Builders FirstSource



First Quarter 2017 Earnings Call

May 9, 2017





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 year impact of the acquisition of ProBuild which closed on July 31, 2015. 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 8, 2017.

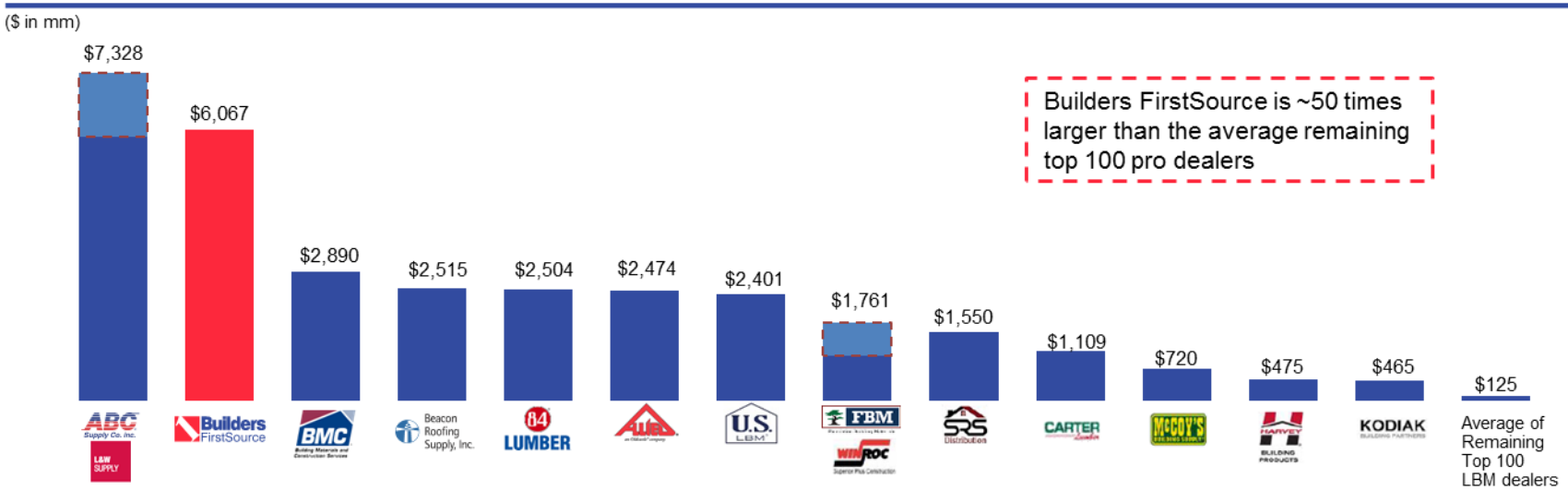
Differentiated, diversified, and uniquely positioned for ongoing profitable growth

- Differentiated market leader in a highly fragmented industry
- Geographic and end market diversity
- Favorable housing cycle dynamics
- Potential for continued market share gains and ongoing shift towards higher margin products
- Substantial ongoing cost savings and cost leverage potential
- Expanding cash flow generation opportunities

Builders FirstSource: Differentiated market leader in highly fragmented industry

- We are one of 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 enables us to compete more effectively in the homebuilding end market
- Sales to our top 10 customers, who are comprised of the largest U.S homebuilders, account for ~17% of 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 are well positioned to execute share capture from these smaller local distributors

2015 Pro Forma Sales of Top Distribution Pro Dealers

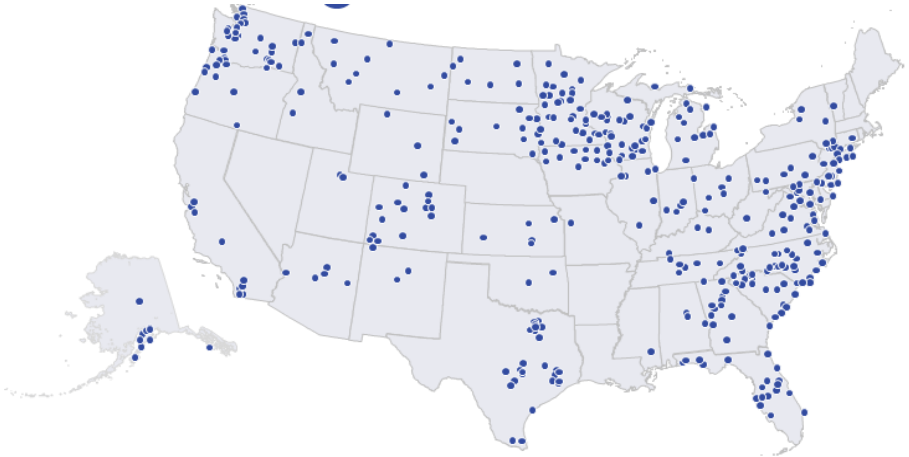


Source: ProSales 2016 Survey, Wall Street equity research

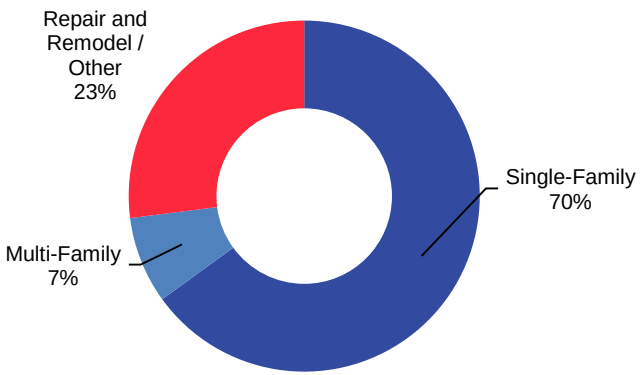
Geographic diversity and balanced end market exposure

- We are a diversified company with enhanced scale and an expansive geographic footprint, which allows for better customer reach and less exposure to any one market
  - Presence in 75 of top 100 MSAs and in 40 states
- Our national scale facilitates strategic partnerships with customers and suppliers
  - We can uniquely offer the large production homebuilder consistent service across 40 states
  - 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
- R&R end market has historically provided a more stable revenue base

Broad U.S. coverage with 400 locations in 40 states

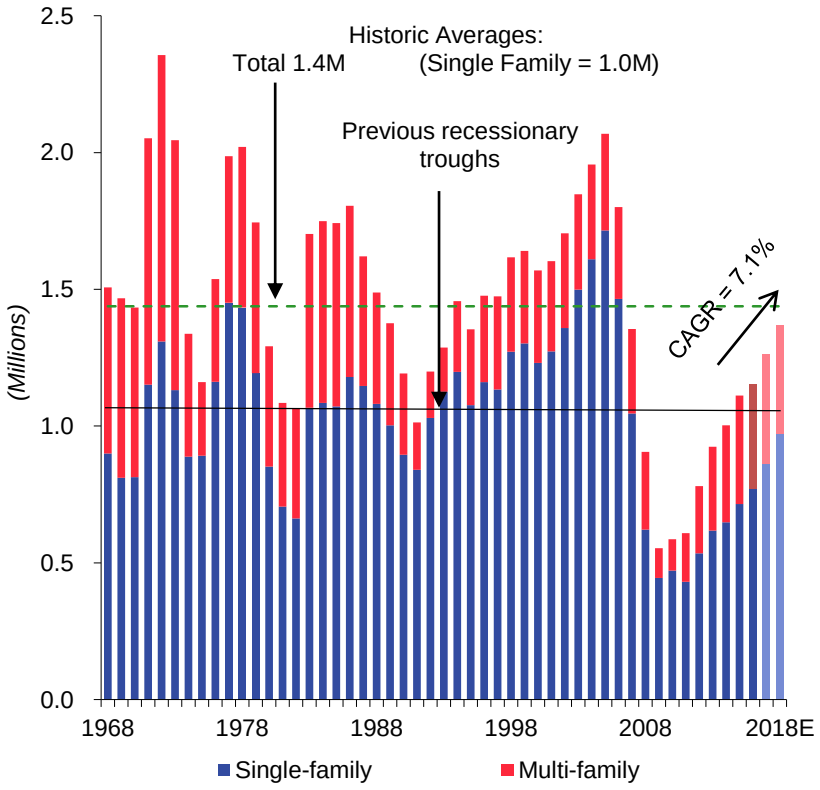


Q1-17 sales by end market



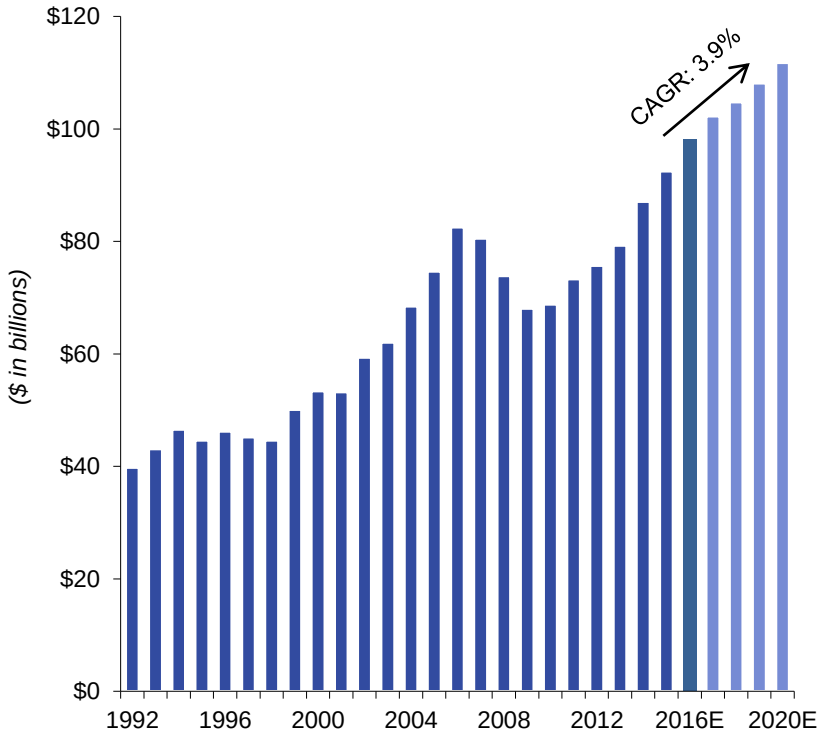
Upside remains in US housing cycle

U.S. housing starts[1]



Housing starts level is still significantly below the long-term historical average

Professional home improvement products spending[2]

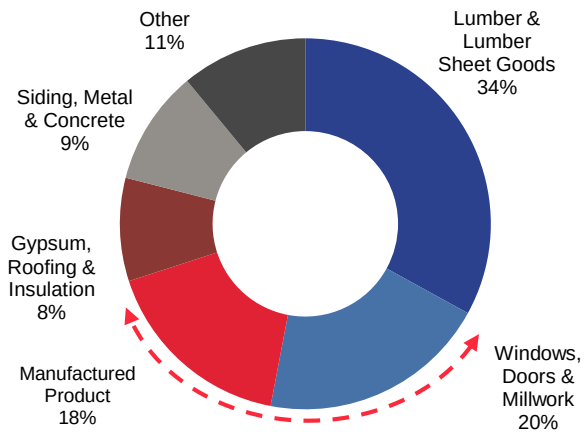


Residential repair & remodel spending continues to show consistent growth

[1] Source: US Census, National Association of Home Builders.
[2] Source: Home Improvement Research Institute.

Labor shortages and extended building cycle times increase the relative value for of our high margin value-added products

Q1 - 17 sales by product category



Value Added Product Mix 38%

Lumber & Sheet Goods



Manufactured product



Windows, doors & millwork



Gypsum, roofing & insulation



Other products & services



Siding, metal, & concrete



- Commodity inflation drives increase in lumber revenue
- Value Added Product sales per day grew 9.7% vs prior year

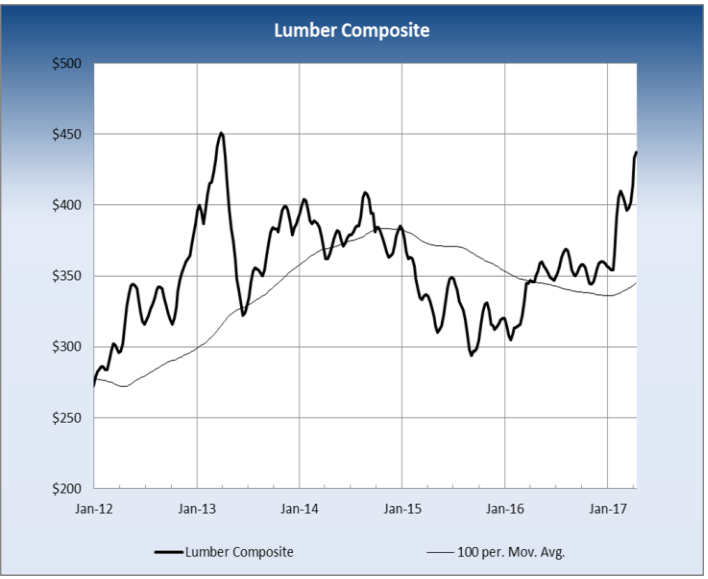
Q1 2017 vs Q1 2016 Product Category	Sales Growth
Lumber & Lumber Sheet Goods	15.1%
Manufactured Products	15.1%
Windows, Doors & Millwork	5.3%
Gypsum, Roofing & Insulation	4.4%
Siding, Metal & Concrete Products	4.1%
Other Products	7.4%
Gross Totals	**10.2%**

Note: Sales exclude the impact of closed locations

Investment in manufacturing capacity and efficiency to drive growth and expand share of wallet in value added products

- 2017 Investment Plans for Capacity Expansion
  - 5 new manufacturing facilities, and improving productivity to 20 facilities
  - 1 new millwork facility, and additional capacity to 10 door lines

Framing Lumber Composite approaching a 5 year high, impacted by expectations and preliminary tariffs on imports from Canada

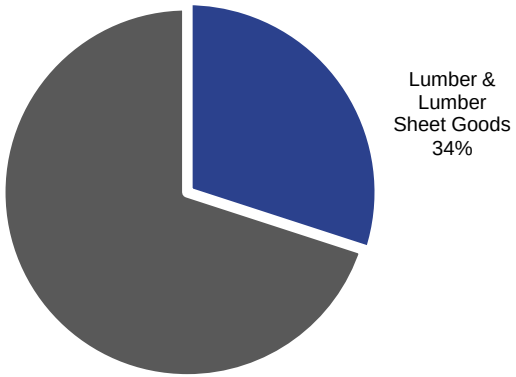


- On April 24, 2017, the US Department of Commerce (DOC) announced a preliminary determination on the countervailing duty on softwood lumber imports from Canada. These imports from Canada will be assessed preliminary countervailing duty (CVD) averaging 19.88%, collectable starting on or around May 4
  - All duties are paid by the Canadian mills, including retroactive penalties
  - About half of Canada's lumber production is shipped to the U.S. market, and Canadian shipments account for approximately one third of U.S. total consumption.
  - The 2006 U.S.- Canada Softwood Lumber Agreement expired in 2015, which assessed a duty on imported softwood lumber. The US producers filed antidumping and countervailing duty cases under the U.S. trade laws in late November, 2016
  - It is our understanding that a preliminary determination CVD can be collected for 4 months, and the final ruling from the ITC is expected late in 2017. There may be a gap, both in timing and amount of duties, between this and the final ruling. Additionally, a final ruling on retroactivity will be announced when the final ruling in the CVD and anti-dumping duty cases are announced
  - The 5 Key Companies that were investigated will have individual rates. The weighted average of those five companies rates determine the "all other" CVD rate of 19.88%
  - Special circumstances were found against J.D. Irving and "all other" Canadian companies, which means those duties will be retroactive 90 days, back to around February 1. West Fraser, Canfor, Tolko, and Resolute were not assessed retroactive duties
  - There is an additional anti-dumping case under DOC with a preliminary determination on duty expected on or around June 23
- Year to date composite prices are up approximately 20%, and have not moved significantly since the announcement
- Uncertainty around rates and availability on imported products is having an impact on domestic lumber products with buyers stocking up on more inventory

[1] Source: Random Lengths, ITC, industry research .

What this means for BLDR

Q1 - 17 sales by product category



Framing Lumber Composite (1)

May 5, 2017 Price (per Mbf)	$	429
LTM Average Price (per Mbf)	$	370
YTD Average Price (per Mbf)	$	380
Current Week Variance:		
vs. Last Year		21.5%
vs. Last Month		3.6%
vs. LTM Average		16.0%
vs. 12/31/16		19.5%
vs. Prior YTD Average		31.7%

- Overall, we believe total lumber prices in 2017 will remain considerably higher than 2016, although not at today's level
  - Given the uncertainty around the final Canadian tariff, and timing gap between the initial determination and final finding by the ITC, we believe there could be significant fluctuations in imported lumber pricing during 2017
  - Domestic lumber will also have inflationary pressures as uncertainty around pricing and supply out of Canada continues
- In the short term, rising lumber prices can cause margin compression for the company
  - In line with market convention, BLDR locks pricing with customers in the short term, generally from 30-90 days
  - BLDR's inventory in lumber products turns faster than these price locks
  - As a result, in a rising market, the company's gross margins get compressed in the short term
  - We expect price volatility will continue through the second quarter and potentially the balance of the year, which may impact our margins and sales to EBITDA conversion ratio
- In the long term, higher prices benefit the company in higher revenue and profit dollars
- Assuming today's prices, commodity inflation benefit to total net sales could be in the 5-6% range in 2017

(1) Source: Random Lengths.

Executing on 2017 priorities - focus on growth

Accelerating Capture of Market Share	■ Leverage our geographic reach, vendor and customer relationships, and leading scale to grow faster than the market ■ We will continue to expand our salesforce	✓ **Q1 Share growth in SF and R&R** ✓ **Added 32 sales people in Q1**
Expansion of Value-Added Products	■ Significant opportunities exist to increase the reach of our high-margin value-added product offerings, enabled by accelerating capacity investments	✓ **9.7% growth in value added products in Q1**
Operational Excellence	■ Initiatives are underway to drive continuous improvement and enhanced efficiencies	✓ **Cost leverage and actions yielding positive EBITDA results**
Strong Cash Flow Generation	■ Expanding operating cash flow enables funding of these growth initiatives and debt reduction	✓ **Cash flow in the quarter was in line with our full year guidance**
Retain and Attract the Best Associates in the Industry	■ As business in our industry is won at the local level, focus on bench of general managers and sales leaders	✓ **One of Forbes 2017 Best Large Employers**

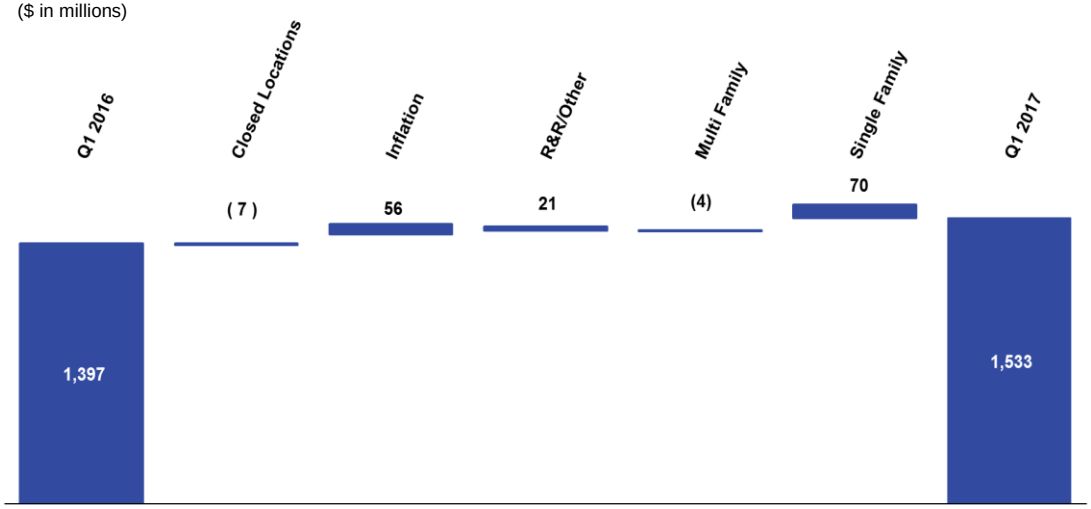


Pro Forma Adjusted Financial Overview

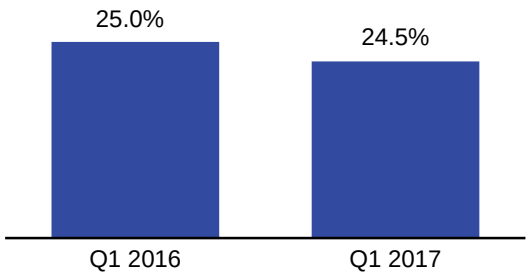
Q1 2017 Adjusted results

Pro Forma Net Revenue Bridge

($ in millions)

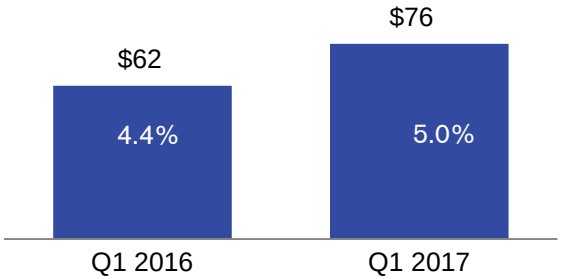


Pro Forma Gross Profit Margin



Adjusted EBITDA[1]

($ in millions)



- Sales excluding closed locations grew 10.2% over prior year
  - Sales volume +7.2% in single family new residential construction
  - +6.4% sales volume growth in the repair and remodel / other end market
  - Commodity price inflation benefited sales by 4.1%
  - One extra sales day contributed $10M or 0.7%
  - Offset by decline in multi-family
- Gross margins decreased by 50 bps largely as a result of commodity inflation driven margin compression
  - Although commodity price inflation generally benefits operating results in the long term, it can cause short term gross margin percentage compression when prices are rising due to short term pricing commitments provided customers versus the volatility of the commodity markets
- Adjusted SG&A/Other (excluding depreciation and amortization) as a % of sales decreased by 100 basis points, as a result of cost efficiencies and commodity inflation cost leverage
- Adjusted EBITDA increased 23% over 2016
  - Sales growth, and cost efficiencies generated profit growth in the quarter, including $7M of synergy cost savings

(1) See reconciliations to GAAP on page 16

Free cash flow and deleveraging priorities

The following financial attributes…

- *Strong projected free cash flow generation*
- *Low capital intensive business with ongoing expenditures at 1 - 1.5% of sales*
- *Our current NOL should shelter the Company from paying federal cash taxes in 2017, baring any tax code or material shareholder base changes*
- *Focus on working capital efficiency, which we believe will run between 9%-10% of incremental sales*
- *Projected annual cost savings realization of $100-120M by end of 2017*
- *Refinancing transactions reduced go forward cash interest by $37M annually*

We believe will enable Builders FirstSource to…

- *Generate free cash flow of $145-155M in 2017*
- *Reduce debt*
- *Improve our leverage ratio to under 4x by year-end 2017*
- *Retire our most expensive debt first, further improving cash flow*
- *Fund organic growth opportunities and expand share of wallet through value added products*
- *Grow faster than the market*

Liquidity and debt profile

- Total liquidity at March 31, 2017 was $612M
- Maturity profile has been extended, with the first tranche of debt coming due in August 2023
  - Long term debt weighted average maturity (excluding lease financing obligations) is 6.8 years
  - Maturity profile allows multi-year runway of EBITDA growth and cash flow generation to reduce debt levels before refinancing is required
  - The terms of our debt allow the Company to repay our most expensive bonds first, benefiting free cash flow
- The net debt/Adjusted EBITDA (on a trailing 12 month basis) leverage ratio on March 31, 2017 was 5.0x, a 0.5x reduction from the prior year
- Adjusted EBITDA (on a trailing 12 month basis) / Adjusted annual go forward cash Interest is at 3x

	Net Debt Outstanding	Adjusted Annual Go Forward Cash Interest [1]
2024 Secured Notes @ 5.625% Fixed	$ 750.0	$ 42.2
2023 Unsecured Notes at 10.75% Fixed	367.6	39.5
2024 Term Loan @ 4% (Floating LIBOR) [2]	466.5	18.7
Revolving Credit Facility @ 2% (Floating LIBOR) [2] maturing 2022	142.0	6.2
Lease finance obligations and capital leases	245.8	21.6
Cash	(4.5)	
Total	$ 1,967.4	$ 128.1

(1) Excludes issuance cost and one time items. Assumes current or pro forma borrowing rates on variable debt. (2) Assumes Q1 balance for the Term Loan and the revolving credit facility for annualized projections. Includes FY benefit of February reprice of the term loan which brought the interest rate down to LIBOR +3.0% with a 100 bp floor.



Appendix - Financial Schedules

Adjusted EBITDA Reconciliation by Quarter

	Quarter 1 2016	Quarter 2 2016	Quarter 3 2016	Quarter 4 2016	Fiscal 2016	Quarter 1 2017	T12M Q1-17
Financial Data							
Pro forma net sales	$ 1,397.1	$ 1,677.3	$ 1,746.0	$ 1,546.9	$ 6,367.3	$ 1,533.1	$ 6,503.2
Sales adjustment for closed locations	(6.5)	(2.6)	(3.3)	(1.4)	(13.8)	-	(7.3)
Pro forma net sales excluding closed locations	1,390.6	1,674.7	1,742.6	1,545.5	6,353.5	1,533.1	6,495.9
Pro forma gross margin	349.7	418.3	437.1	391.6	1,596.7	376.1	1,623.1
Pro forma gross margin %	*25.0%*	*24.9%*	*25.0%*	*25.3%*	*25.1%*	*24.5%*	*25.0%*
Reconciliation from Net Income to Adjusted EBITDA:							
Reported GAAP Net Income (Loss)	**$ (17.0)**	**$ 29.4**	**$ 125.5**	**$ 6.4**	**$ 144.3**	**$ 3.8**	**$ 165.1**
Integration related expenses	5.4	7.5	8.0	5.1	26.0	5.9	26.4
One time debt issuance and refinancing cost [2]	(7.7)	1.7	53.3	9.7	57.0	2.4	67.2
Release of tax valuation allowance	5.1	(16.1)	(117.6)	(3.1)	(131.7)	-	(136.8)
Facility closure costs	-	(1.7)	0.0	0.2	(1.5)	-	(1.5)
Adjusted Net Income (Loss)	**2.8**	**(8.6)**	**(56.2)**	**18.3**	**94.1**	**12.1**	**120.4**
Weighted average diluted common shares (in millions)	*109.9*	*113.5*	*114.3*	*114.2*	*113.6*	*114.6*	
Diluted adjusted net income (loss) per share:	**$ 0.03**	**$ (0.08)**	**$ (0.49)**	**$ 0.16**	**$ 0.83**	**$ 0.11**	
Depreciation and amortization expense	30.8	30.6	25.6	22.9	109.8	23.6	102.6
Interest expense, net	42.9	41.1	39.0	34.7	157.7	33.8	148.4
Income tax expense	(0.6)	20.3	(13.9)	3.2	9.0	0.3	9.9
Stock compensation expense	2.6	2.6	2.6	2.8	10.5	2.9	10.9
(Gain)/loss on sale and asset impairments	-	1.0	(4.3)	2.9	(0.3)	3.1	2.8
Other management-identified adjustments [3]	0.3	0.3	0.1	0.0	0.8	0.3	0.9
Adjusted EBITDA	**$ 61.8**	**$ 116.7**	**$ 118.3**	**$ 84.8**	**$ 381.6**	**$ 76.1**	**$ 395.9**
Adjusted EBITDA Margin	*4.4%*	*7.0%*	*6.8%*	*5.5%*	*6.0%*	*5.0%*	*6.1%*

(1) Cost associated with refinancing long term debt. (2) Primarily relates to severance and one time cost..

Reconciliation from Net Income to Adjusted EBITDA Q1 2017

(in $ millions)	Three months ended March 31, 2017	2016
Reported GAAP Net Income (Loss)	**$ 3.8**	**$ (17.0)**
Integration related expenses	5.9	5.4
Debt issuance and refinancing cost [(1)]	2.4	(7.8)
Increase/(release) of tax valuation allowance	-	5.1
Facility closure costs	-	0.1
Adjusted Net Income (Loss)	**12.1**	**(14.2)**
Weighted average diluted common shares (in millions)	*114.6*	*109.9*
Diluted adjusted net income (loss) per share:	**$ 0.11**	**$ (0.13)**
Reconciling items:		
Depreciation and amortization expense	23.6	30.8
Interest expense, net	33.8	43.0
Income tax (benefit) expense	0.3	(0.6)
Stock compensation expense	2.9	2.6
(Gain)/loss on sale and asset impairments	3.1	(0.0)
Other management-identified adjustments [(2)]	0.3	0.2
Adjusted EBITDA	**$ 76.1**	**$ 61.8**
Adjusted EBITDA Margin	*5.0%*	*4.4%*

(1) Cost associated with refinancing long term debt. (2) Primarily relates to severance and one time cost.

GAAP Financial Schedules – Income Statement

	Three Months Ended March 31,	
	2017	2016
	(Unaudited) (In thousands, except per share amounts)	
Sales	$ 1,533,064	$ 1,397,114
Cost of sales	1,157,012	1,047,366
Gross margin	376,052	349,748
Selling, general and administrative expenses	335,775	326,969
Income from operations	40,277	22,779
Interest expense, net	36,157	35,224
Income (loss) before income taxes	4,120	(12,445)
Income tax expense	298	4,535
Net income (loss)	$ 3,822	$ (16,980)
Comprehensive income (loss)	$ 3,822	$ (16,980)
Net income (loss) per share:		
Basic	$ 0.03	$ (0.15)
Diluted	$ 0.03	$ (0.15)
Weighted average common shares:		
Basic	111,964	109,913
Diluted	114,580	109,913

GAAP Financial Schedules – Balance Sheet

	March 31, 2017	December 31, 2016
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,515	$ 14,449
Accounts receivable, less allowances of $14,090 and $11,571 at March 31, 2017 and December 31, 2016, respectively	622,580	569,208
Other receivables	43,587	55,781
Inventories, net	618,014	541,771
Other current assets	40,890	34,772
Total current assets	1,329,586	1,215,981
Property, plant and equipment, net	644,663	656,101
Assets held for sale	5,672	4,361
Goodwill	740,411	740,411
Intangible assets, net	152,477	159,373
Deferred income taxes	124,169	115,320
Other assets, net	18,912	18,340
Total assets	$ 3,015,890	$ 2,909,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	$ 29,523	$ 35,606
Accounts payable	467,220	409,759
Accrued liabilities	192,980	293,115
Current maturities of long-term debt and lease obligations	16,144	16,217
Total current liabilities	705,867	754,697
Long-term debt and lease obligations, net of current maturities, debt discount and debt issuance costs	1,926,641	1,785,835
Other long-term liabilities	58,919	59,735
Total liabilities	2,691,427	2,600,267
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 112,356 and 111,564 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	1,123	1,115
Additional paid-in capital	529,992	527,868
Accumulated deficit	(206,652)	(219,363)
Total stockholders' equity	324,463	309,620
Total liabilities and stockholders' equity	$ 3,015,890	$ 2,909,887

GAAP Financial Schedules – Cash Flow

	Three months ended March 31,	
	2017	2016
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 3,822	$ (16,980)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	23,592	30,791
Amortization and write-off of deferred loan costs	2,220	1,944
Amortization and write-off of debt discount	215	180
Gain on extinguishment of debt	—	(7,731)
Accretion of lease finance obligation	92	456
Deferred income taxes	40	4,342
Bad debt expense	681	368
Stock compensation expense	2,904	2,573
Net loss (gain) on sale of assets and asset impairments	3,145	(19)
Changes in assets and liabilities:		
Receivables	(41,655)	(43,893)
Inventories	(76,243)	(26,755)
Other current assets	(6,118)	5,700
Other assets and liabilities	256	1,378
Accounts payable and checks outstanding	50,949	64,987
Accrued liabilities	(100,342)	(60,637)
Net cash used in operating activities	(136,442)	(43,296)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,778)	(8,978)
Proceeds from sale of property, plant and equipment	449	390
Net cash used in investing activities	(9,329)	(8,588)
Cash flows from financing activities:		
Borrowings under revolving credit facility	457,000	221,000
Repayments under revolving credit facility	(315,000)	(222,000)
Repayments of long-term debt and other loans	(2,626)	(3,174)
Payments of loan costs	(2,765)	(4,423)
Exercise of stock options	1,701	194
Repurchase of common stock	(2,473)	(1,048)
Net cash provided by (used in) financing activities	135,837	(9,451)
Net change in cash and cash equivalents	(9,934)	(61,335)
Cash and cash equivalents at beginning of period	14,449	65,063
Cash and cash equivalents at end of period	$ 4,515	$ 3,728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