MOODY'S
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Rating Action: Moody's upgrades Builders FirstSource's CFR to B2; rating outlook stable

Global Credit Research - 08 Jun 2017

New York, June 08, 2017 -- Moody's Investors Service upgraded Builders FirstSource, Inc.'s (Builders or "BLDR") Corporate Family Rating to B2 from B3 and its Probability of Default Rating to B2-PD from B3-PD, since Moody's projects key credit metrics will continue to improve over the next 12 to 18 months. In related rating actions, Moody's upgraded BLDR's liquidity rating to SGL-2 from SGL-3, and its senior unsecured notes to Caa1 from Caa2. The B3 rating assigned to the company's senior secured term loan and senior secured notes are not impacted by these rating actions. The rating outlook remains stable.

The following ratings/assessments are affected by today's action:

Corporate Family Rating upgraded to B2 from B3;

Probability of Default Rating upgraded to B2-PD from B3-PD;

Senior secured term loan due 2024 affirmed at B3 (LGD4);

Senior secured notes due 2024 affirmed at B3 (LGD4);

Senior unsecured notes due 2023 upgraded to Caa1 (LGD6) from Caa2 (LGD6).

Speculative Grade Liquidity Rating upgraded to SGL-2 from SGL-3.

RATINGS RATIONALE

Builders's Corporate Family Rating upgrade to B2 from B3 is the result of Moody's expectations for improved credit metrics, due to a combination of better earnings derived from volume growth and operating leverage. Over the next 12 to 18 months, we project revenues growing by 4.5% to about $6.8 billion from $6.5 billion for twelve months through March 31, 2017, and adjusted debt leverage nearing 4.0x by year-end 2018 from 5.3x at 1Q17. Adjusted interest coverage, measured as EBITA-interest expense, will improve towards 2.5x from 1.6x for LTM 1Q17. Our forward view includes repayment of debt from free cash flow.

Fundamentals of new housing construction, from which BLDR derives about 75% of its revenue, remain sound. Moody's projects new housing starts could reach 1.25 million in 2017 (a 7% increase from about 1.17 million in 2016) and maintains a positive outlook for the domestic homebuilding industry. The balance of revenues is derived from domestic repair and remodeling activity, which is exhibiting solid growth prospects.

The upgrade of BLDR's liquidity rating to SGL-2 from SGL-3 reflects better free cash generation throughout the year relative to previous years. We anticipate excess free cash flow will be used to reduce debt and for small acquisitions. Good revolver availability is more than sufficient to meet any potential shortfall in operating cash flow to cover its working capital and capital expenditure needs.

The B3 rating assigned to both the $466.5 million senior secured term loan maturing 2024 and $750 million senior secured notes due 2024 are not impacted by the upgrade in Builders' corporate family rating. The company earlier this year increased its revolving credit facility to $900 million from $800 million, effectively subordinating these credit facilities to an additional $100 million in more senior debt, reducing recovery values and resulting in no upgrade. However, the rating upgrade assigned to $368 million unsecured notes due 2023 to Caa1 from Caa2 is based on the higher corporate family rating, a key element in the loss given default model.

Positive rating actions could ensue if Builders's performance exceeds Moody's forecasts and yields the following credit metrics (ratio includes Moody's standard adjustments) and characteristics:

» Operating margin nearing 5.0%

» Debt-to-EBITDA sustained below 4.0x

» Permanent debt reduction or a better liquidity profile

Negative rating pressures may result if BLDR performs below our expectations, resulting in the following credit metrics (ratios include Moody's standard adjustments) and characteristics:

» Operating margin contracting towards 2.5%

» Debt-to-EBITDA sustained above 5.0x

» EBITA-to-interest expense remains below 2.0x

» Significant deterioration in the company's liquidity profile

» Sizeable dividends

» Large debt-financed acquisitions

The principal methodology used in these ratings was Distribution & Supply Chain Services Industry published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Builders FirstSource, Inc., headquartered in Dallas, TX, is one of the largest North American distributors of building materials. BLDR sells its products and services to contractors and consumers for repair and remodeling activity and new housing construction. JLL Partners, through its respective affiliates, is the largest shareholder. Revenues for the 12 months through March 31, 2017, totaled approximately $6.5 billion.

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