance, we regard return on adjusted operating assets, as well as growth in earnings, as key indicators of shareholder value.

#### Change in Operating Segments

On February 22, 2018, the Company announced changes to NCI’s reportable business segments, effective January 28, 2018 for the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources.

As of the first quarter, the Company began reporting results under four reportable segments, which will be Engineered Building Systems, Metal Components, Insulated Metal Panels and Metal Coil Coating. Previously, operating results for the Insulated Metal Panel product line were included in the Metal Components segment. In addition, CENTRIA’s coil coating operations, which had also been included in the Metal Components segment since the Company’s acquisition of CENTRIA in January 2015, will now be reported within the Metal Coil Coating segment. The Company began reporting its financial results under the new reportable segments with the filing of this Form 10-Q for the quarter ending January 28, 2018, restating prior periods to conform to the current segment presentation.

#### First Fiscal Quarter

During the first quarter of fiscal 2018, the Company has continued to realize the benefits of focused and integrated execution across our commercial, manufacturing, and supply chain activities, and our investments to improve our manufacturing productivity and overall cost efficiency.

Overall, year-over-year comparisons in most of our financial metrics reflect the pass-through of higher material input costs, as well as operational improvements over the previous three years to better leverage our fixed cost structure. We achieved year-over-year growth in both consolidated sales and consolidated income from operations.

Consolidated revenues increased by approximately 8% from the same period in the prior year. The year-over-year improvement was primarily driven by continued commercial discipline in the pass-through of higher costs in a rising cost environment predominantly in the Engineered Building Systems, Metal Components, and Insulated Metal Panels segments, and underlying volume growth in the Metal Components and Insulated Metal Panels segments.

The Company's gross margin in the current period was 21.8% as compared to 21.4% in the first quarter of 2017. The higher margins in the current period were driven by growth in the Insulated Metal Panels segment and favorable commercial discipline, partially offset by higher transportation costs. Excluding the effects of the acceleration of CEO retirement benefits, Engineering, selling, general and administrative expenses as a percentage of revenues decreased by 90 basis points to 16.7% of sales compared to the same period last year, as we continue to execute on our strategic initiatives and restructuring activities.

#### Industry Conditions

Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects. Our sales are normally lower in the first half of each fiscal year compared to the second half because of unfavorable weather conditions for construction and typical business planning cycles affecting construction.

The nonresidential construction industry is highly sensitive to national and regional macroeconomic conditions. Following a significant downturn in 2008 and 2009, the current recovery of low-rise construction has been uneven and slow but is now showing some signs of steady growth. The annual volume of new construction starts remains below previous cyclical average trough levels of activity from the last 50 years. However, we believe that the economy is recovering and that the nonresidential construction industry will return to mid-cycle levels of activity over the next several years. The graph below shows the annual nonresidential new construction starts, measured in square feet, since 1968, as compiled and reported by Dodge Data & Analytics:

Current market data continues to show uneven activity across the nonresidential construction markets. According to Dodge Data & Analytics, low-rise nonresidential new construction starts, as measured in square feet and comprising buildings of up to five stories, were up approximately 1% during fiscal 2017 as compared to fiscal 2016. Even though this measure tends to be revised upward in succeeding periods, we believe the underlying growth we are achieving is outpacing market activity. Leading indicators for low-rise, nonresidential construction activity indicate continued positive momentum in fiscal 2018.

The leading indicators that we follow and that typically have the most meaningful correlation to nonresidential low-rise construction starts are the American Institute of Architects' ("AIA") Architecture Mixed Use Index, Dodge Residential single

family starts and the Conference Board Leading Economic Index (“LEI”). Historically, there has been a very high correlation to the Dodge low-rise nonresidential starts when the three leading indicators are combined and then seasonally adjusted. The combined forward projection of these metrics, based on a 9- to 14-month historical lag for each metric, indicates low single-digit growth for low-rise new construction starts in fiscal 2018.

We normally do not maintain an inventory of steel in excess of our current production requirements. However, from time to time, we may purchase steel in advance of announced steel price increases. We can give no assurance that steel will be readily available or that prices will not continue to be volatile. While most of our sales contracts have escalation clauses that allow us, under certain circumstances, to pass along all or a portion of increases in the price of steel after the date of the contract but prior to delivery, for competitive or other reasons, we may not be able to pass such price increases along. If the available supply of steel declines, we could experience price increases that we are not able to pass on to the end users, a deterioration of service from our suppliers or interruptions or delays that may cause us not to meet delivery schedules to our customers. Any of these problems could adversely affect our results of operations and financial condition. For additional discussion, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk — Steel Prices.”

#### Restructuring

We continue to execute on our plans to improve cost efficiency through the optimization of our combined manufacturing plant footprint and the elimination of certain fixed and indirect ESG&A costs. During the three months ended January 28, 2018, we incurred charges of \$1.1 million associated with restructuring actions, including \$1.2 million and \$1.3 million in the Engineered Building Systems and Insulated Metal Panels segments, respectively, partially offset by a gain of \$1.4 million on a sale of a facility in our Metal Components segment.

We are currently unable to make a good faith determination of cost estimates, or range of cost estimates, for actions associated with the plans. Restructuring charges will be recorded for the plans as they become estimable and probable. See Note 3 — Restructuring in the notes to the unaudited consolidated financial statements for additional information.

#### RESULTS OF OPERATIONS

Operating segments are defined as components of an enterprise that engage in business activities and by which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources to the segment and assess the performance of the segment. We have four operating segments: (i) Engineered Building Systems; (ii) Metal Components; (iii) Insulated Metal Panels; and (iv) Metal Coil Coating. All operating segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Our operating segments are vertically integrated and benefit from similar basic raw materials. The Metal Coil coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The Metal Components segment products include metal roof and wall panels, doors, metal partitions, metal trim, and other related accessories. The Insulated Metal Panels segment produces panels consisting of rigid foam encased between two sheets of coated metal in a variety of modules, lengths and reveal combinations which are used in architectural, commercial, industrial and cold storage market applications. The Engineered Building Systems segment manufactures custom designed and engineered products such as structural frames, Long Bay® Systems, metal roofing and wall systems, and the related value-added engineering and drafting, to provide customers a complete building envelope solution. The operating segments follow the same accounting policies used for our consolidated financial statements.

We evaluate a segment’s performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of: (i) structural framing provided by the Engineered Building Systems segment to the Metal Components segment; (ii) building components provided by the Metal Components and Insulated Metal Panels segments to the Engineered Building Systems segment; and (iii) hot-rolled, light gauge painted, and slit material and other services provided by the Metal Coil Coating segment to the Engineered Building Systems, Metal Components and Insulated Metal Panels. Corporate assets consist primarily of cash and investments, but also include deferred taxes and property, plant and equipment associated with our headquarters in Houston, Texas. These items (and income and expenses related to these

items) are not allocated to the operating segments. Corporate unallocated expenses include share-based compensation expenses, and executive, legal, finance, tax, treasury, human resources, information technology, purchasing, marketing and corporate travel expenses. Additional unallocated amounts primarily include interest income, interest expense and other (expense) income. See Note 15 — Operating Segments in the notes to the unaudited consolidated financial statements for more information on our segments.

We have revised our segment reporting to represent how we now manage our business, restating prior periods to conform to the current segment presentation. The following table represents sales and operating income (loss) attributable to these operating segments for the periods indicated (in thousands):

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Fiscal Three Months  
Ended  
January 28, January 29,  
2018            2017

## Total sales:

|                             |            |            |
|-----------------------------|------------|------------|
| Engineered Building Systems | \$ 156,964 | \$ 151,263 |
| Metal Components            | 146,832    | 134,173    |
| Insulated Metal Panels      | 110,794    | 95,195     |
| Metal Coil Coating          | 88,343     | 88,340     |
| Intersegment sales          | (81,584 )  | (77,268 )  |
| Total sales                 | \$421,349  | \$ 391,703 |

## External sales:

|                             |            |            |
|-----------------------------|------------|------------|
| Engineered Building Systems | \$ 148,288 | \$ 145,021 |
| Metal Components            | 127,528    | 115,557    |
| Insulated Metal Panels      | 97,513     | 82,441     |
| Metal Coil Coating          | 48,020     | 48,684     |
| Total sales                 | \$421,349  | \$ 391,703 |

## Operating income (loss):

|                             |           |           |
|-----------------------------|-----------|-----------|
| Engineered Building Systems | \$ 8,263  | \$ 6,503  |
| Metal Components            | 17,089    | 12,376    |
| Insulated Metal Panels      | 7,071     | 2,192     |
| Metal Coil Coating          | 5,376     | 6,706     |
| Corporate                   | (24,901 ) | (17,891 ) |
| Total operating income      | \$ 12,898 | \$ 9,886  |
| Unallocated other expense   | (6,531 )  | (6,572 )  |
| Income before income taxes  | \$ 6,367  | \$ 3,314  |

**FISCAL THREE MONTHS ENDED JANUARY 28, 2018 COMPARED TO FISCAL THREE MONTHS ENDED JANUARY 29, 2017**

Consolidated sales increased by 7.6%, or \$29.6 million, for the three months ended January 28, 2018, compared to the three months ended January 29, 2017. The increase in revenue resulted from continued commercial discipline in the pass-through of higher costs in a rising cost environment predominantly in the Engineered Building Systems, Metal Components, and Insulated Metal Panels segments, and underlying volume growth in the Metal Components and Insulated Metal Panels segment.

Consolidated cost of sales increased by 7.1%, or \$21.7 million, for the three months ended January 28, 2018, compared to the three months ended January 29, 2017. The increase in cost of sales resulted primarily from higher material costs.

Gross margin percentage was 21.8% for the three months ended January 28, 2018, compared to 21.4% for the same period in the prior year. The higher margins in the current period were driven by growth in the Insulated Metal Panels segment and favorable commercial discipline, partially offset by higher transportation costs.

Engineered Building Systems sales increased by 3.8%, or \$5.7 million, to \$157.0 million in the three months ended January 28, 2018, from \$151.3 million in the same period in the prior year. Sales to third parties for the three months ended January 28, 2018 increased by \$3.3 million to \$148.3 million from \$145.0 million in the same period in the prior year, primarily due to the result of the pass-through of higher input costs, offset by lower tonnage volumes.

Engineered Building Systems third-party sales accounted for 35.2% of total consolidated third-party sales in the three months ended January 28, 2018, compared to 37.0% in the three months ended January 29, 2017.

Operating income of the Engineered Building Systems segment increased to \$8.3 million in the three months ended January 28, 2018, from \$6.5 million in the same period in the prior year. The \$1.8 million, or 27.6%, increase resulted primarily from higher transportation costs and lower manufacturing leverage on lower volumes, offset by lower engineering, selling, general and administrative expenses.

Metal Components sales increased by 9.5%, or \$12.7 million, to \$146.8 million in the three months ended January 28, 2018, from \$134.2 million in the same period in the prior year. Sales to third parties for the three months ended January 28, 2018 increased by \$12.0 million to \$127.5 million from \$115.6 million in the same period in the prior year, primarily driven by higher external volumes across the segment and the pass-through of increasing materials costs. Metal Components third-party sales accounted

for 30.3% of total consolidated third-party sales in the three months ended January 28, 2018, compared to 29.5% in the three months ended January 29, 2017.

Operating income of the Metal Components segment increased to \$17.1 million in the three months ended January 28, 2018, compared to \$12.4 million in the same period in the prior year. The \$4.7 million, or 38.0%, increase was driven primarily by improved operating leverage across the cost structure on higher volumes, offset by transportation costs. Insulated Metal Panels sales increased by 16.4%, or \$15.6 million, to \$110.8 million in the three months ended January 28, 2018, compared to \$95.2 million in the same period in the prior year. Sales to third parties for the three months ended January 28, 2018 increased by \$15.1 million to \$97.5 million from 82.4 million in the same period in the prior year, primarily as a result of commercial discipline on rising input costs and higher tonnage volume. Insulated Metal Panel third-party sales accounted for 23.1% of total consolidated third-party sales in the three months ended January 28, 2018, compared to 21.0% in the three months ended January 29, 2017.

Operating income of the Insulated Metal Panels segment increased to \$7.1 million in the three months ended January 28, 2018, from \$2.2 million in the same period in the prior year. The \$4.9 million, or 222.6%, increase was primarily due to improved operating leverage across the cost structure on higher volumes and committed commercial discipline on rising input costs.

Metal Coil Coating sales were \$88.3 million in the three months ended January 28, 2018, consistent with the same period in the prior year. Sales to third parties for the three months ended January 28, 2018 decreased by \$0.7 million to \$48.0 million from \$48.7 million in the same period in the prior year, primarily as a result of lower tonnage volume. Metal Coil Coating third-party sales accounted for 11.4% of total consolidated third-party sales in the three months ended January 28, 2018, compared to 12.4% in the three months ended January 29, 2017.

Operating income of the Metal Coil Coating segment decreased to \$5.4 million in the three months ended January 28, 2018, from \$6.7 million in the same period in the prior year. The \$1.3 million, or 19.3%, decrease was primarily due to lower margins in the CENTRIA coil coating operations that entity is further integrated and aligned with the legacy coil coating operations.

Consolidated engineering, selling, general and administrative expenses increased to \$74.8 million in the three months ended January 28, 2018, compared to \$69.0 million in the same period in the prior year. Consolidated engineering, selling, general and administrative expenses for the three months ended January 28, 2018 includes a charge related to the acceleration of retirement benefits of our former CEO. Excluding the effects of the acceleration of CEO retirement benefits, as a percentage of sales, engineering, selling, general and administrative expenses decreased 90 basis points to 16.7% for the three months ended January 28, 2018, as compared to 17.6% for the three months ended January 29, 2017.

Consolidated intangible amortization remained consistent period over period at \$2.4 million in the three months ended January 28, 2018, compared to \$2.4 million in the same period in the prior year.

Consolidated strategic development and acquisition related costs for the three months ended January 28, 2018 were \$0.7 million, compared to \$0.4 million for the three months ended January 29, 2017. These non-operational costs include external legal, financial and due diligence costs incurred to deliver on our strategic initiatives.

Consolidated restructuring and impairment charges for the three months ended January 28, 2018 and January 29, 2017 were \$1.1 million and \$2.3 million, respectively. These charges, primarily consisting of severance related costs, relate to our actions taken to streamline our management and engineering and drafting activities, and also to optimize our overall manufacturing structure and footprint.

Consolidated interest expense increased to \$7.5 million for the three months ended January 28, 2018, compared to \$6.9 million for the same period of the prior year. The 8.8% increase in interest expense is a primarily a result increasing variable interest rates, primarily on our Existing Term Loans.

Consolidated foreign exchange gain (loss) for the three months ended January 28, 2018 was a \$0.5 million gain, compared to a loss of \$0.1 million for the same period of the prior year, due to exchange rate fluctuations in the Mexican peso and Canadian dollar relative to the U.S. dollar.

Consolidated provision for income taxes was \$1.1 million for the three months ended January 28, 2018, compared to \$1.3 million for the same period in the prior year. The effective tax rate for the three months ended January 28, 2018 was 17.6%, compared to 38.5% for the same period in the prior year. The reduction in the effective tax rate was



primarily driven by the benefits associated with the enactment of U.S. Tax Reform, including the remeasurement of existing deferred tax assets and liabilities under lower statutory tax rates.

## LIQUIDITY AND CAPITAL RESOURCES

## General

Our cash and cash equivalents decreased from \$65.7 million as of October 29, 2017 to \$12.4 million as of January 28, 2018. The following table summarizes our consolidated cash flows for the three months ended January 28, 2018 and January 29, 2017 (in thousands):

|  | Fiscal Three Months Ended |                  |
|--|---------------------------|------------------|
|  | January 28, 2018          | January 29, 2017 |
| Net cash used in operating activities                        | \$(6,580 )                | \$(30,363 )      |
| Net cash used in investing activities                        | (5,860 )                  | (4,120 )         |
| Net cash used in financing activities                        | (41,035 )                 | (15,217 )        |
| Effect of exchange rate changes on cash and cash equivalents | 237                       | 86               |
| Net decrease in cash and cash equivalents                    | (53,238 )                 | (49,614 )        |
| Cash and cash equivalents at beginning of period             | 65,658                    | 65,403           |
| Cash and cash equivalents at end of period                   | \$12,420                  | \$15,789         |

## Operating Activities

Our business is both seasonal and cyclical and cash flows from operating activities may fluctuate during the year and from year-to-year due to economic conditions. We rely on cash and short-term borrowings, when needed, to meet cyclical and seasonal increases in working capital needs. These needs generally rise during periods of increased economic activity or increasing raw material prices due to higher levels of inventory and accounts receivable. During economic slowdowns, or periods of decreasing raw material costs, working capital needs generally decrease as a result of the reduction of inventories and accounts receivable.

Net cash used in operating activities was \$6.6 million during the three months ended January 28, 2018 compared to net cash used in operating activities of \$30.4 million in the three months ended January 29, 2017. The improved cash flow from operations is due to current period operations and normal seasonal trends in the timing of working capital turns in the first quarter of fiscal 2018.

Net cash provided by accounts receivable was \$30.9 million for the three months ended January 28, 2018, compared to \$19.2 million for the three months ended January 29, 2017. Our days sales outstanding as of January 28, 2018 and January 29, 2017 were 38.2 days and 39.2 days, respectively. The increase in our accounts receivable balance from the prior period was primarily the result of increased sales and timing of collections toward the end of the current period. For the three months ended January 28, 2018, the change in cash flows relating to inventory was \$2.2 million and resulted primarily from sales of our products. Our days inventory on-hand decreased to 55.5 days as of January 28, 2018 from 57.0 days as of January 29, 2017.

Net cash used in accounts payable for the three months ended January 28, 2018 was \$31.2 million, whereas net cash used by accounts payable was \$30.2 million in the three months ended January 29, 2017. Our vendor payments can significantly fluctuate based on the timing of disbursements, inventory purchases and vendor payment terms. Our days payable outstanding as of January 28, 2018 decreased to 32.5 days from 33.4 days as of January 29, 2017.

## Investing Activities

Net cash used in investing activities increased to \$5.9 million during the three months ended January 28, 2018 compared to \$4.1 million in the three months ended January 29, 2017. In the three months ended January 28, 2018, we used \$8.1 million for capital expenditures and sold a facility in our Metal Components segment for \$2.2 million. We used \$4.1 million for capital expenditures in the three months ended January 29, 2017.

## Financing Activities

Net cash used in financing activities was \$41.0 million during the three months ended January 28, 2018 compared to \$15.2 million in the comparable prior year period. During the three months ended January 28, 2018, we borrowed \$43.0 million under our Amended ABL Facility and repaid \$33.0 million of that amount as of the end of the period, used \$51.3 million to repurchase shares of our outstanding common stock under programs approved by the Board of Directors in September 2016 and October 2017 and for the purchases of shares related to restricted stock that were

withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of restricted stock awards and units. We received \$1.0 million in cash proceeds from the exercises of stock options.

During the three months ended January 29, 2017, we used \$5.9 million to repurchase shares of our outstanding common stock under the program approved by the Board of Directors in September 2016, as well as shares of restricted stock that were withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock, and \$10.0 million to make a voluntary principal prepayment on borrowings under our Credit Agreement. We received \$1.0 million in cash proceeds from the exercises of stock options. We invest our excess cash in various overnight investments which are issued or guaranteed by the U.S. federal government.

#### Debt

As of January 28, 2018, we had an aggregate principal amount of \$404.1 million of outstanding indebtedness, comprising \$144.1 million of borrowings under our Credit Agreement, \$250.0 million in aggregate principal amount of 8.25% senior notes due 2023 and \$10.0 million of revolving loans outstanding under the Amended ABL Facility. Our excess availability under the Amended ABL Facility was \$129.7 million as of January 28, 2018. In addition, standby letters of credit related to certain insurance policies totaling approximately \$10.0 million were outstanding but undrawn under the Amended ABL Facility.

On May 2, 2017, the Company entered into Amendment No. 2 (the “Amendment”) to its existing Credit Agreement, dated as of June 22, 2012, between NCI Building Systems, Inc., as borrower, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent and the other financial institutions party thereto from time to time (as previously amended by Amendment No. 1, dated as of June 24, 2013, the “Existing Term Loan Facility” and, as amended, the “Term Loan Facility”), primarily to extend the maturity date and reduce the interest rate applicable to all of the outstanding term loans under the Term Loan Facility.

Prior to the Amendment, approximately \$144.1 million of term loans (the “Existing Term Loans”) were outstanding under the Existing Term Loan Facility. Pursuant to the Amendment, certain lenders under the Existing Term Loan Facility extended their Existing Term Loans, in an aggregate amount, along with new term loans advanced by certain new lenders of approximately \$144.1 million (the “New Term Loans”). The proceeds of the New Term Loans advanced by the new lenders were used to prepay in full all of the Existing Term Loans that were not extended as New Term Loans. Pursuant to the Amendment, the maturity date of the New Term Loans was extended to June 24, 2022.

Pursuant to the Amendment, the New Term Loans bear interest at a floating rate measured by reference to, at the Company’s option, either (i) an adjusted LIBOR not less than 1.00% plus a borrowing margin of 3.00% per annum or (ii) an alternative base rate plus a borrowing margin of 2.00% per annum.

The New Term Loans are secured by the same collateral and guaranteed by the same guarantors as the Existing Term Loans under the Existing Term Loan Facility. Voluntary prepayments of the New Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months. The Amendment also includes certain other changes to the Term Loan Facility.

During the three-month period ended January 29, 2017, the Company made voluntary prepayments of \$10.0 million on the outstanding principal amount of the Term Loan. No prepayments were made during the three-month period ended January 28, 2018. We are not required to make any quarterly installment payments until June 24, 2019.

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement (each defined below), the proceeds of which, together, were used to redeem the Notes and to refinance the Company’s existing term loan credit facility and the Company’s existing asset-based revolving credit facility.

The Term Loan Credit Agreement provides for an aggregate principal amount of \$415.0 million (the “Term Loan Credit Facility”). Proceeds from borrowings under the Term Loan Credit Facility were used, together with cash on hand, (i) to refinance the existing term loan credit agreement, (ii) to redeem and repay the Notes (the foregoing, collectively, the “Refinancing”) and (iii) to pay any fees, premiums and expenses incurred in connection with the Refinancing.

The ABL Credit Agreement provides for an asset-based revolving credit facility which allows aggregate maximum borrowings by the ABL Borrowers of up to \$150.0 million (the “ABL Credit Facility”). As set forth in the ABL Credit Agreement, extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible accounts receivable, eligible credit card receivables and eligible

inventory, less certain reserves and certain adjustments. Initial availability under the ABL Credit Facility will be approximately \$140.0 million. Availability will be reduced by issuance of letters of credit as well as any borrowings. We estimate we will record a loss, primarily on the extinguishment of the notes, ranging between \$23.0 million and \$25.0 million, of which approximately \$15.5 million represents the call premium paid on the redemption of the Notes.  
Equity Investment

On August 14, 2009, the Company entered into an Investment Agreement (as amended, the "Investment Agreement"), by and between the Company and Clayton, Dubilier & Rice Fund VIII, L.P. ("CD&R Fund VIII"). In connection with the Investment

Agreement and the Stockholders Agreement dated October 20, 2009 (the “Stockholders Agreement”), the CD&R Fund VIII and the Clayton, Dubilier & Rice Friends & Family Fund VIII, L.P. (collectively, the “CD&R Funds”) purchased convertible preferred stock, which was converted into shares of our Common Stock on May 14, 2013. Among other provisions, the Stockholders Agreement entitles the CD&R Funds to certain nomination or designation rights with respect to our board of directors; subscription rights with respect to future issuances of common stock by us; corporate governance rights; and consent rights with respect to certain types of transactions we may enter into in the future. On December 11, 2017, the CD&R Funds completed a registered underwritten offering of 7,150,000 shares of the Company’s Common Stock at a price to the public of \$19.36 per share (the “2017 Secondary Offering”). Pursuant to the underwriting agreement, at the CD&R Funds request, the Company purchased 1.15 million of the 7.15 million shares of the Common Stock from the underwriters in the 2017 Secondary Offering at a price per share equal to the price at which the underwriters purchased the shares from the CD&R Funds. The total amount the Company spent on these repurchases was \$22.3 million.

At January 28, 2018 and October 29, 2017, the CD&R Funds owned approximately 34.5% and 43.8%, respectively, of the outstanding shares of our common stock.

#### Cash Flow

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of inventory levels, expansion plans, debt service requirements and other operating cash needs. To meet our short-term and long-term liquidity requirements, including payment of operating expenses and repaying debt, we rely primarily on cash from operations. Beyond cash generated from operations, our Amended ABL Facility is undrawn with \$129.7 million available at January 28, 2018 and we have a cash balance of \$12.4 million as of January 28, 2018.

We expect to contribute \$2.3 million to our defined benefit plans during the remainder of fiscal 2018.

We expect that cash generated from operations and our availability under the Amended ABL Facility will be sufficient to provide us the ability to fund our operations and to provide the increased working capital necessary to support our strategy and fund planned capital expenditures of between approximately \$45 million and \$55 million for fiscal 2018 and expansion when needed.

Our corporate strategy seeks potential acquisitions that would provide additional synergies in our Engineered Building Systems, Metal Components, Insulated Metal Panels and Metal Coil Coating segments. From time to time, we may enter into letters of intent or agreements to acquire assets or companies in these business lines. The consummation of these transactions could require substantial cash payments and/or issuance of additional debt.

From time to time, we have used available funds to repurchase shares of our common stock under our stock repurchase programs. On September 8, 2016, our Board of Directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. On October 10, 2017, the Company announced that its board of directors authorized a new stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. Under these repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that we deem appropriate in accordance with all applicable securities laws and regulations. Shares repurchased are usually retired. There is no time limit on the duration of the program. During the three months ended January 28, 2018, the Company repurchased approximately 2.7 million shares for \$46.7 million under the stock repurchase programs, which included 1.15 million shares for \$22.3 million purchased pursuant to the CD&R Funds 2017 Secondary Offering. At January 28, 2018, approximately \$5.6 million remained available for stock repurchases, all under the program announced on October 10, 2017. In addition to the common stock repurchased during the three months ended January 28, 2018 under our stock repurchase programs, we also withheld shares of restricted stock to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock related to our 2003 Long-Term Stock Incentive Plan.

The Company may repurchase, redeem or otherwise retire the Company’s debt and take other steps to reduce the Company’s debt or otherwise improve the Company’s financial position. These actions could include open market debt repurchases, negotiated repurchases, other redemptions or retirements of outstanding debt, opportunistic refinancing of debt and raising additional capital. The amount of debt that may be repurchased or otherwise retired, if any, will depend on market conditions, trading levels of the Company’s debt, the Company’s cash position, compliance with debt

covenants and other considerations. Affiliates of the Company may also purchase the Company's debt from time to time through open market purchases or other transactions. In such cases, the Company's debt may not be retired, in which case the Company would continue to pay interest in accordance with the terms of the debt, and the Company would continue to reflect the debt as outstanding on its consolidated balance sheets.

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## NON-GAAP MEASURES

Set forth below are certain non-GAAP measures which include adjusted operating income (loss), adjusted EBITDA, adjusted net income per diluted common share and adjusted net income applicable to common shares. We define adjusted operating income (loss) as operating income (loss) adjusted for items broadly consisting of selected items which management does not consider representative of our ongoing operations. We define adjusted EBITDA as net income (loss) before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted for items broadly consisting of selected items which management does not consider representative of our ongoing operations and certain non-cash items of the Company. Such measurements are not prepared in accordance with U.S. GAAP and should not be construed as an alternative to reported results determined in accordance with U.S. GAAP. Management believes the use of such non-GAAP measures on a consolidated and operating segment basis assists investors in understanding the ongoing operating performance by presenting the financial results between periods on a more comparable basis. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating these measures, you should be aware that in the future we may incur expenses that are the same as, or similar to, some of the adjustments in these non-GAAP measures. In addition, certain financial covenants related to our Credit Agreement and Amended ABL Facility are based on similar non-GAAP measures. The non-GAAP information provided is unique to the Company and may not be consistent with the methodologies used by other companies.

The following tables reconcile adjusted net income per diluted common share to net income per diluted common share and adjusted net income applicable to common shares to net income applicable to common shares for the periods indicated (in thousands):

|  | Fiscal Three<br>Months Ended<br>January 28,<br>2018 |  | February 29,<br>2017 |  |
|--|---|--|----------------------|--|
| Net income per diluted common share, GAAP basis              | \$0.08  |  | \$ 0.03              |  |
| Restructuring and impairment charges                         | 0.02  |  | 0.03                 |  |
| Strategic development and acquisition related costs          | 0.01  |  | 0.00                 |  |
| Acceleration of CEO retirement benefits                      | 0.07  |  | —                    |  |
| Discrete tax effects of U.S. tax reform                      | (0.01 )   |  | —                    |  |
| Tax effect of applicable non-GAAP adjustments <sup>(1)</sup> | (0.03 )   |  | (0.01 )              |  |
| Adjusted net income per diluted common share                 | \$0.14  |  | \$ 0.05              |  |
|  | Fiscal Three Months<br>Ended<br>January 28,<br>2018 |  |                      |  |
|  | January 29,<br>2017                                 |  |                      |  |
| Net income applicable to common shares, GAAP basis           | \$5,211   |  | \$ 2,031             |  |
| Restructuring and impairment charges                         | 1,094   |  | 2,264                |  |
| Strategic development and acquisition related costs          | 727   |  | 357                  |  |
| Acceleration of CEO retirement benefits                      | 4,600   |  | —                    |  |
| Discrete tax effects of U.S. tax reform                      | (323 )  |  | —                    |  |
| Tax effect of applicable non-GAAP adjustments <sup>(1)</sup> | (1,775 )  |  | (1,022 )             |  |
| Adjusted net income applicable to common shares              | \$9,534   |  | \$ 3,630             |  |

(1) The Company calculated the tax effect of non-GAAP adjustments by applying the applicable statutory tax rate for the period to each applicable non-GAAP item.



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The following tables reconcile adjusted operating income (loss) and adjusted EBITDA to operating income (loss) for the periods indicated below:

Consolidated

| (In thousands)                                      | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|---|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|   | April 30,<br>2017         | July 30,<br>2017 | October 29,<br>2017 | January 28,<br>2018 | January 28,<br>2018          |   |
| Total Net Sales                                     | \$420,464                 | \$469,385        | \$488,726           | \$421,349           | \$1,799,924                  |   |
| Operating Income, GAAP                              | 32,472                    | 34,097           | 33,325              | 12,898              | 112,792                      |   |
| Restructuring and impairment                        | 315                       | 1,009            | 1,709               | 1,094               | 4,127                        |   |
| Strategic development and acquisition related costs | 124                       | 1,297            | 193                 | 727                 | 2,341                        |   |
| Acceleration of CEO retirement benefits             | —                         | —                | —                   | 4,600               | 4,600                        |   |
| Loss on sale of assets and asset recovery           | 137                       | —                | —                   | —                   | 137                          |   |
| Gain on insurance recovery                          | (9,601 )                  | (148 )           | —                   | —                   | (9,749 )                     |   |
| Unreimbursed business interruption costs            | 191                       | 235              | 28                  | —                   | 454                          |   |
| Goodwill impairment                                 | —                         | —                | 6,000               | —                   | 6,000                        |   |
| Adjusted Operating Income                           | 23,638                    | 36,490           | 41,255              | 19,319              | 120,702                      |   |
| Other income and expense                            | 449                       | 1,322            | (62 )               | 928                 | 2,637                        |   |
| Depreciation and amortization                       | 10,062                    | 10,278           | 10,664              | 10,358              | 41,362                       |   |
| Share-based compensation expense                    | 2,820                     | 2,284            | 2,084               | 2,270               | 9,458                        |   |
| Adjusted EBITDA                                     | \$36,969                  | \$50,374         | \$53,941            | \$32,875            | \$174,159                    |   |
| Year over year growth, Total Net Sales              | 13.0                      | % 1.5            | % 1.8               | % 7.6               | % 5.5                        | % |
| Operating Income Margin                             | 7.7                       | % 7.3            | % 6.8               | % 3.1               | % 6.3                        | % |
| Adjusted Operating Income Margin                    | 5.6                       | % 7.8            | % 8.4               | % 4.6               | % 6.7                        | % |
| Adjusted EBITDA Margin                              | 8.8                       | % 10.7           | % 11.0              | % 7.8               | % 9.7                        | % |

  

|   | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |
|---|---------------------------|------------------|---------------------|---------------------|------------------------------|
|   | May 1,<br>2016            | July 31,<br>2016 | October 30,<br>2016 | January 29,<br>2017 | January 29,<br>2017          |
| Total Net Sales                                     | \$372,247                 | \$462,353        | \$480,314           | \$391,703           | \$1,706,617                  |
| Operating Income, GAAP                              | 10,594                    | 43,535           | 39,391              | 9,886               | 103,406                      |
| Restructuring and impairment                        | 1,149                     | 778              | 815                 | 2,264               | 5,006                        |
| Strategic development and acquisition related costs | 579                       | 819              | 590                 | 357                 | 2,345                        |
| (Gain) loss on sale of assets and asset recovery    | (927 )                    | (52 )            | 62                  | —                   | (917 )                       |
| Adjusted Operating Income                           | 11,395                    | 45,080           | 40,858              | 12,507              | 109,840                      |
| Other income and expense                            | 827                       | (508 )           | (192 )              | 309                 | 436                          |
| Depreciation and amortization                       | 10,765                    | 10,595           | 9,815               | 10,315              | 41,490                       |
| Share-based compensation expense                    | 2,468                     | 2,661            | 3,181               | 3,042               | 11,352                       |
| Adjusted EBITDA                                     | \$25,455                  | \$57,828         | \$53,662            | \$26,173            | \$163,118                    |

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|                                  |     |       |       |      |       |   |
|----------------------------------|-----|-------|-------|------|-------|---|
| Operating Income Margin          | 2.8 | %9.4  | %8.2  | %2.5 | % 6.1 | % |
| Adjusted Operating Income Margin | 3.1 | %9.8  | %8.5  | %3.2 | % 6.4 | % |
| Adjusted EBITDA Margin           | 6.8 | %12.5 | %11.2 | %6.7 | % 9.6 | % |

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## Engineered Building Systems

| (In thousands)                                      | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|---|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|   | April 30,<br>2017         | July 30,<br>2017 | October 29,<br>2017 | January 28,<br>2018 | January 28,<br>2018          |   |
| Total Sales   | \$ 162,624                | \$ 191,910       | \$ 188,183          | \$ 156,964          | \$ 699,681                   |   |
| External Sales                                      | 154,456                   | 182,164          | 178,222             | 148,288             | 663,130                      |   |
| Operating Income, GAAP                              | 6,894                     | 14,948           | 13,043              | 8,263               | 43,148                       |   |
| Restructuring and impairment                        | 186                       | 941              | 695                 | 1,136               | 2,958                        |   |
| Strategic development and acquisition related costs | —                         | —                | —                   | 173                 | 173                          |   |
| Loss on sale of assets and asset recovery           | 137                       | —                | —                   | —                   | 137                          |   |
| Adjusted Operating Income                           | 7,217                     | 15,889           | 13,738              | 9,572               | 46,416                       |   |
| Other income and expense                            | (125 )                    | 1,291            | (694 )              | 733                 | 1,205                        |   |
| Depreciation and amortization                       | 2,285                     | 2,255            | 2,198               | 2,077               | 8,815                        |   |
| Adjusted EBITDA                                     | \$ 9,377                  | \$ 19,435        | \$ 15,242           | \$ 12,382           | \$ 56,436                    |   |
| Year over year growth, Total sales                  | 17.8                      | % 6.0            | % (7.8 )            | % 3.8               | % 3.7                        | % |
| Year over year growth, External Sales               | 14.9                      | % 3.8            | % (9.3 )            | % 2.3               | % 1.8                        | % |
| Operating Income Margin                             | 4.2                       | % 7.8            | % 6.9               | % 5.3               | % 6.2                        | % |
| Adjusted Operating Income Margin                    | 4.4                       | % 8.3            | % 7.3               | % 6.1               | % 6.6                        | % |
| Adjusted EBITDA Margin                              | 5.8                       | % 10.1           | % 8.1               | % 7.9               | % 8.1                        | % |

|  | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|--|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|  | May 1,<br>2016            | July 31,<br>2016 | October 30,<br>2016 | January 29,<br>2017 | January 29,<br>2017          |   |
| Total Sales                                      | \$ 138,023                | \$ 181,029       | \$ 204,208          | \$ 151,263          | \$ 674,523                   |   |
| External Sales                                   | 134,454                   | 175,471          | 196,596             | 145,021             | 651,542                      |   |
| Operating Income, GAAP                           | 7,193                     | 19,561           | 22,830              | 6,503               | 56,087                       |   |
| Restructuring and impairment                     | 149                       | 106              | 211                 | 1,910               | 2,376                        |   |
| (Gain) loss on sale of assets and asset recovery | (927 )                    | (52 )            | 62                  | —                   | (917 )                       |   |
| Adjusted Operating Income                        | 6,415                     | 19,615           | 23,103              | 8,413               | 57,546                       |   |
| Other income and expense                         | 938                       | (931 )           | (362 )              | (41 )               | (396 )                       |   |
| Depreciation and amortization                    | 2,436                     | 2,438            | 2,399               | 2,276               | 9,549                        |   |
| Adjusted EBITDA                                  | \$ 9,789                  | \$ 21,122        | \$ 25,140           | \$ 10,648           | \$ 66,699                    |   |
| Operating Income Margin                          | 5.2                       | % 10.8           | % 11.2              | % 4.3               | % 8.3                        | % |
| Adjusted Operating Income Margin                 | 4.6                       | % 10.8           | % 11.3              | % 5.6               | % 8.5                        | % |
| Adjusted EBITDA Margin                           | 7.1                       | % 11.7           | % 12.3              | % 7.0               | % 9.9                        | % |



## Metal Components

| (In thousands)                        | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|---------------------------------------|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|                                       | April 30,<br>2017         | July 30,<br>2017 | October 29,<br>2017 | January 28,<br>2018 | January 28,<br>2018          |   |
| Total Sales                           | \$154,895                 | \$166,305        | \$181,288           | \$146,832           | \$649,320                    |   |
| External Sales                        | 133,290                   | 140,639          | 155,183             | 127,528             | 556,640                      |   |
| Operating Income, GAAP                | 19,997                    | 23,276           | 23,119              | 17,089              | 83,481                       |   |
| Restructuring and impairment          | 129                       | 60               | 69                  | (1,403 )            | (1,145 )                     |   |
| Gain on insurance recovery            | (420 )                    | (148 )           | —                   | —                   | (568 )                       |   |
| Adjusted Operating Income             | 19,706                    | 23,188           | 23,188              | 15,686              | 81,768                       |   |
| Other income and expense              | 52                        | 55               | 84                  | 53                  | 244                          |   |
| Depreciation and amortization         | 1,302                     | 1,266            | 1,422               | 1,576               | 5,566                        |   |
| Adjusted EBITDA                       | \$21,060                  | \$24,509         | \$24,694            | \$17,315            | \$87,578                     |   |
| Year over year growth, Total sales    | 18.9                      | % (0.1 )         | % 8.9               | % 9.4               | % 8.7                        | % |
| Year over year growth, External Sales | 19.3                      | % 0.1            | % 10.9              | % 10.4              | % 9.6                        | % |
| Operating Income Margin               | 12.9                      | % 14.0           | % 12.8              | % 11.6              | % 12.9                       | % |
| Adjusted Operating Income Margin      | 12.7                      | % 13.9           | % 12.8              | % 10.7              | % 12.6                       | % |
| Adjusted EBITDA Margin                | 13.6                      | % 14.7           | % 13.6              | % 11.8              | % 13.5                       | % |

|                                  | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|----------------------------------|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|                                  | May 1,<br>2016            | July 31,<br>2016 | October 30,<br>2016 | January 29,<br>2017 | January 29,<br>2017          |   |
| Total Sales                      | \$130,293                 | \$166,512        | \$166,532           | \$134,173           | \$597,510                    |   |
| External Sales                   | 111,748                   | 140,560          | 139,968             | 115,557             | 507,833                      |   |
| Operating Income, GAAP           | 13,071                    | 26,803           | 21,254              | 12,376              | 73,504                       |   |
| Restructuring and impairment     | 432                       | 202              | 103                 | 305                 | 1,042                        |   |
| Adjusted Operating Income        | 13,503                    | 27,005           | 21,357              | 12,681              | 74,546                       |   |
| Other income and expense         | 167                       | 92               | (27 )               | 28                  | 260                          |   |
| Depreciation and amortization    | 1,150                     | 1,365            | 1,406               | 1,334               | 5,255                        |   |
| Adjusted EBITDA                  | \$14,820                  | \$28,462         | \$22,736            | \$14,043            | \$80,061                     |   |
| Operating Income Margin          | 10.0                      | % 16.1           | % 12.8              | % 9.2               | % 12.3                       | % |
| Adjusted Operating Income Margin | 10.4                      | % 16.2           | % 12.8              | % 9.5               | % 12.5                       | % |
| Adjusted EBITDA Margin           | 11.4                      | % 17.1           | % 13.7              | % 10.5              | % 13.4                       | % |

## Insulated Metal Panels

| (In thousands)                                      | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|---|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|   | April 30,<br>2017         | July 30,<br>2017 | October 29,<br>2017 | January 28,<br>2018 | January 28,<br>2018          |   |
| Total Sales   | \$ 102,937                | \$ 119,730       | \$ 123,542          | \$ 110,794          | \$ 457,003                   |   |
| External Sales                                      | 86,773                    | 98,026           | 105,064             | 97,513              | 387,376                      |   |
| Operating Income, GAAP                              | 19,377                    | 11,468           | 14,895              | 7,071               | 52,811                       |   |
| Restructuring and impairment                        | —                         | 8                | 683                 | 1,284               | 1,975                        |   |
| Strategic development and acquisition related costs | —                         | —                | 90                  | 300                 | 390                          |   |
| Gain on insurance recovery                          | (9,181 )                  | —                | —                   | —                   | (9,181 )                     |   |
| Unreimbursed business interruption costs            | 191                       | 235              | 28                  | —                   | 454                          |   |
| Adjusted Operating Income                           | 10,387                    | 11,711           | 15,696              | 8,655               | 46,449                       |   |
| Other income and expense                            | 340                       | (211 )           | 356                 | (273 )              | 212                          |   |
| Depreciation and amortization                       | 4,258                     | 4,516            | 4,742               | 4,388               | 17,904                       |   |
| Adjusted EBITDA                                     | \$ 14,985                 | \$ 16,016        | \$ 20,794           | \$ 12,770           | \$ 64,565                    |   |
| Year over year growth, Total sales                  | 15.1                      | % 13.3           | % 12.3              | % 16.4              | % 14.2                       | % |
| Year over year growth, External Sales               | 8.6                       | % 4.2            | % 13.4              | % 18.3              | % 11.0                       | % |
| Operating Income Margin                             | 18.8                      | % 9.6            | % 12.1              | % 6.4               | % 11.6                       | % |
| Adjusted Operating Income Margin                    | 10.1                      | % 9.8            | % 12.7              | % 7.8               | % 10.2                       | % |
| Adjusted EBITDA Margin                              | 14.6                      | % 13.4           | % 16.8              | % 11.5              | % 14.1                       | % |

|   | Fiscal Three Months Ended |                  |                     |                     | Trailing<br>Twelve<br>Months |   |
|---|---------------------------|------------------|---------------------|---------------------|------------------------------|---|
|   | May 1,<br>2016            | July 31,<br>2016 | October 30,<br>2016 | January 29,<br>2017 | January 29,<br>2017          |   |
| Total Sales   | \$ 89,433                 | \$ 105,694       | \$ 110,001          | \$ 95,195           | \$ 400,323                   |   |
| External Sales                                      | 79,882                    | 94,059           | 92,648              | 82,441              | 349,030                      |   |
| Operating Income, GAAP                              | 2,782                     | 8,911            | 7,513               | 2,192               | 21,398                       |   |
| Restructuring and impairment                        | 176                       | 59               | 404                 | —                   | 639                          |   |
| Strategic development and acquisition related costs | 28                        | 9                | —                   | —                   | 37                           |   |
| Adjusted Operating Income                           | 2,986                     | 8,979            | 7,917               | 2,192               | 22,074                       |   |
| Other income and expense                            | (543 )                    | 32               | 270                 | 35                  | (206 )                       |   |
| Depreciation and amortization                       | 4,683                     | 4,357            | 3,926               | 4,392               | 17,358                       |   |
| Adjusted EBITDA                                     | \$ 7,126                  | \$ 13,368        | \$ 12,113           | \$ 6,619            | \$ 39,226                    |   |
| Operating Income Margin                             | 3.1                       | % 8.4            | % 6.8               | % 2.3               | % 5.3                        | % |
| Adjusted Operating Income Margin                    | 3.3                       | % 8.5            | % 7.2               | % 2.3               | % 5.5                        | % |
| Adjusted EBITDA Margin                              | 8.0                       | % 12.6           | % 11.0              | % 7.0               | % 9.8                        | % |



## Metal Coil Coating

| (In thousands)                        | Fiscal Three Months Ended |               |                  |                  | Trailing Twelve Months |    |
|---------------------------------------|---------------------------|---------------|------------------|------------------|------------------------|----|
|                                       | April 30, 2017            | July 30, 2017 | October 29, 2017 | January 28, 2018 | January 28, 2018       |    |
| Total Sales                           | \$86,729                  | \$95,261      | \$98,550         | \$88,343         | \$368,883              |    |
| External Sales                        | 45,945                    | 48,556        | 50,257           | 48,020           | 192,778                |    |
| Operating Income, GAAP                | 6,227                     | 7,107         | 1,419            | 5,376            | 20,129                 |    |
| Goodwill impairment                   | —                         | —             | 6,000            | —                | 6,000                  |    |
| Adjusted Operating Income             | 6,227                     | 7,107         | 7,419            | 5,376            | 26,129                 |    |
| Depreciation and amortization         | 2,009                     | 2,063         | 2,065            | 2,058            | 8,195                  |    |
| Adjusted EBITDA                       | \$8,236                   | \$9,170       | \$9,484          | \$7,434          | \$34,324               |    |
| Year over year growth, Total sales    | 8.6                       | % (1.5        | )% 2.7           | % 0.0            | % 2.2                  | %  |
| Year over year growth, External Sales | (0.5                      | )% (7.1       | )% (1.7          | )% (1.4          | )% (2.7                | )% |
| Operating Income Margin               | 7.2                       | % 7.5         | % 1.4            | % 6.1            | % 5.5                  | %  |
| Adjusted Operating Income Margin      | 7.2                       | % 7.5         | % 7.5            | % 6.1            | % 7.1                  | %  |
| Adjusted EBITDA Margin                | 9.5                       | % 9.6         | % 9.6            | % 8.4            | % 9.3                  | %  |

|                                  | Fiscal Three Months Ended |               |                  |                  | Trailing Twelve Months |   |
|----------------------------------|---------------------------|---------------|------------------|------------------|------------------------|---|
|                                  | May 1, 2016               | July 31, 2016 | October 30, 2016 | January 29, 2017 | January 29, 2017       |   |
| Total Sales                      | \$79,829                  | \$96,684      | \$95,987         | \$88,340         | \$360,840              |   |
| External Sales                   | 46,163                    | 52,263        | 51,102           | 48,684           | 198,212                |   |
| Operating Income, GAAP           | 6,686                     | 10,531        | 9,310            | 6,706            | 33,233                 |   |
| Restructuring and impairment     | 39                        | —             | —                | —                | 39                     |   |
| Adjusted Operating Income        | 6,725                     | 10,531        | 9,310            | 6,706            | 33,272                 |   |
| Other income and expense         | —                         | 2             | —                | 31               | 33                     |   |
| Depreciation and amortization    | 2,166                     | 2,214         | 1,849            | 2,106            | 8,335                  |   |
| Adjusted EBITDA                  | \$8,891                   | \$12,747      | \$11,159         | \$8,843          | \$41,640               |   |
| Operating Income Margin          | 8.4                       | % 10.9        | % 9.7            | % 7.6            | % 9.2                  | % |
| Adjusted Operating Income Margin | 8.4                       | % 10.9        | % 9.7            | % 7.6            | % 9.2                  | % |
| Adjusted EBITDA Margin           | 11.1                      | % 13.2        | % 11.6           | % 10.0           | % 11.5                 | % |



## Corporate

| (In thousands)                                      | Fiscal Three Months Ended |                  |                        |                        | Trailing<br>Twelve<br>Months |
|---|---------------------------|------------------|------------------------|------------------------|------------------------------|
|   | April 30,<br>2017         | July 30,<br>2017 | October<br>29,<br>2017 | January<br>28,<br>2018 | January<br>28,<br>2018       |
| Operating Loss, GAAP                                | \$(20,023)                | \$(22,702)       | \$(19,151)             | \$(24,901)             | \$(86,777)                   |
| Restructuring and impairment                        | —                         | —                | 262                    | 77                     | 339                          |
| Strategic development and acquisition related costs | 124                       | 1,297            | 103                    | 254                    | 1,778                        |
| Acceleration of CEO retirement benefits             | —                         | —                | —                      | 4,600                  | 4,600                        |
| Adjusted Operating Loss                             | (19,899 )                 | (21,405 )        | (18,786 )              | (19,970 )              | (80,060 )                    |
| Other income and expense                            | 182                       | 187              | 192                    | 415                    | 976                          |
| Depreciation and amortization                       | 208                       | 178              | 237                    | 259                    | 882                          |
| Share-based compensation expense                    | 2,820                     | 2,284            | 2,084                  | 2,270                  | 9,458                        |
| Adjusted EBITDA                                     | \$(16,689)                | \$(18,756)       | \$(16,273)             | \$(17,026)             | \$(68,744)                   |

  

|   | Fiscal Three Months Ended |                  |                        |                        | Trailing<br>Twelve<br>Months |
|---|---------------------------|------------------|------------------------|------------------------|------------------------------|
|   | May 1,<br>2016            | July 31,<br>2016 | October<br>30,<br>2016 | January<br>29,<br>2017 | January<br>29,<br>2017       |
| Operating Loss, GAAP                                | \$(19,138)                | \$(22,271)       | \$(21,516)             | \$(17,891)             | \$(80,816)                   |
| Restructuring and impairment                        | 353                       | 411              | 97                     | 49                     | 910                          |
| Strategic development and acquisition related costs | 551                       | 810              | 590                    | 357                    | 2,308                        |
| Adjusted Operating Loss                             | (18,234 )                 | (21,050 )        | (20,829 )              | (17,485 )              | (77,598 )                    |
| Other income and expense                            | 265                       | 297              | (73 )                  | )256                   | 745                          |
| Depreciation and amortization                       | 330                       | 221              | 235                    | 207                    | 993                          |
| Share-based compensation expense                    | 2,468                     | 2,661            | 3,181                  | 3,042                  | 11,352                       |
| Adjusted EBITDA                                     | \$(15,171)                | \$(17,871)       | \$(17,486)             | \$(13,980)             | \$(64,508)                   |

#### OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 28, 2018, we were not involved in any material unconsolidated SPE transactions.

#### CONTRACTUAL OBLIGATIONS

In general, purchase orders issued in the normal course of business can be terminated in whole or in part for any reason without liability until the product is received.

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement, the proceeds of which, together, was used to redeem the Notes and to refinance the Company’s existing term loan credit facility and the Company’s existing asset-based revolving credit facility.

There have been no other material changes in our future contractual obligations since the end of fiscal 2017. See Part 2, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 29, 2017 for more information on our contractual obligations. See Note 10 — Long-Term Debt and Note Payable and Note 17 — Subsequent Events in the notes to the unaudited consolidated financial statements for more information on the material terms of our Notes, Credit Agreement and Amended ABL Facility.

#### CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are most important to the portrayal of our financial position and results of operations. These policies require our most subjective judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. Our most critical accounting policies include those that pertain to revenue recognition, insurance accruals, share-based compensation, income taxes, accounting for acquisitions, intangible assets and goodwill, allowance for doubtful accounts, inventory valuation, property, plant and equipment valuation and contingencies, which are described in Item 7 of our Annual Report on Form 10-K for the year ended October 29, 2017.

#### RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 — Accounting Pronouncements in the notes to the unaudited consolidated financial statements for information on recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Steel Prices

We are subject to market risk exposure related to volatility in the price of steel. For the fiscal three months ended January 28, 2018, material costs (predominantly steel costs) constituted approximately 65% of our cost of sales. Our business is heavily dependent on the price and supply of steel. Our various products are fabricated from steel produced by mills to forms including bars, plates, structural shapes, sheets, hot-rolled coils and galvanized or Galvalume® — coated coils (Galvalume® is a registered trademark of BIEC International, Inc.). The steel industry is highly cyclical in nature, and steel prices have been volatile in recent years and may remain volatile in the future. Steel prices are influenced by numerous factors beyond our control, including general economic conditions, domestically and internationally, the availability of raw materials, competition, labor costs, freight and transportation costs, production costs, import duties and other trade restrictions. Based on the cyclical nature of the steel industry, we expect steel prices will continue to be volatile.

Although we have the ability to purchase steel from a number of suppliers, a production cutback by one or more of our current suppliers could create challenges in meeting delivery schedules to our customers. Because we have periodically adjusted our contract prices, particularly in the Engineered Building Systems segment, we have generally been able to pass increases in our raw material costs through to our customers. The graph below shows the monthly CRU Index data for the North American Steel Price Index over a historical eight-year period. The CRU North American Steel Price Index has been published by the CRU Group since 1994 and we believe this index appropriately depicts the volatility we have experienced in steel prices. The index, based on a CRU survey of industry participants, is now commonly used in the settlement of physical and financial contracts in the steel industry. The prices surveyed are purchases for forward delivery, according to lead time, which will vary. For example, the January index would likely approximate our fiscal March steel purchase deliveries based on current lead-times. The volatility in this steel price index is comparable to the volatility we experience in our average cost of steel.

We normally do not maintain an inventory of steel in excess of our current production requirements. However, from time to time, we may purchase steel in advance of announced steel price increases. In addition, it is our current practice to purchase all steel inventory that has been ordered but is not in our possession. Therefore, our inventory may increase if demand for our products declines. We can give no assurance that steel will remain available or that prices will not continue to be volatile.

With material costs (predominantly steel costs) accounting for approximately 65% of our cost of sales for the three months ended January 28, 2018, a one percent change in the cost of steel would have resulted in a pre-tax impact on cost of sales of approximately \$2.1 million for the three months ended January 28, 2018. The impact to our financial results of operations of such an increase would be significantly dependent on the competitive environment and the costs of other alternative building products, which could impact our ability to pass on these higher costs.

#### Other Commodity Risks

In addition to market risk exposure related to the volatility in the price of steel, we are subject to market risk exposure related to volatility in the price of natural gas. As a result, we occasionally enter into both index-priced and fixed-price contracts for the purchase of natural gas. We have evaluated these contracts to determine whether the contracts are derivative instruments. Certain contracts that meet the criteria for characterization as a derivative instrument may be exempted from hedge accounting treatment as normal purchases and normal sales and, therefore, these forward contracts are not marked to market. At January 28, 2018, all of our contracts for the purchase of natural gas met the scope exemption for normal purchases and normal sales.

#### Interest Rates

We are subject to market risk exposure related to changes in interest rates on our Credit Agreement and the Amended ABL Facility. These instruments bear interest at an agreed upon percentage point spread from either the prime interest rate or LIBOR. Under our Credit Agreement, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR for 30 days to 6 months. At January 28, 2018, we had \$144.1 million outstanding under our Credit Agreement. Based on this balance, an immediate change of one percent in the interest rate would cause a change in interest expense of approximately \$1.4 million on an annual basis. The fair value of our Credit Agreement at January 28, 2018 and October 29, 2017 was approximately \$144.1 million and \$144.1 million, respectively, compared to a face value of approximately \$144.1 million and \$144.1 million, respectively.

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement. See Note 10 — Long-Term Debt and Note Payable and Note 17 - Subsequent Events in the notes to the unaudited consolidated financial statements for information on the material terms of our long-term debt.

#### Foreign Currency Exchange Rates

We are exposed to the effect of exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating revenue and expenses. The functional currency for our Mexico operations is the U.S. dollar. Adjustments resulting from the re-measurement of the local currency financial statements into the U.S. dollar functional currency, which uses a combination of current and historical exchange rates, are included in net income in the current period. Net foreign currency re-measurement gain (loss) was \$0.2 million and \$(0.5) million, for the three-month periods ended January 28, 2018 and January 29, 2017, respectively.

The functional currency for our Canada operations is the Canadian dollar. Translation adjustments resulting from translating the functional currency financial statements into U.S. dollar equivalents are reported separately in accumulated other comprehensive income in stockholders' equity. The net foreign currency exchange gain (loss) included in net income for the three month periods ended January 28, 2018 and January 29, 2017 was \$0.3 million and \$0.5 million, respectively. Net foreign currency translation adjustment, net of tax, and included in other comprehensive income (loss) for the three-month periods ended January 28, 2018 and January 29, 2017 was \$0.2 million and \$0.1 million, respectively.

We have operations in China and are exposed to fluctuations in the foreign currency exchange rate between the U.S. dollar and Chinese yuan. The functional currency for our China operations is the Chinese yuan. The net foreign currency translation adjustment was insignificant for the three-month periods ended January 28, 2018 and January 29, 2017.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of January 28, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management believes that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and based on the evaluation of our disclosure controls and procedures as of January 28, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at such reasonable assurance level.

Internal Control over Financial Reporting

In the first quarter of 2018, we implemented a new enterprise information system for consolidation, as part of a plan to integrate and upgrade our systems and processes. We believe the related changes to processes and internal controls will allow us to be more efficient and further enhance our internal control over financial reporting. Other than as discussed above, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

NCI BUILDING SYSTEMS, INC.

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings.

See Part I, Item 1, “Unaudited Consolidated Financial Statements”, Note 16, which is incorporated herein by reference.

## Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended October 29, 2017. The risks disclosed in our previous Annual Report on Form 10-K and information provided elsewhere in this report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known or we currently deem to be immaterial may materially adversely affect our business, financial condition or results of operations. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 29, 2017.

New tariffs on steel imports could result in increased steel prices and adversely affect our results of operations. On March 1, 2018, President Trump announced an intention to place a 25% tariff on imports of steel into the United States. Although the parameters and timing of any such tariff is not known as of the date of this filing, were such a tariff to be enacted it could result in both increased steel prices and a decreased available supply of steel. We may not be able to pass such price increases on to our customers and may not be able to secure adequate alternative sources of steel on a timely basis. Either of these occurrences could adversely affect our results of operations and financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table shows our purchases of our Common Stock during the first quarter of fiscal 2018:

| Period                                 | (a)<br>Total Number<br>of<br>Shares<br>Purchased <sup>(1)</sup> | (b)<br>Average<br>Price<br>Paid per<br>Share | (c)<br>Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Programs | (d)<br>Maximum<br>Dollar<br>Value of<br>Shares that<br>May Yet be<br>Purchased<br>Under<br>Publicly<br>Programs <sup>(2)</sup><br>(in<br>thousands) |
|--|---|--|--|---|
|  |   |  |  |   |
| October 30, 2017 to November 26, 2017  | 1,337,173   | \$ 15.90                                     | 1,337,173  | \$ 30,988   |
| November 27, 2017 to December 24, 2017 | 1,458,737   | \$ 18.98                                     | 1,340,880  | 5,573   |
| December 25, 2017 to January 28, 2018  | 121,020   | \$ 19.30                                     | —  | 5,573   |
| Total                                  | 2,916,930   | \$ 17.58                                     | 2,678,053  |   |

(1) The total number of shares purchased includes our Common Stock repurchased under the programs described below as well as shares of restricted stock that were withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock. The required withholding is calculated using the closing sales price on the previous business day prior to the vesting date as reported by the NYSE.

(2) On September 8, 2016, the Company announced that its board of directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. On October 10, 2017, the Company announced that its board of directors authorized a new stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. Under these repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that we deem appropriate in accordance with all applicable securities laws and regulations. Shares repurchased are

usually retired. There is no time limit on the duration of these programs. As of January 28, 2018, approximately \$5.6 million remained available for stock repurchases under the program announced in October 2017.

Item 6. Exhibits.

Exhibits

Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Index to Exhibits immediately preceding the exhibits filed herewith and such listing is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NCI BUILDING SYSTEMS, INC.

Date: March 7, 2018 By: /s/ Mark E. Johnson

Mark E. Johnson

Executive Vice President, Chief Financial Officer  
and Treasurer

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Index to Exhibits

- 3.1 Fifth Amended and Restated By-laws of NCI Building Systems, Inc., effective as of November 16, 2017 (filed as Exhibit 3.1 to NCI's Current Report on Form 8-K dated November 22, 2017 and incorporated by reference herein)
- †10.1 Amended and Restated NCI Building Systems, Inc. 2003 Long-Term Stock Incentive Plan, effective as of January 27, 2018 (filed as Exhibit 10.1 to NCI's Current Report on Form 8-K dated March 02, 2018 and incorporated by reference herein)
- \*31.1 Rule 13a-14(a)/15d-14(a) Certifications (Section 302 of the Sarbanes-Oxley Act of 2002)
- \*31.2 Rule 13a-14(a)/15d-14(a) Certifications (Section 302 of the Sarbanes-Oxley Act of 2002)
- \*\*32.1 Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act of 2002)
- \*\*32.2 Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act of 2002)
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema Document
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \*101.DEF XBRL Taxonomy Definition Linkbase Document
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

Management contracts or compensatory plans or arrangements