



September 26, 2014

Dear clients and colleagues,

At Global Alpha, thematic investing is an important part of our process. Demographics and infrastructure is one of those themes.

From 2000 to 2009, the US lost one-third of its industrial workforce to overseas outsourcing; however, this trend has been reversing for a few years now. According to the Bureau of Labor Statistics, new manufacturing jobs are being added — good news for an industry that has been contracting since 1997. Even Foxconn, the world’s biggest contract manufacturer, recently described the US as a “must-go market”.

This week we shall introduce you to one of our holdings which is ideally positioned to benefit from an increase in nonresidential construction, specifically in five-storey and below buildings. The company is NCI Building Systems Inc.

NCI Building Systems Inc. (NCS US – \$19.49)

<http://www.ncilp.com>

Business Overview

NCI is based in Houston, Texas and was formed in 1998 as a result of the merger of MBCI and NCI. It manufactures metal components and buildings in the nonresidential segment of the construction industry.

NCI buys steel directly from the steel mills and coat and paint it in their coating facilities. A portion of the output that is not sold to third parties is utilized by the company to build components, such as roofing panels, roofing systems, sidewall panels and secondary structural steel. The final step in the integrated business model occurs when the components are put together with the primary structural steel, which is engineered and designed by the engineer buildings segment. Then the company ships a complete turnkey building to customers. Building complexity can range from a very simple 25x25 foot square box to a very complex church or sports facility.

Target Market

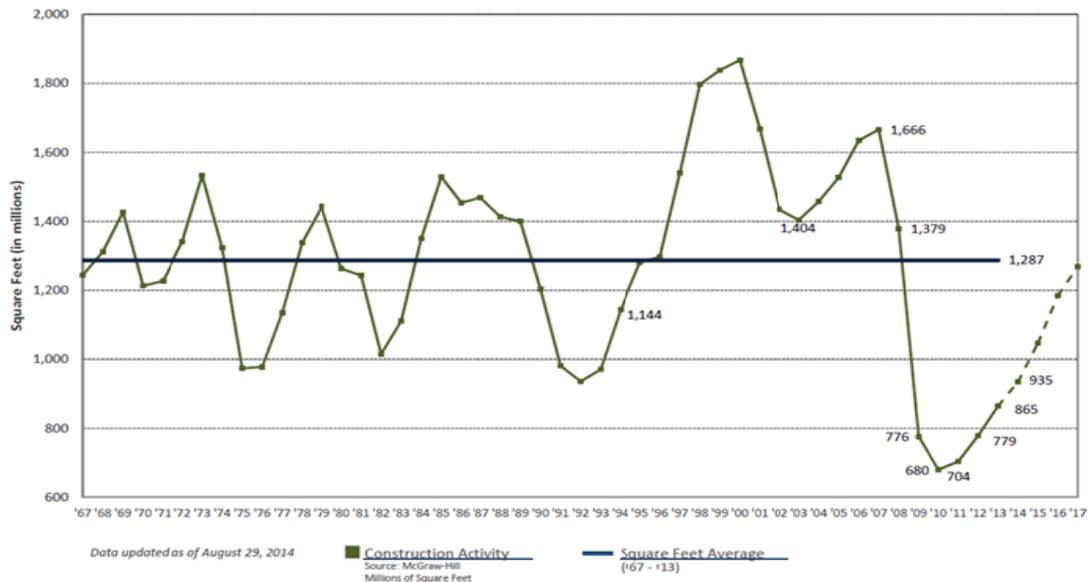
NCI operates in a \$175B+ market. The aesthetics of the metal buildings have improved tremendously over the last decade. Architects are increasingly interested in using steel, drawn to its lower life cycle costs and build flexibility. The company is a play on the nonresidence cycle which lags the residence cycle by 12-18 months. The markets NCI competes in are expected to grow GDP+ annually. NCI has historically outperformed the industry in good and bad times.

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Last year, nonresidential construction was at 840 million square feet. To put this into perspective, for the last 50 years during the trough of every recession, the US supported about 1 billion square feet (see chart below). NCI has successfully increased pricing three times in the last eighteen months.

Nonresidential Construction Activity (historical and forecast)



NCI Competitive advantages

- Close proximity to clients facilitates fast delivery of products
- Largest buyers of coiled steel after car manufacturers helps reduce cost
- Offers value added services through integration of coating, components and buildings
- Market share leaders in their segments

Growth strategy

As manufacturing returns to the US, there is a growing demand for nonresidential construction. Just-in-time delivery and increasing demand for warehouses, plus the oil and gas boom, are all perfect drivers from which NCI stands to benefit.

Management

Management owns about 2% of NCI. However, what's not included in that number is that management gave up 50% of comp for 2012-2014 in return for performance share units, whose number depends on share price in June 2015 - with a lock up period of 18 months.

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Risks

- Steel is 73% of cost of goods sold
- Private equity still owns 58% of the company

Market Data

Market Cap \$1.4B, P/E (2016) 23.1x, ev/sales (2016) 0.9x, ev/ebitda (2016) 9.6x

Global small cap companies are not always known by name, but they almost always touch our daily lives in important ways. For example, have a look at your home appliances, roofing systems or the sidewall panels of your house — NCI has a 40+% market share in those products, which means it's quite probable that you're already using their products. We recommend visiting the Ralston Arena the next time you are in Nebraska; it was built by NCI Building Systems.

Have a great weekend.

The Global Alpha team

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