Builders FirstSource





First Quarter 2016 Earnings Call

May 2016





Safe Harbor & Non-GAAP Financial Measures

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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 May 5, 2016.

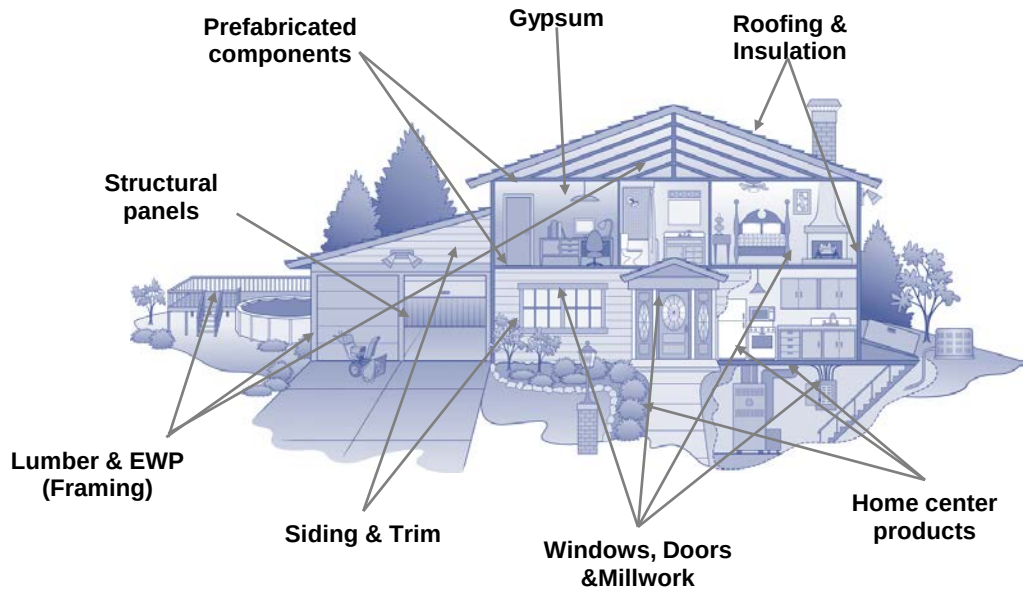
Industry leader with significant opportunity to drive profitable growth

1. Market leader in a highly fragmented industry
2. Geographic diversity and balanced end market exposure
3. Substantial expected cost savings
4. Opportunity for continued market share gains and ongoing shift towards higher margin products
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 $6.2B

- We are the largest LBM (Lumber and Building Material) 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 pro forma 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.

Broad product and service offering representing ~50% of the material cost of a home



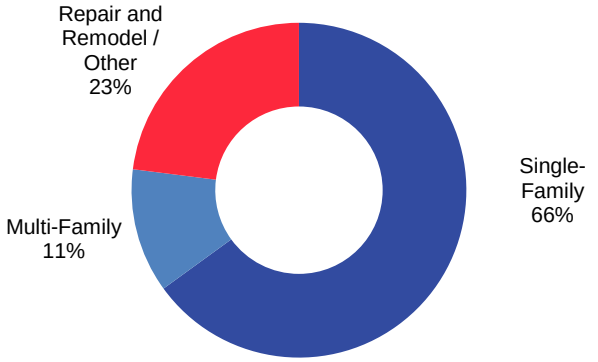
Greatly improved geographic and end market diversity

- 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 advantaged 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.

396 locations in 40 states



First quarter sales by end market



Combination of Builders FirstSource and ProBuild – already producing significant value

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 prior to the acq (LTM 15 June) versus 30% from 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

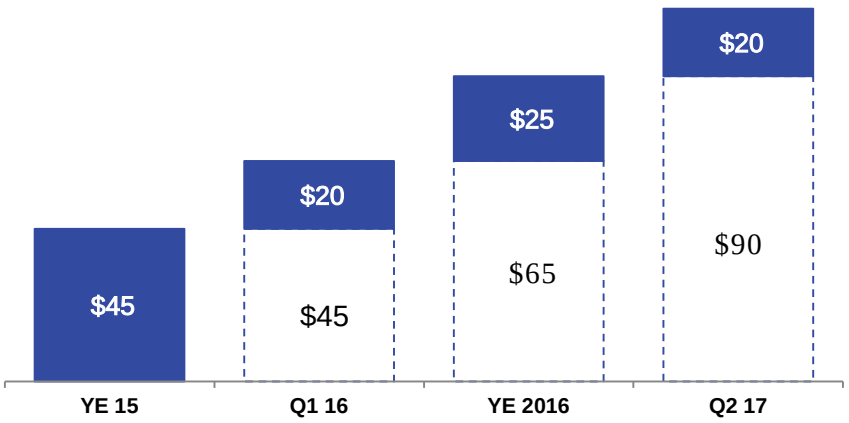
Integration highlights – key milestones achieved to date:

- 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 all but one planned overlapping locations to date
  - Converted 25 locations onto Builder's ERP, with 63 more planned by year-end
  - Procurement purchasing savings have been secured in several key product areas
  - Aligned 401K and benefit plans were put in place January 1, 2016
- Management and operating teams are in place, and are driving the joint business goals
- Employee and customer attrition has been minimal
- Consolidation of many back office processes and service providers
- Conversion of financial consolidation and reporting onto one system
- We have implemented changes expected to yield $65-70 million of annualized cost savings

Integration of ProBuild on track, with substantial cost savings expected

Category	Summary Description	$ Run Rate Total (M)
Procurement	▪ One entity receives larger rebate percentages due to larger purchasing volume ▪ Combined company negotiating more favorable terms due to increased scale	$30-36
Network consolidation	▪ Consolidation of ~18 redundant sites, out of 88 overlapping locations ▪ The combination of two networks creates a more dense delivery network and is expected to reduce miles driven	$20-25
General & Administrative	▪ Consolidate headquarters locations ▪ Reductions in staff where duplicate corporate support functions exist ▪ Alignment of 401(k) and benefits plans across both firms ▪ Greater purchasing scale for benefits & insurance	$50-59
Total		**$100-120**

Estimated cumulative run-rate cost savings[(1)]



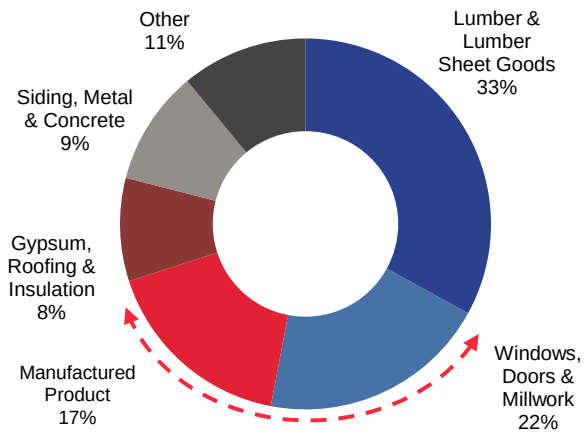
- We have implemented cost savings initiatives that are projected to yield $65-70 million in run rate savings, including $12-14 million in projected procurement initiatives, $7-8 million in projected network consolidation savings, and $46-48 million in overhead and SG&A savings.
- Benefit to fiscal 2016 of the cost saving initiatives is projected to be $65-70 million
- Realized $17 million of actual savings in the first quarter, up from $10M realized in Q4 2016.
- Excludes integration costs estimated at $90-100 million to achieve the full synergy targets, of which $49 million was incurred through March 31,2016 and an additional ~$25 million is expected the balance of the year.

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.

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

First quarter sales by product category



Value Added Product Mix 39% and growing

Product Category	Growth
Lumber & Lumber Sheet Goods	7.9%
Windows, Doors & Millwork	12.4%
Manufactured Products	15.6%
Gypsum, Roofing & Insulation	6.1%
Siding, Metal & Concrete Products	6.6%
Other	1.3%
Q1 Sales	**9.1%**

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



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

Siding, metal, & concrete



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

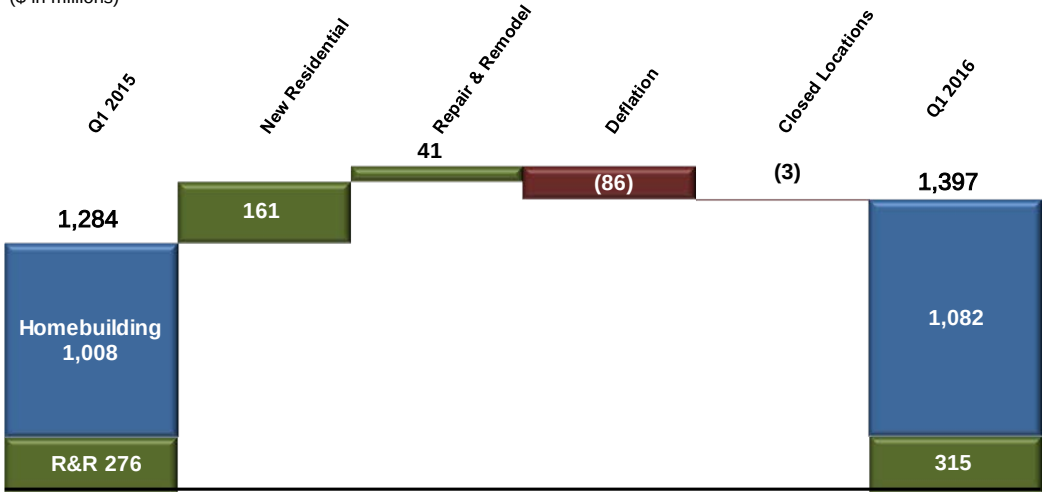


Acquisition Adjusted Financial Overview

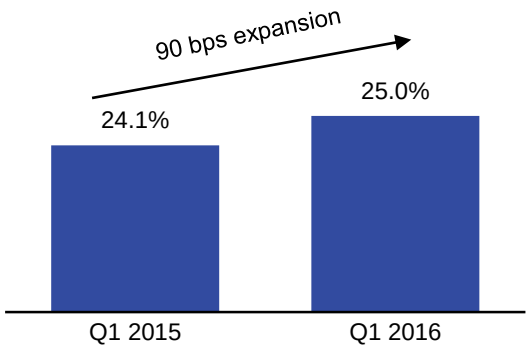
Q1 2016 Adjusted Results

Pro Forma Net Revenue Bridge

($ in millions)

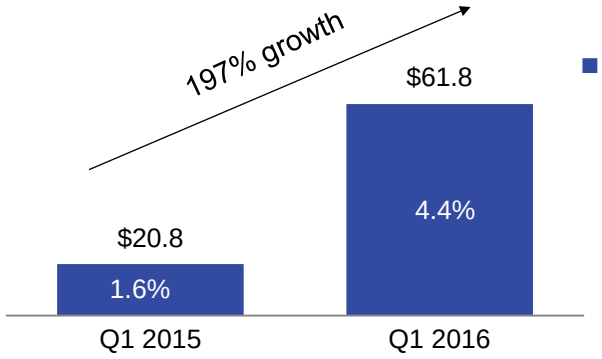


Pro Forma Gross Profit Margin



Adjusted EBITDA[1]

($ in millions)



- Strong 9.1% sales volume growth, on a pro forma basis, was partially offset by commodity deflation
  - Sales volume grew approximately 16.0% in the homebuilding end market
  - The company experienced 15.0% volume growth in the repair and remodel end market
  - Commodity price deflation and closed locations reduced sales by 6.7% and 0.3%, respectively
- Gross margins increased by 90 bps on a pro forma basis, driven by continued improvement in pricing, commodity deflation, and shift of product mix towards higher value-added sales
- Adjusted EBITDA increased 197% or $41.0 million over prior year on a pro forma adjusted basis, driven by sales volume, gross margin expansion, and synergy cost savings. Adjusted EBITDA margin expansion in the quarter was 280 bps.

(1) See reconciliations to GAAP on page 12

Liquidity and Interest

- Total liquidity at March 31, 2016 was $623 million
- As of quarter end, Adjusted Pro Forma EBITDA (on a trailing 12 month basis) was $354.3 million and net debt was $1,966.0 million.
  - This implies a multiple of 5.5x net debt / Adjusted Pro Forma EBITDA.
  - The company reduced its net debt / Adjusted Pro Forma EBITDA ratio by over one half a turn in the first quarter of 2016, and a full turn since the third quarter of 2015 (from 6.5x to 5.5x before one time expenses).
  - Assuming the full realization of the expected annual cost saving synergies ($110 million expected less the $27 million already included in Adjusted Pro Forma EBITDA), net debt / Adjusted Pro Forma EBITDA would be 4.5x.
- The company exchanged $282 million in aggregate principal amount of our 2023 notes for $268 million of our 2021 notes to reduce its go-forward annual cash interest expense by approximately $10 million. This created a net gain on the extinguishment of debt which reduced interest expense in the current quarter by $7.8 million.
- The following unaudited interest reconciliation provides a normalized view of cash interest and debt levels

	First Quarter 2016 Interest Expense As Reported GAAP	Net Debt Outstanding as of March 31, 2016	Adjusted Annual Cash Interest Forecast [1]
		(in millions)	
2021 notes	$ 9.2	$ 617.6	$ 47.1
2023 notes	15.2	417.6	44.9
Term loan [2]	9.1	597.3	35.8
Revolving Credit Facility [3]	1.2	59.0	5.0
Amortization of deferred loan costs & debt discount [4]	2.2	-	-
Net gain on debt extinguishment [5]	(7.8)	-	-
Miscellaneous interest income	(0.1)	-	-
Lease finance obligations and capital leases	6.2	278.2	24.3
Cash		(3.7)	
Total	$ 35.2	$ 1,966.0	$ 157.1

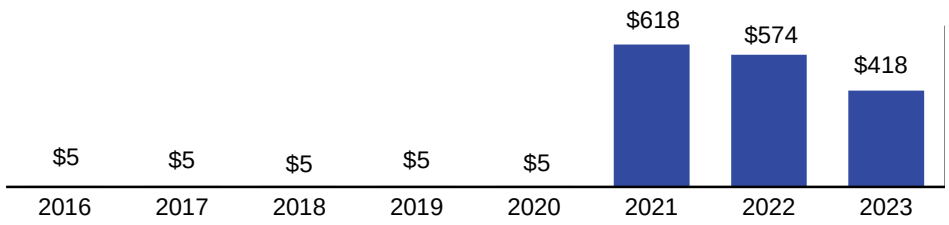
(1) Excludes issuance cost or one time items. Assumes current borrowing rates on variable debt. (2) Annual estimates were based on the current outstanding principal and interest. Excludes annual principal pay down of $5.5M. (3) Assumed Q1 2016 expense for annualized projections. (4) Non-cash item. (5) Non-cash item, net gain on debt extinguishment includes $14.8 million due to principal reduction from the debt exchange transactions, partially offset by the write off of $7.0 million in unamortized deferred loan costs related to the extinguished 2023 notes.

Debt Maturities and De-leveraging Priorities

- 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 with free cash flow
- 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 (1)

($ in millions)



- Priority is multi-year 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
  - Over $280 million in NOL tax assets as of year end 2015
  - 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 ~$157 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 $59 million outstanding as of March 31, 2016

Adjusted EBITDA Reconciliation

(in $ millions)	Three months ended March 31, 2016	Three months ended March 31, 2015 [1]
Reported GAAP Net Income (Loss)	**$ (17.0)**	**$ (7.1)**
ProBuild Net Income (Loss)	-	(21.0)
Pro forma interest adjustment	-	(23.9)
Acquisition depreciation and amortization adjustments	-	(10.7)
Other pro forma adjustments	-	-
Acquisition related expenses	-	6.2
Pro forma Net Income (Loss)	**(17.0)**	**(56.5)**
Integration related expenses	5.4	0.3
Facility closure costs	-	0.3
Adjusted Net Income (Loss)	**(11.6)**	**(55.9)**
Depreciation and amortization expense	30.8	29
Interest expense, net	35.2	44
Income tax expense	4.5	1
Stock compensation expense	2.6	1.8
ProBuild long term incentive plan	-	0.7
(Gain)/loss on sale and asset impairments	-	(1.4)
Other management-identified adjustments [2]	0.3	1.6
Adjusted EBITDA	**$ 61.8**	**$ 20.8**
Adjusted EBITDA Margin	*4.4%*	*1.6%*

(1) Pro forma results are reflected for 2015 prior to the Acquisition Closing Date of July 31, 2015. These were prepared in accordance with Article 11 of Regulation S-X, which assumes the ProBuild acquisition closed January 1, 2015. Pro forma results reflected in our 10Q were prepared in accordance with the requirements of Accounting Standards Codification section 805, which includes the results of ProBuild prior to the Closing Date, and assumes the ProBuild acquisition closed January 1, 2014, affecting non cash depreciation and amortization. (2) Primarily relates to full year impact of cost saving initiatives, one-time cost items, and losses from closed ProBuild locations.

Adjusted EBITDA Reconciliation by Quarter

	Quarter 1 2015	Quarter 2 2015	Quarter 3 2015	Quarter 4 2015	Fiscal 2015	Quarter 1 2016	LTM March 31, 2016
Financial Data							
Pro forma net sales	$ 1,284.1	$ 1,627.8	$ 1,699.0	$ 1,455.9	$ 6,066.8	$ 1,397.1	$ 6,179.8
Sales adjustment for closed locations	(3.5)	(0.5)	(0.9)	(0.2)	(5.1)	(0.2)	(1.8)
Pro forma net sales excluding closed locations	1,280.6	1,627.3	1,698.1	1,455.7	6,061.7	1,396.9	6,178.0
Pro forma gross margin	309.8	416.1	440.5	382.3	1,548.7	349.7	1,588.6
Pro forma gross margin %	*24.1%*	*25.6%*	*25.9%*	*26.3%*	*25.5%*	*25.0%*	*25.7%*
Reconciliation to Adjusted EBITDA:							
Reported GAAP Net Income (Loss)	**$ (7.1)**	**$ 3.6**	**$ (8.7)**	**$ (10.6)**	**$ (22.8)**	**$ (17.0)**	**$ (32.7)**
Pre-Close ProBuild Net Income [(1)]	(21.0)	47.4	5.6	-	32.0	-	53.0
Pro forma interest adjustment	(23.9)	(24.0)	6.1	-	(41.8)	-	(17.9)
Acquisition depreciation and amortization adjustments	(10.7)	(11.0)	(3.8)	-	(25.5)	-	(14.8)
Other pro forma adjustments	-	(6.9)	1.0	-	(5.9)	-	(5.9)
Acquisition related expenses	6.2	7.1	19.2	0.3	32.8	-	26.6
Pro forma Net Income (Loss)	**(56.5)**	**16.2**	**19.4**	**(10.3)**	**(31.2)**	**(17.0)**	**8.3**
Integration related expenses	0.3	0.13	14.0	9.7	24.1	5.4	29.2
Facility closure costs	0.3	2.1	1.4	0.3	4.1	-	3.8
Adjusted Net Income	**(55.9)**	**18.4**	**34.8**	**(0.3)**	**(3.0)**	**(11.6)**	**41.3**
Pro forma depreciation and amortization expense	28.5	29.0	32.2	27.6	117.3	30.8	119.6
Pro forma interest expense, net	44.4	49.3	44.2	43.0	180.9	35.2	171.7
Pro forma income tax expense	1.1	0.3	1.2	3.3	5.9	4.5	9.4
Stock compensation expense	1.8	1.6	1.6	1.9	6.9	2.6	7.7
ProBuild long term incentive plan	0.7	1.3	-	-	2.0	-	1.3
(Gain)/loss on sale and asset impairments	(1.4)	(1.6)	0.5	0.5	(2.0)	-	(0.6)
Other management-identified adjustments [(1)]	1.6	1.9	1.5	0.3	5.3	0.3	3.9
Adjusted EBITDA	**$ 20.8**	**$ 100.2**	**$ 116.0**	**$ 76.3**	**$ 313.3**	**$ 61.8**	**$ 354.3**
Adjusted EBITDA Margin	*1.6%*	*6.2%*	*6.8%*	*5.2%*	*5.2%*	*4.4%*	*5.2%*

Note: Prepared in accordance with Article 11 of Regulation S-X, which assumes the ProBuild acquisition closed January 1, 2015. Pro forma results reflected in our 10Q were prepared in accordance with the requirements of Accounting Standards Codification section 805, includes the results of ProBuild prior to the Closing Date, and assumes the ProBuild acquisition closed January 1, 2014, affecting non cash depreciation and amortization (2) Primarily relates to full year impact of cost saving or one-time or extraordinary cost items and losses from closed ProBuild locations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