

# Builders FirstSource

## Fourth Quarter and Fiscal Year 2015 Earnings Call

March 2016



# Safe Harbor & Non-GAAP Financial Measures



## **Cautionary Notice**

Statements in this presentation which are not purely historical facts or which necessarily depend upon future events, including statements about forecasted financial performance or other statements about anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements. All forward-looking statements in this presentation are based upon information available to Builders FirstSource, Inc. on the date of this presentation. Except as required by law, Builders FirstSource, Inc. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks or uncertainties related to the Company's revenues and operating results being highly dependent on, among other things, the homebuilding industry, lumber prices and the economy. Builders FirstSource, Inc. may not succeed in addressing these and other risks. Further information regarding factors that could affect our financial and other results can be found in the risk factors section of Builders FirstSource, Inc.'s most recent Form 10-K filed with the Securities and Exchange Commission. Consequently, all forward-looking statements in this presentation are qualified by the factors, risks and uncertainties contained therein.

## **Use of Non-GAAP Financial Measures**

This presentation includes financial measures and terms not calculated in accordance with accounting principles generally accepted in the United States ("GAAP") in order to provide investors with an alternative method for assessing our operating results in a manner that enables investors to more thoroughly evaluate our current performance as compared to past performance. We believe these non-GAAP measures provide investors with a better baseline for modeling our future earnings expectations. Our management uses these non-GAAP measures for the same purpose. We believe that our investors should have access to the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. Our calculations of non-GAAP measures are not necessarily comparable to similarly titled measures reported by other companies. All figures are adjusted or pro forma to reflect a full quarter and year impact of the acquisition of ProBuild. The company provided detailed explanations of these non-GAAP financial measures in its Form 8-K filed with the Securities and Exchange Commission on March 4, 2015.

# Industry leader with significant opportunity to drive profitable growth



**1** Market leader in a highly fragmented industry

**2** Geographic diversity and balanced end market exposure

**3** Opportunity for continued market share gains and ongoing shift towards higher margin products

**4** Substantial expected cost savings

**5** Favorable housing cycle dynamics

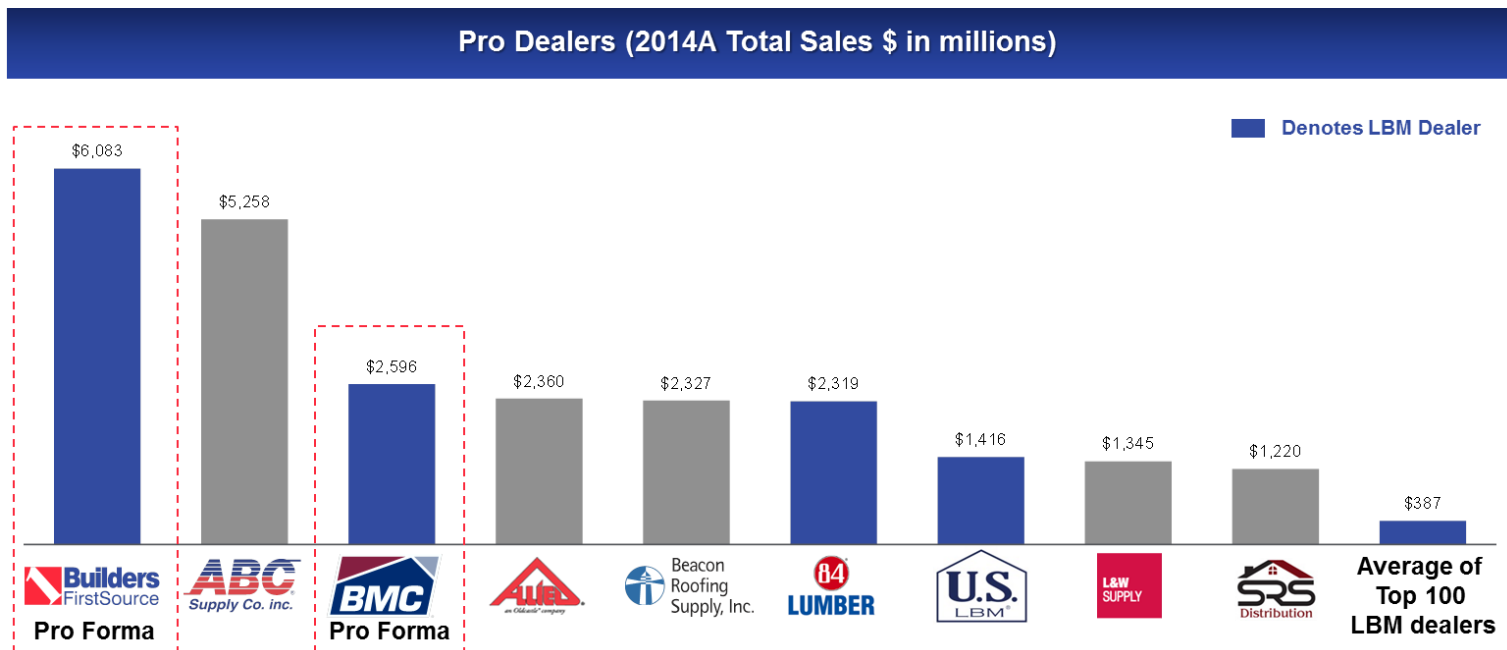
**6** Seasoned management team with extensive integration experience



# Builders FirstSource: a diversified, national pro dealer with pro forma annual sales of \$6.1B



- We are the largest supplier of building products, prefabricated components and value-added services, primarily for new residential construction and repair and remodeling, in the U.S. professional market segment
- We offer customers integrated solutions including manufacturing, supply, delivery and installation for a full range of structural and related building products
- Our integrated approach and significant scale allow us to compete more effectively
- Sales to our top 10 customers, who are comprised of the largest U.S. homebuilders, account for ~15% of combined sales
- We compete in the highly fragmented pro dealer industry
- Many competitors are small, privately owned businesses with limited product offerings, access to capital, and IT infrastructure
- We have a presence in 24 of the 25 top MSAs and 74 of the top 100.



Source: Company data, Pro Sales Magazine (May 2015)

# Combination of Builders FirstSource and ProBuild - creating value for our shareholders and customers



## **Acquisition benefits include:**

- Leading scale and diversification
  - Created the leading dealer in the sector - the largest distributor of building products to the pro channel; more than 2X our nearest LBM competitor
  - National scale facilitates strategic partnerships with customers and suppliers
  - Increased product, customer and geographic diversification
  - Less exposure to any one market
  - Better customer reach through a national footprint and large manufacturing network
- Enhanced cross selling opportunities for value added products
  - BLDR generated 53% of sales from value-added products in 2014 versus 30% for ProBuild
  - Value added product categories can help homebuilders mitigate the impact of well publicized labor shortages
- \$100 - \$120 million of targeted annual cost savings before \$90-100 million of one-time integration expenses

## **Integration highlights – key milestones achieved to date:**

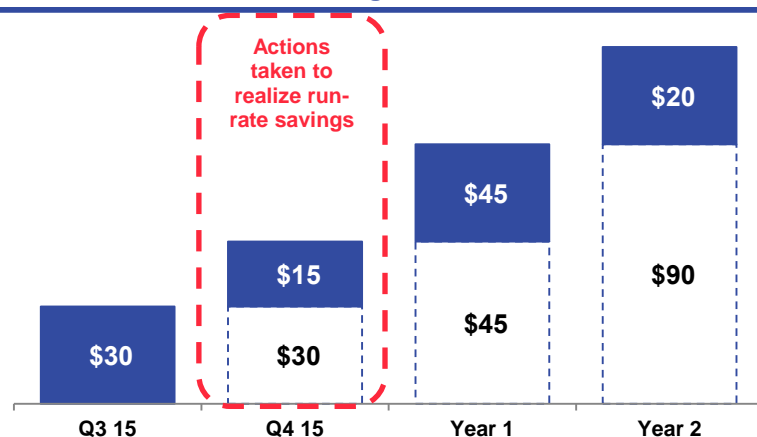
- We are pleased with the progress of the integration efforts
- All aspects of the integration, including system conversions and facility consolidations, are progressing as planned
  - Closed 12 overlapping locations
  - Converted 16 locations onto Builder's ERP, with 7 more in process this month
- Management and operating teams are in place, and are driving the joint business goals
- Employee and customer attrition has been minimal
- By year end 2015, we implemented changes expected to yield ~\$45 million of annualized cost savings. Since January 1, 2016, we also took actions that are projected to save an additional ~\$20 million

# Acquisition of ProBuild presents substantial expected cost savings



Category	Summary Description	\$ Run Rate Total (M)
<b>Procurement</b>	<ul style="list-style-type: none"> <li>One entity receives larger rebate percentages due to larger purchasing volume</li> <li>Combined company negotiating more favorable terms due to increased scale</li> </ul>	\$30-36
<b>Network consolidation</b>	<ul style="list-style-type: none"> <li>Consolidation of ~18 redundant sites, out of 88 overlapping locations</li> <li>The combination of two networks creates a more dense delivery network and is expected to reduce miles driven</li> </ul>	\$20-25
<b>General &amp; Administrative</b>	<ul style="list-style-type: none"> <li>Consolidate headquarters locations</li> <li>Reductions in staff where duplicate corporate support functions exist</li> <li>Alignment of 401(k) and benefits plans across both firms</li> <li>Greater purchasing scale for benefits &amp; insurance</li> </ul>	\$50-59
<b>Total</b>		<b>\$100-120</b>

## Estimated run-rate cost savings<sup>(1)</sup>



- In 2015, we implemented cost savings initiatives that are projected to yield ~\$45 million in future run rate savings, including \$12 million in projected procurement initiatives, \$9 million in projected network consolidation savings, and \$24 million in overhead and SG&A savings.
- Benefit to fiscal 2016 of the cost saving initiatives is projected to be \$60-70 million
- Excludes integration costs estimated at \$90-100 million to achieve the full synergy targets, of which \$43 million was incurred in 2015 and \$30 million is expected in 2016.

Note: See "Disclosure Regarding Forward-Looking Statements"

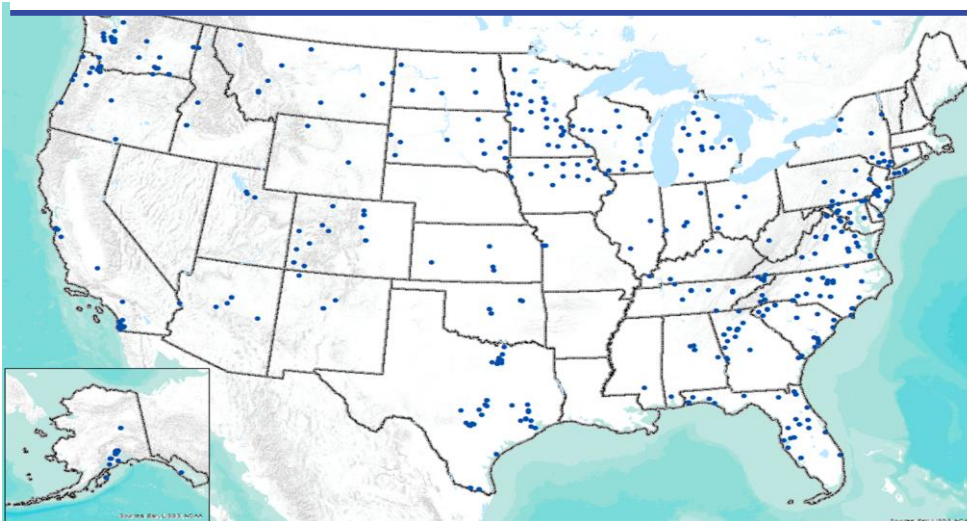
(1) Mid-point of the estimated potential run-rate cost savings shown (\$100 - \$120 million), excluding estimated integration costs. Year 1 represents first 12 months after close.

# Greatly improved geographic and end market diversity

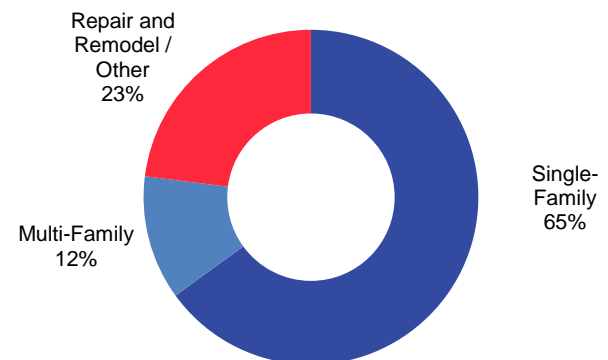


- We have created a more diversified company with enhanced scale and an improved geographic footprint, which allows for better customer reach and less exposure to any one market.
- Our national scale facilitates strategic partnerships with customers and suppliers
  - We can uniquely offer the large production homebuilder consistent service across 40 states including 74 of the top 100 MSAs
  - We believe we have improved purchasing power as the largest distributor of building products to the pro channel
- Geographic and end market diversity reduces our dependency on any one market or segment.
  - Sales in Texas accounted for 17% of our 2015 pro forma sales, with sales split roughly evenly between Dallas-Ft Worth, Houston, and San Antonio/Austin.
  - Dallas-Ft Worth and San Antonio/Austin have strong growth trajectories, while Houston has been impacted by falling oil prices, most notably in the higher end homes.
  - No other state accounts for more than 8% of our sales.
  - Other states showing strong growth, including California, Florida, the Carolina's and Georgia, are top markets for us.
  - 23% of our sales now come from the repair and remodel end market, which we believe provides a more stable revenue base.

## 399 locations in 40 states



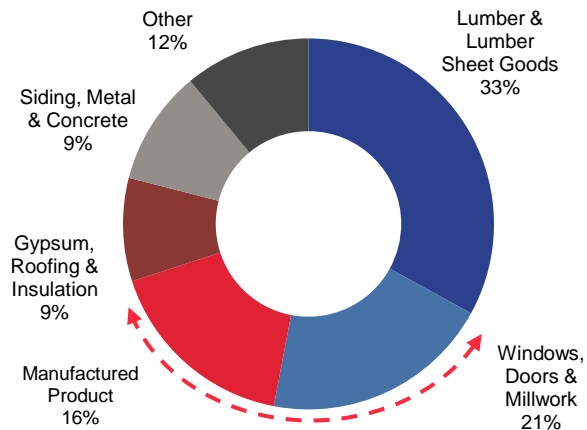
## 2015 pro forma sales by end market



# Labor shortages and recent increases to cycle times may spur further demand for our value-added products



## Pro forma 2015 sales by product category



**Value Added Product Mix  
37% and growing**

### Siding, metal, & concrete



- Includes vinyl, composite and wood siding, other exteriors and cement

### Lumber & Sheet Goods



- Includes dimensional lumber, plywood and oriented strand board ("OSB")

### Manufactured product



- Factory-built substitutes for job-site framing including floor trusses, roof trusses, wall panels, stairs and engineered wood

### Windows, doors & millwork



- Manufacturing, assembly and distribution of aluminum and vinyl windows
- Assembly and distribution of interior and exterior doors
- Distribution of trim, columns and posts
- Manufacturing of custom exterior features

### Gypsum, roofing & insulation



- Includes wallboard, metal studs and trims, ceilings, joint treatments and finishes, stucco, and exteriors

### Other products & services



- Include cabinets and hardware, plus turn-key framing, shell construction, design assistance and installation



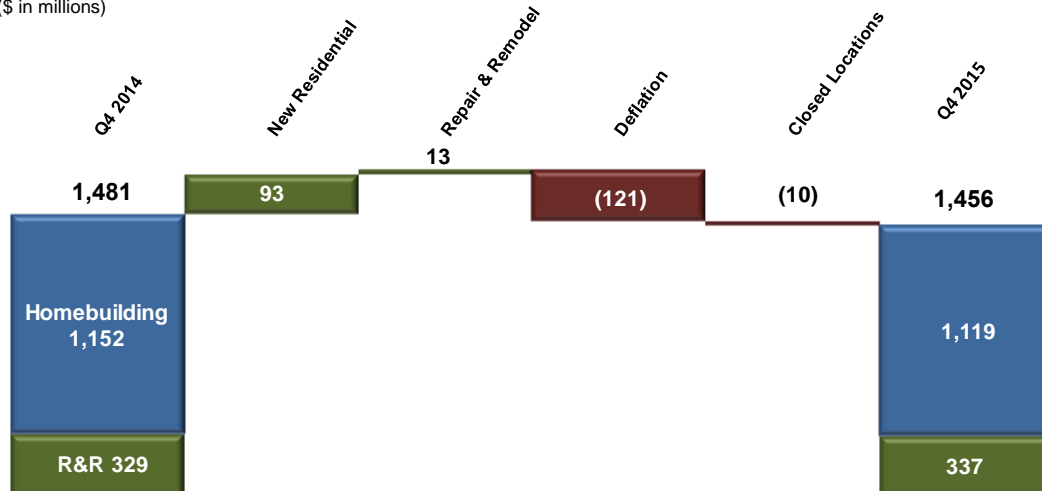
## Acquisition Adjusted Financial Overview

# Q4 2015 Adjusted Results

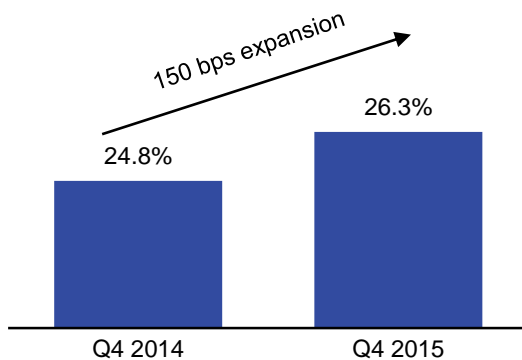


## Pro Forma Net Revenue Bridge

(\$ in millions)

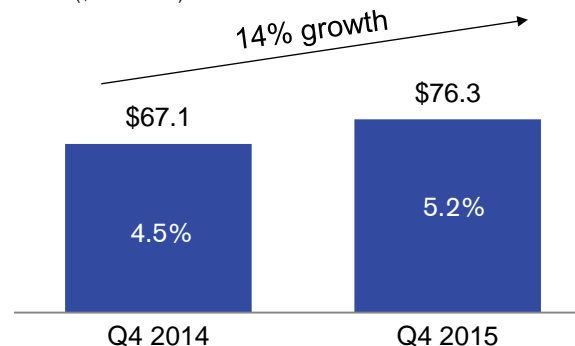


## Pro Forma Gross Profit Margin



## Adjusted EBITDA<sup>(1)</sup>

(\$ in millions)



- Strong sales volume growth was offset by commodity deflation
  - Adjusted sales volume grew approximately 8.1% in the homebuilding end market, in line with the 8.5% single family start growth
  - 3.8% volume growth in the repair and remodel end market was in line with the ~4% market growth
  - Commodity price deflation and closed locations reduced sales by 8.2% and 0.7%, respectively
- Gross margins increased by 150 bps, driven by continued improvement in pricing, commodity deflation, and shift of product mix towards higher value-added sales
- Despite commodity deflation impact to sales, adjusted EBITDA increased 14% or \$9.2 million over prior year, driven by synergy cost savings. EBITDA margin expansion in the quarter was 70 bps, driven by gross profit margin expansion

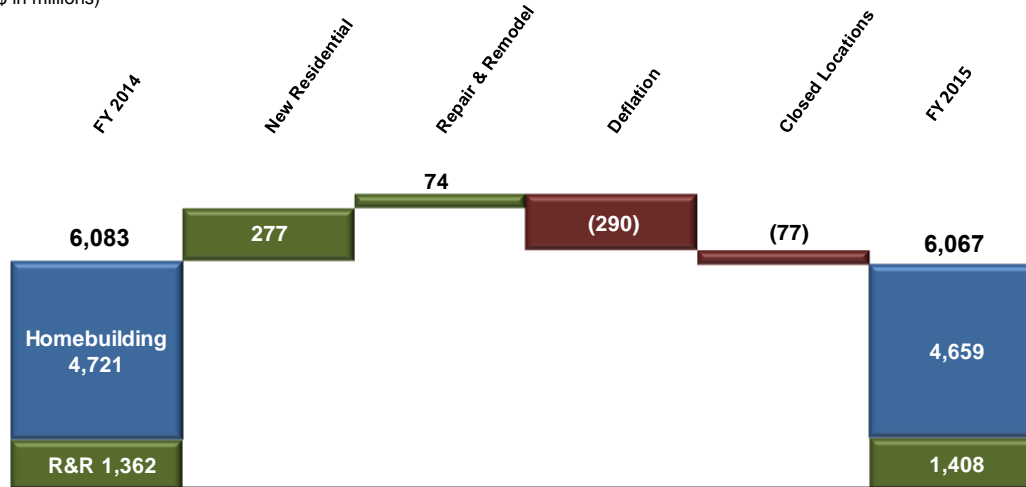
(1) See reconciliations to GAAP on page 13

# 2015 Adjusted Results

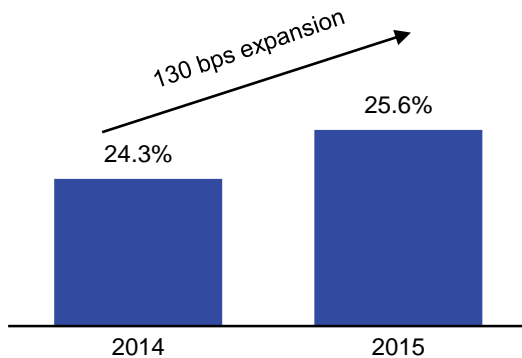


## Pro Forma Net Revenue Bridge

(\$ in millions)

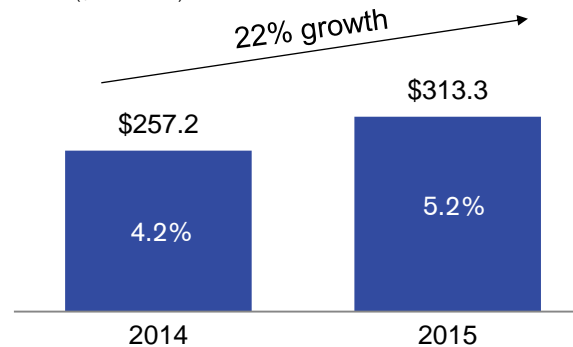


## Pro Forma Gross Profit Margin



## Adjusted EBITDA<sup>(1)</sup>

(\$ in millions)



- Sales volume growth was offset by commodity deflation
  - Adjusted sales volume grew 5.9% in the homebuilding end market
  - 5.3% volume growth in the repair and remodel end market was slightly better than the ~4.3% market growth
  - Commodity price deflation and closed locations reduced sales by 4.8% and 1.3%, respectively
- Gross profit margin grew on a year over year basis by 130 bps, driven by improvement in pricing, commodity deflation, and shift of product mix towards higher value-added sales.
- Despite commodity deflation impact to sales, adjusted EBITDA grew 22%, or \$56.1 million, over prior year. EBITDA margin expansion year over year was 100 bps, driven by gross profit margin expansion

(1) See reconciliations to GAAP on page 13

# Liquidity and Interest



- Total liquidity at December 31, 2015 was \$684 million, consisting of net borrowing availability under the revolving credit facility and cash on hand
- As of December, 31, 2015, the company had reduced the amount outstanding under the revolving credit facility to \$60 million
- While we expect to borrow under our revolving credit facility for seasonal working capital and other operating needs, we expect to pay down additional debt in 2016
- The company exchanged \$282 million in aggregate principal amount of our 2023 notes for \$268 million of our 2021 notes to reduce its annual cash interest expense by approximately \$10 million
- The following unaudited interest reconciliation provides a normalized view of cash interest and debt levels

	Three months ended December 31, 2015 Interest Expense As Reported GAAP	Adjusted for February 2016 Debt Exchange Gross Debt Outstanding as of December 31, 2015 (in millions)	Adjusted Annual Cash Interest Estimate <sup>(1)</sup>
2021 notes	\$ 6.7	\$ 617.6	\$ 47.1
2023 notes	18.8	417.6	44.9
Term loan <sup>(2)</sup>	9.2	598.6	35.9
Revolving Credit Facility <sup>(3)</sup>	1.5	60.0	6.1
Amortization of deferred loan costs & debt discount <sup>(4)</sup>	2.1	-	-
Miscellaneous interest income	(0.6)	-	-
Lease finance obligations and capital leases	5.3	289.1	20.6
<b>Total</b>	<b>\$ 43.0</b>	<b>\$ 1,982.9</b>	<b>\$ 154.6</b>

(1) Excludes issuance cost or one time items. Assumes current borrowing rates on variable debt. (2) Adjusted estimates were based on the current outstanding principal and interest. Excludes annual principal pay down of \$5.5M. (3) Assumed Q4 2015 expense for annualized projections (4) Non-cash item .

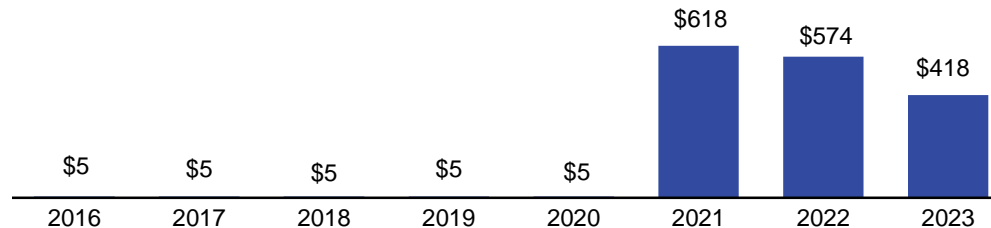
# Debt Maturities and De-leveraging Priorities



- Maturity profile allows multi-year runway of EBITDA growth and cash flow generation to reduce debt levels before refinancing is required.

## Long Term Bond Maturity Profile <sup>(1)</sup>

(\$ in millions)



- Priority is deleveraging, which we believe is enabled through the following financial projections:
  - Projected free cash flow generation driven by EBITDA growth
  - Low ongoing capital expenditures at ~1.5% of sales
  - Utilization of over \$260 million in NOL tax assets
  - Focus on working capital efficiency, which we believe will run between 9%-10% of incremental sales.
  - Projected annual cost savings realization of \$100-120 million by end of 2017
  - We expect one time integration cost of ~\$30 million and cash interest of ~\$155 million in 2016
- We believe that our \$800 million revolving credit facility provides sufficient liquidity to support seasonal working capital fluctuations
- We are focused on reducing debt , and are optimistic about our cash generation opportunities

Note: See "Disclosure Regarding Forward-Looking Statements"

1) 2021 maturity is secured note, 2022 maturity is term loan, and 2023 maturity is unsecured note. Excludes the short term revolving credit facility, expiring in 2022 with \$60 million outstanding as of December 31, 2015

# Adjusted EBITDA Reconciliation – Assumes January 1, 2014 Acquisition Close Date



	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
<i>(in \$ millions)</i>				
<b>Reported GAAP Net Income (Loss)</b>	<b>\$ (10.6)</b>	<b>\$ 2.4</b>	<b>\$ (22.8)</b>	<b>\$ 18.2</b>
Pre-Close ProBuild Net Income <sup>(1)</sup>	-	10.7	32.0	25.2
Pro forma interest adjustment	-	(23.7)	(41.8)	(93.0)
Acquisition depreciation and amortization adjustments	-	(10.1)	(4.7)	(37.9)
Other pro forma adjustments	-	(1.8)	(5.9)	6.5
Acquisition related expenses	0.3	-	32.8	-
<b>Pro forma Net Income (Loss)</b>	<b>(10.3)</b>	<b>(22.5)</b>	<b>(10.4)</b>	<b>(81.0)</b>
Integration related expenses	9.7	-	24.1	-
Facility closure costs	0.3	8.0	4.1	11.6
<b>Adjusted Net Income (Loss)</b>	<b>(0.3)</b>	<b>(14.5)</b>	<b>17.8</b>	<b>(69.4)</b>
Pro forma depreciation and amortization expense	27.6	28.2	96.5	110.3
Pro forma interest expense, net	43.0	45.5	180.9	178.0
Pro forma income tax expense	3.3	(1.6)	5.9	1.7
Stock compensation expense	1.9	2.2	6.9	6.2
ProBuild long term incentive plan	-	1.1	2.0	3.7
(Gain)/loss on sale and asset impairments	0.5	0.2	(2.0)	1.5
Other management-identified adjustments <sup>(2)</sup>	0.3	5.9	5.3	25.3
<b>Adjusted EBITDA</b>	<b>\$ 76.3</b>	<b>\$ 67.1</b>	<b>\$ 313.3</b>	<b>\$ 257.2</b>
<b>Adjusted EBITDA Margin</b>	<b>5.2%</b>	<b>4.5%</b>	<b>5.2%</b>	<b>4.2%</b>

- These pro forma results were prepared in accordance with Article 11 of Regulation S-X, which requires pro forma presentation of the ProBuild acquisition as if it had closed January 1, 2014, the beginning of the earliest period being presented. Due to accelerated depreciation and amortization being taken on assets acquired, this presentation shifts approximately \$21 million of pro forma depreciation and amortization expense from 2015 to 2014.

(1) Represents results prior to the Closing Date of July 31, 2015 (2) Primarily relates to full year impact of cost saving or one-time or extraordinary cost items and losses from closed ProBuild locations

# Restated Adjusted EBITDA Reconciliation by Quarter for 2015 – Assumes January 1, 2015 Acquisition Close Date



- Pro forma results presented below reflect the ProBuild acquisition as if it had closed January 1, 2015 affecting non cash depreciation and amortization only.
- In 2016, we expect depreciation and amortization to be approximately \$115 million

	Quarter 1 2015	Quarter 2 2015	Quarter 3 2015	Quarter 4 2015	Fiscal 2015
<b>Financial Data</b>					
Pro forma net sales	\$ 1,284.1	\$ 1,627.8	\$ 1,699.0	\$ 1,455.9	\$ 6,066.8
Sales adjustment for closed locations			(0.9)	(0.2)	(5.1)
Pro forma net sales excluding closed locations	1,284.1	1,627.8	1,698.1	1,455.7	6,061.7
Pro forma gross margin	309.8	416.1	440.5	382.3	1,548.7
Pro forma gross margin %	24.1%	25.6%	25.9%	26.3%	25.5%
<b>Reconciliation to Adjusted EBITDA:</b>					
<b>Reported GAAP Net Income (Loss)</b>	<b>\$ (7.1)</b>	<b>\$ 3.6</b>	<b>\$ (8.7)</b>	<b>\$ (10.6)</b>	<b>\$ (22.8)</b>
Pre-Close ProBuild Net Income (1)	(21.0)	47.4	5.6	-	32.0
Pro forma interest adjustment	(23.9)	(24.0)	6.1	-	(41.8)
Acquisition depreciation and amortization adjustments	(10.7)	(11.0)	(3.8)	-	(25.5)
Other pro forma adjustments	-	(6.9)	1.0	-	(5.9)
Acquisition related expenses	6.2	7.1	19.2	0.3	32.8
<b>Pro forma Net Income (Loss)</b>	<b>(56.5)</b>	<b>16.2</b>	<b>19.4</b>	<b>(10.3)</b>	<b>(31.2)</b>
Integration related expenses	0.3	0.13	14.0	9.7	24.1
Facility closure costs	0.3	2.1	1.4	0.3	4.1
<b>Adjusted Net Income</b>	<b>(55.9)</b>	<b>18.4</b>	<b>34.8</b>	<b>(0.3)</b>	<b>(3.0)</b>
Pro forma depreciation and amortization expense	28.5	29.0	32.2	27.6	117.3
Pro forma interest expense, net	44.4	49.3	44.2	43.0	180.9
Pro forma income tax expense	1.1	0.3	1.2	3.3	5.9
Stock compensation expense	1.8	1.6	1.6	1.9	6.9
ProBuild long term incentive plan	0.7	1.3	-	-	2.0
(Gain)/loss on sale and asset impairments	(1.4)	(1.6)	0.5	0.5	(2.0)
Other management-identified adjustments (2)	1.6	1.9	1.5	0.3	5.3
<b>Adjusted EBITDA</b>	<b>\$ 20.8</b>	<b>\$ 100.2</b>	<b>\$ 116.0</b>	<b>\$ 76.3</b>	<b>\$ 313.3</b>
<b>Adjusted EBITDA Margin</b>	<b>1.6%</b>	<b>6.2%</b>	<b>6.8%</b>	<b>5.2%</b>	<b>5.2%</b>

(1) Represents results prior to the Closing Date of July 31, 2015 (2) Primarily relates to full year impact of cost saving or one-time or extraordinary cost items and losses from closed ProBuild locations

