

# Builders FirstSource



## Three Months Ending September 30, 2015 Earnings Call

November 2015



# 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.

# Transformative combination creates 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 timing and dynamics
- 6 Seasoned management team with extensive integration experience

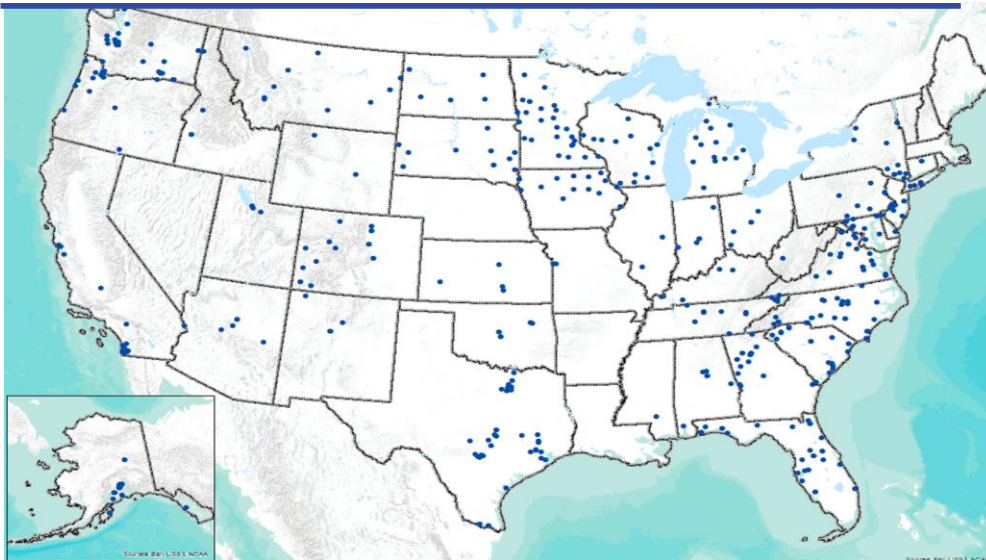
# The new Builders FirstSource: a diversified, national pro dealer with combined annual sales of \$6.1B



## Key highlights for our combined company

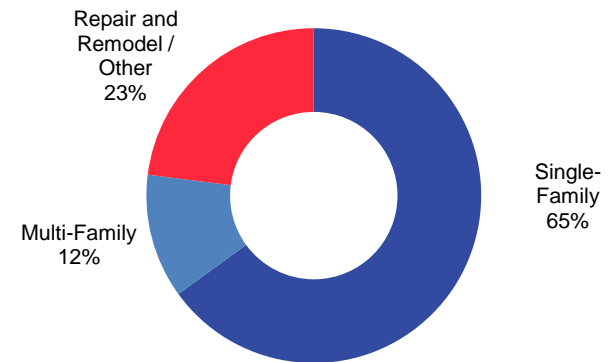
- We are the largest supplier of building products, prefabricated components and value-added services, primarily for new residential construction, in the U.S. professional market segment
- We offer customers integrated solutions including manufacturing, supply, delivery and installation for a full range 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 ~14% of combined sales in 2014
- We compete in the highly fragmented ~\$100 billion in sales 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.

## Over 430 locations in 40 states



(1) Top Metropolitan Statistical Areas (MSAs) based on 2014 Single-Family Home Building Permits per U.S. Census Bureau data.

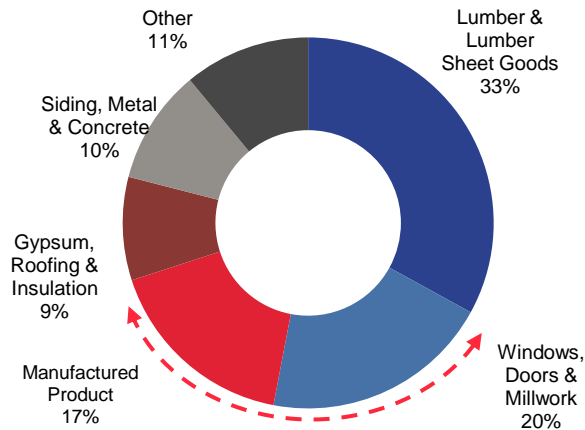
## YTD adjusted sales by end market



# Builders FirstSource brings significant expertise selling value-added products to the combined business



## Adjusted 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 interior trim, exterior 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

# On July 31, 2015, Builders FirstSource acquired ProBuild – creating an industry leader with expanded growth opportunities



## **Acquisition benefits include:**

- Leading scale and diversification
  - Created the leading dealer in the sector - the largest distributor of building products to the pro channel
  - National scale facilitates strategic partnerships with customers and suppliers
  - Increased product, customer and geographic diversification
- Opportunity to expand sales of higher margin products
  - BLDR generated 53% of sales from value-added products in 2014 versus 30% for ProBuild
  - Value added product categories help homebuilders mitigate the impact of well publicized labor shortages
- \$100 - \$120 million of targeted run rate cost savings before one-time expenses
- Favorable timing given the projected housing market recovery and long term growth potential
  - Strong momentum and consensus growth estimates in New Residential Construction and Repair & Remodel markets
- Proven success with integration - successfully acquired and integrated 32 companies

## **Integration highlights – first 90 days:**

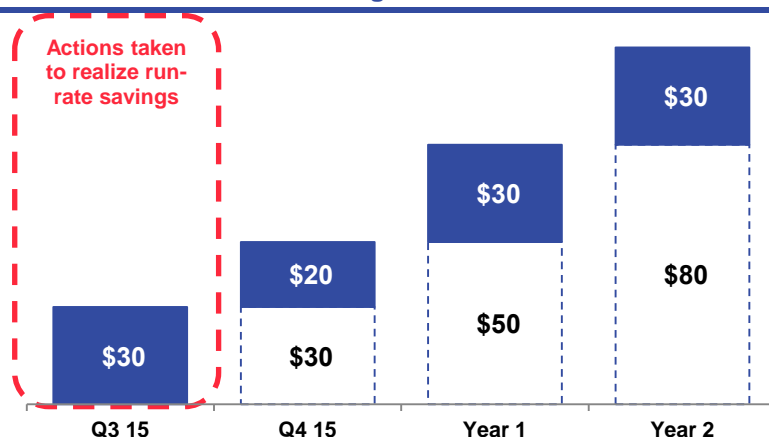
- We are pleased with the progress and pace of the integration efforts
- All aspects of the integration, including system conversions and facility consolidations, are progressing as planned
- Within two months of the acquisition, we have already implemented changes that are expected to yield over \$30 million of annualized cost savings
- Both legacy companies have similar cultures and aligned goals for success
  - We all have a strong focus on customer service to sustain and grow local market relationships
- Management and operating teams are in place, and are driving the joint business goals
  - All six ProBuild Senior Vice Presidents of Operations joined management to run six of our large regions, bringing 33 years of average industry experience
  - The three legacy Builders FirstSource Senior Vice Presidents of Operation bring an average of 36 years of industry experience to their roles
- Employee and customer attrition has been minimal
- We remain convinced that this combination of Builders FirstSource and ProBuild will create value for our shareholders and customers alike in the years to come

# Acquisition of ProBuild presents substantial expected cost savings



Category	Sub-Category	Summary Description	\$ Run Rate Total (M)
Procurement	Commodity Products	<ul style="list-style-type: none"> <li>Combined company to benefit from best pricing among both parties</li> <li>Combined company negotiating more favorable terms due to increased scale</li> </ul>	\$9-14
	Specialty Products	<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>	\$20-22
Network consolidation	Facility Closure	<ul style="list-style-type: none"> <li>Consolidation of ~20 redundant sites, out of 88 overlapping locations</li> </ul>	\$7-10
	Delivery Fleet Consolidation	<ul style="list-style-type: none"> <li>The combination of two networks creates a more dense delivery network and is expected to reduce miles driven</li> </ul>	\$14-18
General & Administrative	Corporate Support	<ul style="list-style-type: none"> <li>Consolidate headquarters locations</li> <li>Reductions in staff where duplicate corporate support functions exist</li> </ul>	\$28-32
	Benefits/ Insurance	<ul style="list-style-type: none"> <li>Alignment of 401(k) and medical/dental plans across both firms</li> <li>Greater purchasing scale</li> </ul>	\$22-24
<b>Total</b>			<b>\$100-120</b>

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



- Given the timing of the acquisition, material savings were not realized in the company's Q3 operating results
- However, we implemented changes that are expected to generate go-forward savings starting in the fourth quarter
- Excludes implementation costs including third party integration support, IT systems and integration costs, and personnel related costs involving retention, relocation, training, and severance, estimated at \$80-90 million

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.



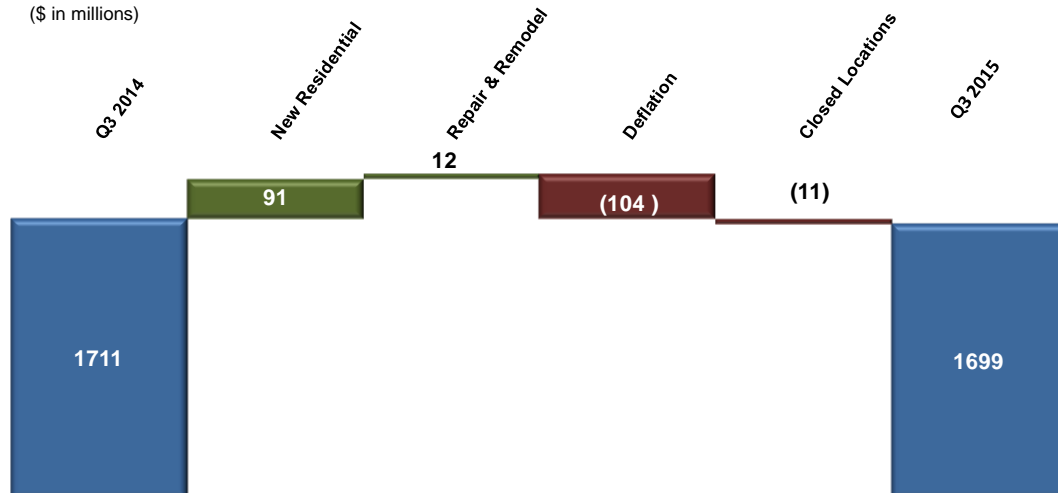
## Acquisition Adjusted Financial Overview

# Q3 2015 Adjusted Results

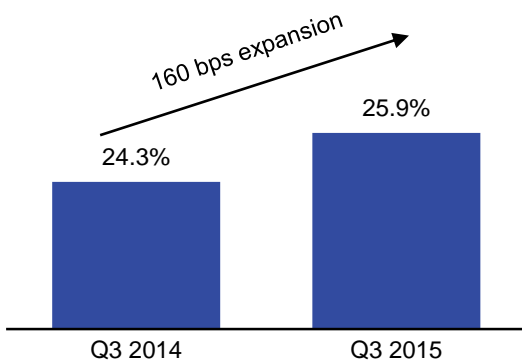


## Adjusted Net Revenue Bridge

(\$ in millions)

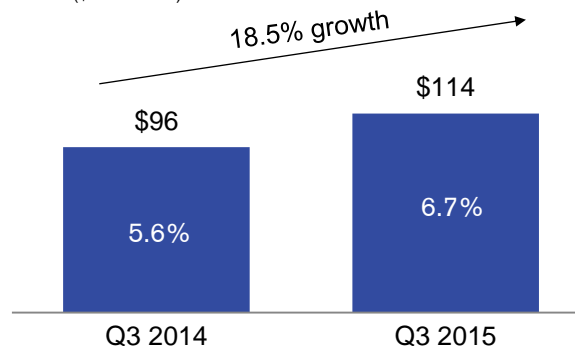


## Adjusted Gross Profit Margin



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

(\$ in millions)



## Commentary

- Adjusted sales volume grew approximately 7.0 percent in the homebuilding end market and 3.0 percent in the repair and remodel end market, which was offset 6.1 percent by the negative impact of commodity price deflation on our sales and 0.1 percent impact from closed locations
- Continued improvement in pricing, commodity deflation, and shift of product mix towards higher value-added sales, resulting in an increase in gross margin of ~160 bps
- Despite commodity deflation impact to sales, grew adjusted EBITDA 18.5% or \$18 million over prior year. EBITDA margin expansion in the quarter was ~110 bps, driven by gross profit margin expansion
- Adjusted net income was \$34.7 million, or a \$0.31 income per diluted share, compared to \$15.8 million, or a \$0.14 income per diluted share in the third quarter of 2014

(1) See reconciliations on page 10

# Liquidity and interest



- Total liquidity at September 30, 2015 was \$685.7 million, consisting of net borrowing availability under the 2015 facility and cash on hand
  - We had \$135.0 million in outstanding borrowings under our 2015 facility as of September 30, 2015
- We paid down approximately \$160 million on the ABL facility since the acquisition close
  - Given the cyclical cash flow of our business, we do not plan to begin paying down our fixed or term debt before mid 2016
- Interest expense as reflected in our GAAP financials in the quarter included several non-recurring items. The following unaudited interest reconciliation was compiled to provide a normalized view of interest expense:

	GAAP Three months ended September 30,		Adjusted annual estimate <sup>(1)</sup>
	2015	2014	2015
<b>Detail of Interest Expense (\$ millions):</b>			
2021 notes	\$ 6.7	\$ 6.7	\$ 26.7
2023 notes	12.5	-	75.3
2015 term loan <sup>(2)</sup>	6.2	-	36.5
2015 facility <sup>(3)</sup>	1.2	-	6.1
2013 facility	0.2	0.4	-
Change in fair value of stock warrants <sup>(1)</sup>	-	(1.3)	-
Amortization of deferred loan costs & debt discount <sup>(2), (4)</sup>	1.5	0.6	8.2
One-time financing costs	13.2	-	-
Partial write-off of DIC on 2013 facility	0.9	-	-
Lease finance obligations	3.6	-	21.4
Interest expense, net	\$ 46.0	\$ 6.4	\$ 174.1

(1) Excludes issuance cost or one time items. Assumes current borrowing rates on variable debt (2) Adjusted estimates were based on the Oct '15-Sep '16 period to produce annual estimates

(3) Assumed September 2015 expense for annualized projections (4) Non-cash item

# Adjusted EBITDA Reconciliation Q3



	Three months ended September 30,	
	2015	2014
<i>(in \$ millions)</i>		
<b>Reported GAAP Net Income (loss)</b>	<b>\$ (8.8)</b>	<b>\$ 8.5</b>
Pre-Close ProBuild Net Income <sup>(1)</sup>	5.7	36.8
Pro forma interest adjustment <sup>(2)</sup>	6.0	(23.1)
Acquisition depreciation and amortization adjustments <sup>(3)</sup>	(3.9)	(10.1)
Other pro forma adjustments	1.0	2.1
Acquisition related expenses <sup>(4)</sup>	19.2	-
<b>Pro forma Net Income</b>	<b>19.2</b>	<b>14.2</b>
Integration related expenses	14.1	-
Facility closure costs	1.4	1.6
<b>Adjusted Net Income</b>	<b>34.7</b>	<b>15.8</b>
Depreciation and amortization expense	33.7	27.7
Interest expense, net	43.2	43.0
Income tax expense	1.2	1.5
Stock compensation expense	1.6	2.0
ProBuild long term incentive plan	-	1.1
(Gain)/loss on sale and asset impairments	(1.0)	1.9
Other management-identified adjustments <sup>(5)</sup>	0.2	2.9
<b>Adjusted EBITDA</b>	<b>\$ 113.6</b>	<b>\$ 95.9</b>
<b>Adjusted EBITDA Margin</b>	<b>6.7%</b>	<b>5.6%</b>

(1) Represents July Net Income in 2015 and three months in 2014, (2) ProBuild Asset step up as a result of acquisition, (3) Interest expense adjustment pro forma for prior periods, less one time debt issuance costs (4) One time transaction expenses, (5) Primarily relates to full year impact of cost saving or one-time or extraordinary cost items

