Builders FirstSource



Second Quarter 2017 Earnings Call

August 4, 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. The company provided detailed explanations of these non-GAAP financial measures in its Form 8-K filed with the Securities and Exchange Commission on August 3, 2017.

Differentiated, diversified market leader positioned for accelerating growth and expanding profitability

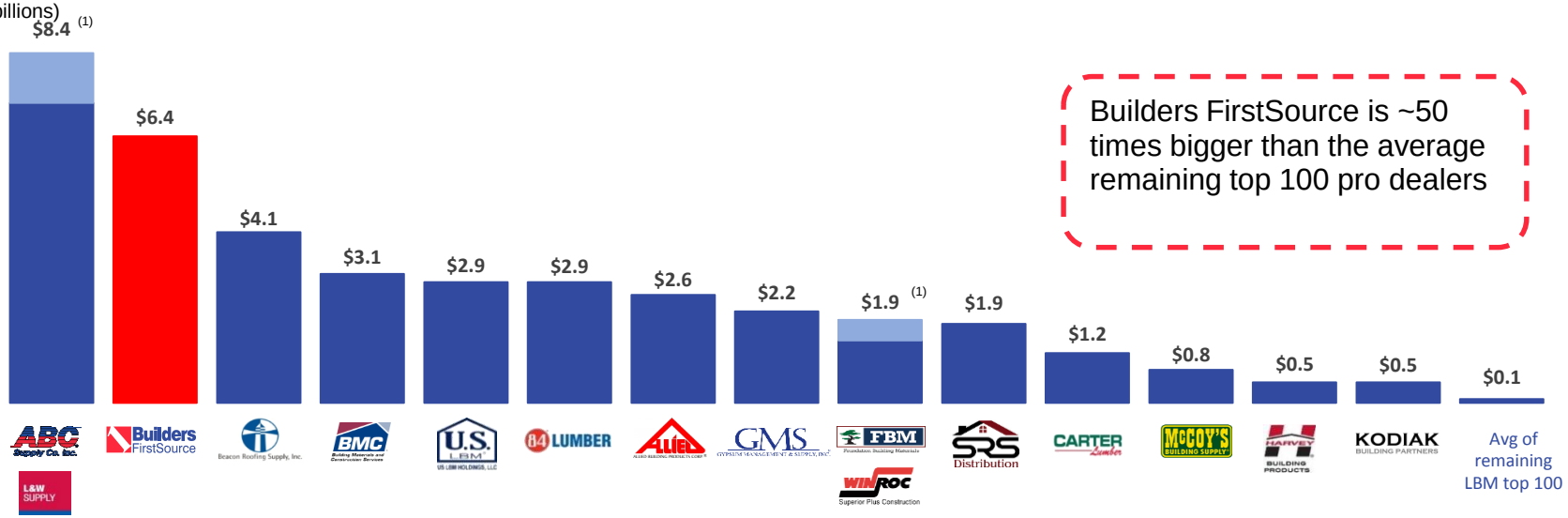
- Differentiated market leader with exceptional geographic end market diversity
- Competitively advantaged in a highly fragmented industry
- Capitalizing on highly favorable housing market dynamics
- Enhanced focus and investment towards driving market share gains and ongoing shift towards higher margin products
- Executing a range of operational excellence and cost savings initiatives throughout the organization
- Expanding cash flow generation

Builders FirstSource: Differentiated market leader capitalizing on strategic advantages and enhanced focus on growth

- One of the largest LBM (Lumber and Building Material) suppliers of building products, in the U.S. professional market
- Margin expansion opportunities with prefabricated components and value-added services, primarily for new residential construction and repair and remodeling
- Integrated solutions: manufacturing, supply, delivery and installation for a full range of structural and related building products
- Integrated approach and significant scale enables us to compete more effectively in the homebuilding end market
- Top 10 customers (comprised of the largest U.S homebuilders) account for ~17% of sales
- Highly fragmented industry creates significant opportunities
  - Many competitors are small and privately owned with limited product offerings, access to capital, and IT infrastructure
  - We are increasing our focus and investment to accelerate our share capture from these smaller local distributors, particularly in high-margin value-added products

2016 Pro Forma Sales of Top Distribution Pro Dealers

(in $ billions)

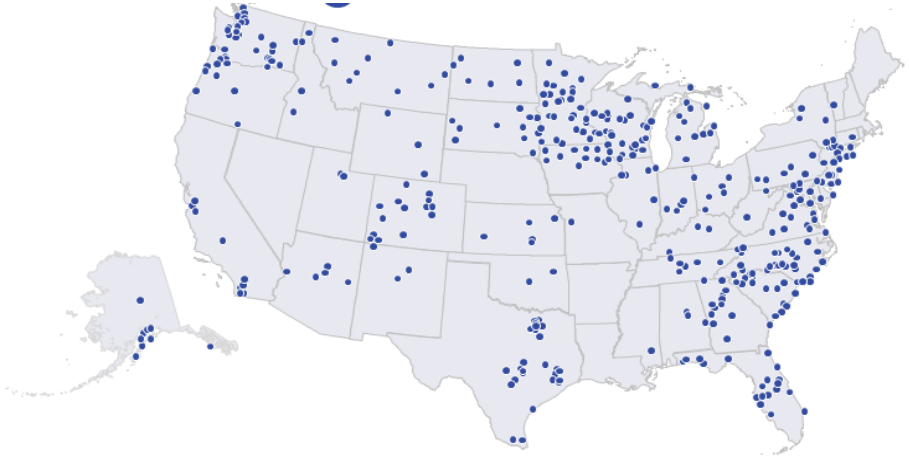


Source: ProSales 2017 Survey, Wall Street equity research
(1) Full year 2016 pro Forma for notable acquisitions

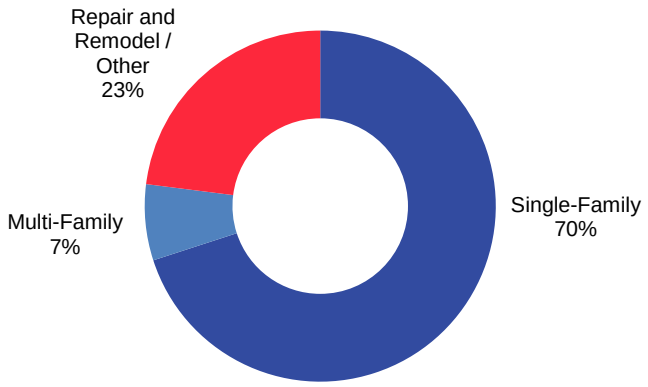
Exceptional geographic diversity and balanced end market exposure

- Diversity, scale and expansive geographic footprint enables exceptional customer reach and less exposure to any one market
  - Presence in 75 of top 100 MSAs and in 40 states
- National scale facilitates strategic partnerships with customers and suppliers
  - Unique positioning to offer large production homebuilders consistent service across 40 states
  - Advantaged purchasing power as the largest distributor of building products to the pro channel
- Geographic and end market diversity reduces our dependence on any one market or segment
- Repair and remodeling (R&R) end market has historically provided a more stable revenue base

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

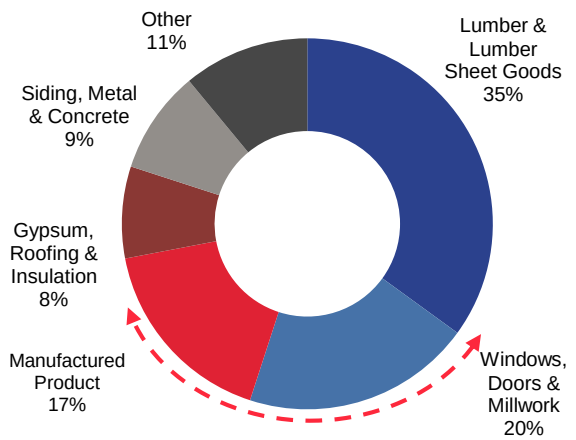


YTD 2017 sales by end market



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

YTD 2017 sales by product category



Value Added Product Mix 37%

Lumber & Sheet Goods



Manufactured product



Windows, doors & millwork





Gypsum, roofing & insulation



Other products & services



Siding, metal, & concrete



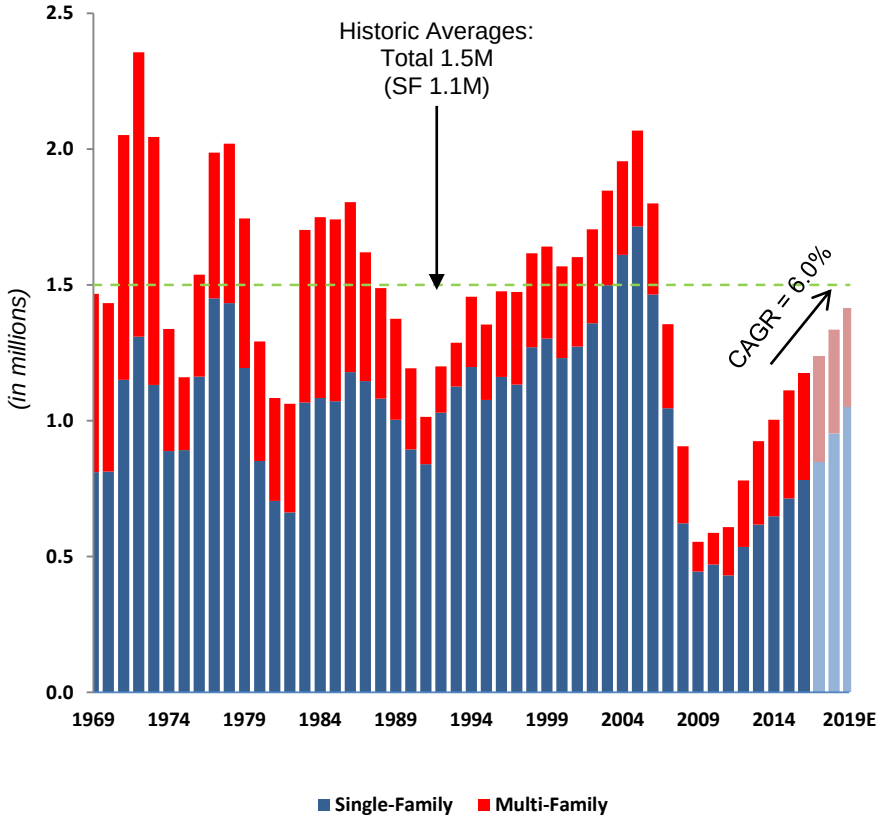
Investing to drive growth and expand share of wallet in value-added products

- 2017 Plans for Capacity Expansion
  - 5 new manufacturing facilities, and improving productivity at 20 facilities
  - 1 new millwork facility, and additional capacity for 10 door lines
- Value added products grew 9.6% YTD vs prior year
  - Manufactured products up 12.2%
  - Commodity inflation drives increase in lumber revenue and mix

Note: Sales exclude the impact of closed locations

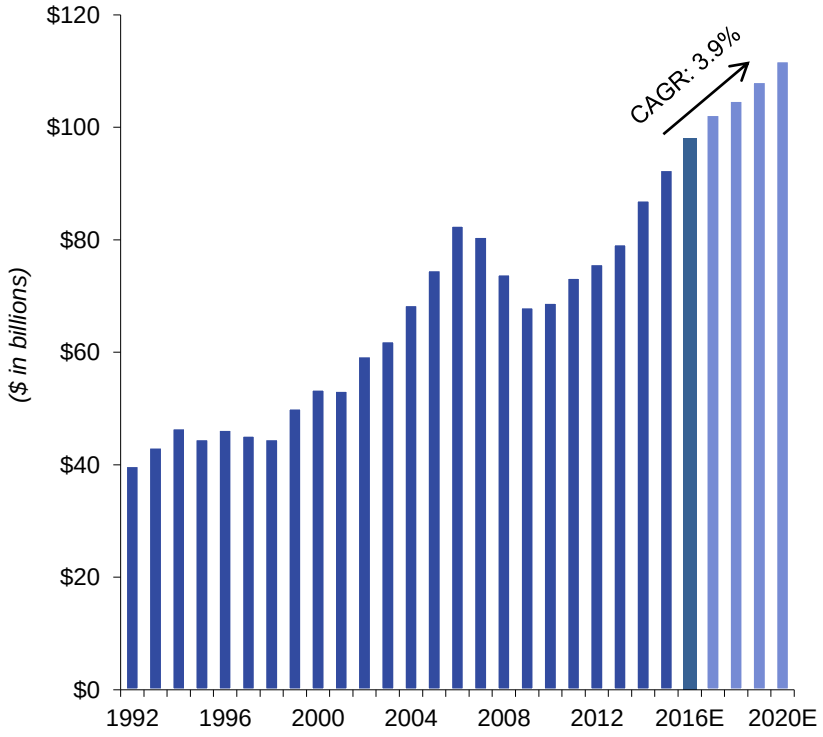
Supportive US housing market dynamics and outlook

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: Historical (1968 – 2016) US Census, National Association of Home Builders. Estimates (2017 – 2019) wall street and economic research
[2] Source: Home Improvement Research Institute.

Executing on our 2017 priorities – enhancing our focus on above market growth and profit expansion

Above Market Growth	■ Accelerate capture of market share, ■ Leverage our geographic reach, vendor and customer relationships, and leading scale to grow faster than the market ■ Continue to expand our salesforce	✓ **YTD Growth of 7.4% in single family** ✓ **Added 105 sales people YTD**
Expansion of Value-Added Products	■ Significant opportunities exist to increase the penetration of our high-margin value-added product offerings, enabled by accelerating capacity investments	✓ **10% growth in value added products YTD** ✓ **3 new component plants operational**
Operational Excellence	■ Initiatives are underway to drive continuous improvement and enhanced efficiencies	✓ **Roadmap for multi-year cost savings** ✓ **Implementation plans developed for delivery management system**
Expanding Free Cash Flow	■ Expanding operating cash flow enables funding of these growth initiatives and debt reduction	✓ **Cash flow in the quarter of $47M, in line with our 2017 guidance to generate $145-155M**
Exceptional Talent	■ As business in our industry is won at the local level, focus on bench of general managers and sales leaders	✓ **One of Forbes 500 Best Large Employers**

What's Next? Leveraging our strengths to accelerate growth and further expand profitability



Assuming Market Norm, We Expect

- ✓ **Double 2016 EBITDA**
- ✓ **EPS of over $2.00**
- ✓ **Double 2016 Free Cash Flow**
- ✓ **Up to $1B Cumulative Cash Generation over 4 - 6 Years**

Leverage Platform Strengths

- Strong existing business positioned for accelerating growth and profitability
  - Market leader with exceptional size, geographic footprint, and end market exposure
  - Largest number of manufacturing plants (57) strategically located across the country
  - Favorable housing market outlook

Market and Margin Expansion Initiatives

- Execute on operational excellence initiatives and value-added product expansion to accelerate profit growth
  - Operational excellence initiatives, including distribution and logistics, pricing and margin management, back office efficiencies and systems-enabled process improvements, yield significant cost savings
  - Expand our national manufacturing footprint and differentiated capabilities to capture above market growth in higher margin value-added products
    - Value-added products address the growing demand for ways to build homes more efficiently, addressing labor constraints and rising costs.
  - Grow faster than the single family market

Meaningful Value Creation

- A normalized housing market and focus on operations should result in substantially increased returns
  - Target of doubling 2016 EBITDA and cash flow, up to $1B cumulative cash generation, and EPS over $2
  - Creates cash generation and reinvestment opportunities
    - Significant resulting cash flow provides opportunity for debt reduction, returning cash to shareholders, and increasing investment in organic and acquisitive growth
    - Achievement and maintenance of long term leverage target between 2.5-3.5 X EBITDA

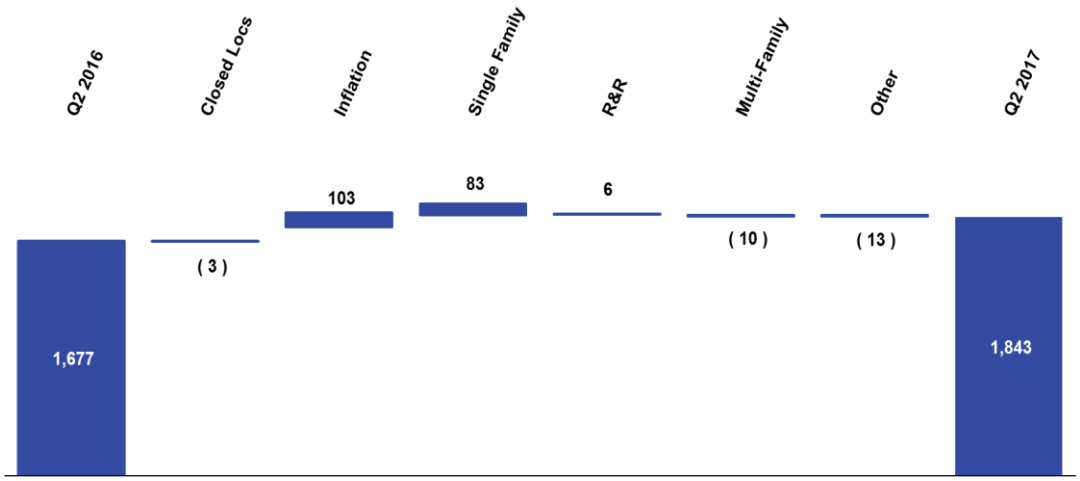


Pro Forma Adjusted Financial Overview

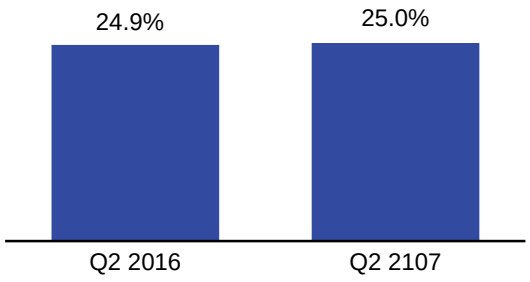
Q2 2017 Adjusted results

Net Revenue Bridge

($ in millions)

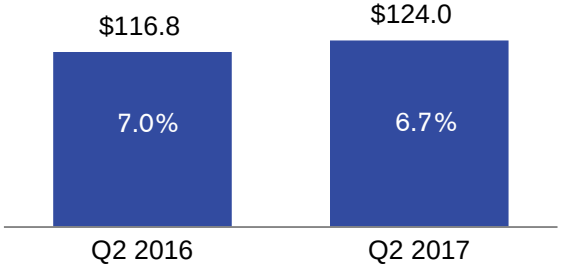


Gross Profit Margin



Adjusted EBITDA[(1)]

($ in millions)



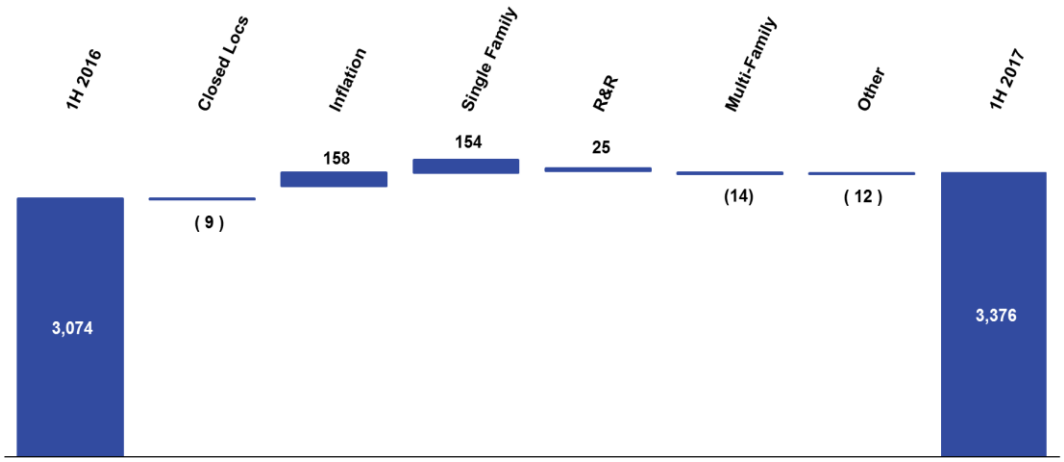
- Sales excluding closed locations grew 10.1% over prior year
  - Sales volume +7.4% in single family new residential construction
  - +2.0% sales volume growth in the repair and remodel end market
  - Commodity price inflation benefited sales by 6.1%
  - Offset by decline in multi-family and other
- Gross margins increased by 10 bps largely as a result of procurement-savings offset by commodity inflation driven margin compression
- SG&A as a % of sales of 20.0% decreased by 40 basis points over prior year, as a result of decline in depreciation and amortization on acquired ProBuild assets, offset by investments in growth initiatives, including sales associates
- Adjusted EBITDA increased 6% over 2016
  - Sales growth generated profit growth in the quarter, offset by investments in growth initiatives

(1) See reconciliations to GAAP on page 15

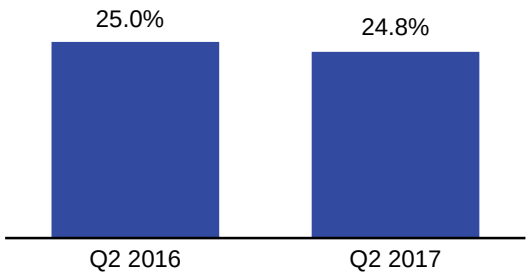
1H 2017 Adjusted results

Net Revenue Bridge

($ in millions)

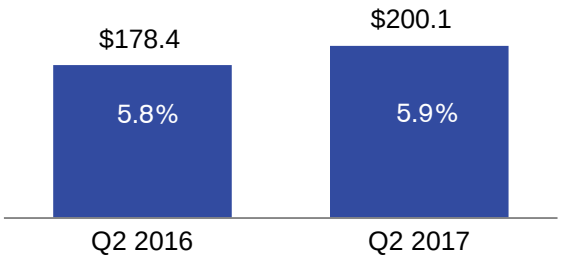


Gross Profit Margin



Adjusted EBITDA[1]

($ in millions)



- Sales excluding closed locations grew 10.1% over prior year
  - Sales volume +7.4% in single family new residential construction
  - +5.1% sales volume growth in the repair and remodel end market
  - Commodity price inflation benefited sales by 5.1%
  - Offset by decline in multi-family and other
- Gross margins decreased by 20 bps largely as a result of commodity inflation driven margin compression partially offset by procurement savings
  - 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
- SG&A as a % of sales of 20.9% decreased by 90 basis points over prior year, largely as a result of decline in depreciation and amortization on acquired ProBuild assets and cost savings realized in Q1
- Adjusted EBITDA increased 12% over 2016
  - Sales growth generated profit growth year to date

(1) See reconciliations to GAAP on page 15

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, barring any tax code or material shareholder base changes (1)*
- *Focus on working capital efficiency, expected to run 9%-10% of incremental sales*
- *Refinancing transactions reduced 2017 cash interest by $37M annually*

We believe will enable Builders FirstSource to…

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

(1) In 1Q-17 affiliates of a significant shareholder sold +40% of their investment in BLDR, which did not trigger a Section 382 Ownership change. Future significant sales of our common stock would cause the Company to experience a Section 382 Ownership Change, which would impose an annual limitation on certain of the Company's tax attributes, including NOL and capital loss carryforwards. This could impact the company's cash flow guidance between $5-$18M.

Liquidity and debt profile underpin accelerating value creation opportunities

- Focus on deleveraging the balance sheet, increasing cash flow and improving liquidity
- Total liquidity at June 30, 2017 was $723M
- Extended debt maturity profile
  - No maturities until 2022
  - The terms of our debt allow the Company to repay our most expensive bonds first, with the unsecured 10.75% notes callable August 2018
- The net debt/Adjusted EBITDA (on a trailing 12 month basis) leverage ratio on June 30, 2017 was 4.8x, a 0.5x reduction from the prior year
- Adjusted EBITDA (on a trailing 12 month basis) / Adjusted annual go forward cash interest is greater than 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]	465.3	18.6
Revolving Credit Facility @ 2% (Floating LIBOR) [2] maturing 2022	99.0	5.8
Lease finance obligations and capital leases	247.1	21.9
Cash	(6.9)	
Total	$ 1,922.1	$ 128.0

(1) Excludes issuance cost and one time items. Assumes current or pro forma borrowing rates on variable debt. (2) Assumes Q2 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

Reconciliation from Net Income to Adjusted EBITDA Q2 2017

(in millions)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Reported GAAP Net Income (Loss)	**$ 37.9**	**$ 29.4**	**$ 41.7**	**$ 12.5**
Integration related expenses	5.1	7.5	11.0	12.9
Debt issuance and refinancing cost [(1)]	-	1.7	2.4	(6.0)
Increase/(release) of tax valuation allowance	-	(16.0)	-	(10.9)
Facility closure costs	-	(1.7)	-	(1.7)
Adjusted Net Income (Loss)	**43.0**	**20.9**	**55.1**	**6.8**
Weighted average diluted common shares (in millions)	*115.5*	*113.5*	*115.0*	*112.9*
Diluted adjusted net income (loss) per share:	**$ 0.37**	**$ 0.18**	**$ 0.48**	**$ 0.06**
Reconciling items:				
Depreciation and amortization expense	24.2	30.6	47.8	61.3
Interest expense, net	33.7	41.1	67.5	84.0
Income tax (benefit) expense	19.7	20.2	20.0	19.6
Stock compensation expense	3.5	2.6	6.4	5.1
(Gain)/loss on sale and asset impairments	(0.2)	1.0	2.9	1.0
Other management-identified adjustments [(2)]	0.1	0.3	0.4	0.7
Adjusted EBITDA	**$124.0**	**$116.7**	**$200.1**	**$178.5**
Adjusted EBITDA Margin	***6.7%***	***7.0%***	***5.9%***	***5.8%***

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

Adjusted EBITDA Reconciliation by Quarter

	Quarter 1 2016	Quarter 2 2016	Quarter 3 2016	Quarter 4 2016	Fiscal 2016	Quarter 1 2017	Quarter 2 2017	T12M Q2-17
Financial Data								
Net sales	$ 1,397.1	$ 1,677.3	$ 1,746.0	$ 1,546.9	$ 6,367.3	$ 1,533.1	$ 1,843.3	$ 6,669.2
Sales adjustment for closed locations	(6.5)	(2.6)	(3.3)	(1.4)	(13.8)	-	-	(4.7)
Net sales excluding closed locations	1,390.6	1,674.7	1,742.6	1,545.5	6,353.5	1,533.1	1,843.3	6,664.5
Gross margin	349.7	418.3	437.1	391.6	1,596.7	376.1	460.8	1,665.5
Gross margin %	*25.0%*	*24.9%*	*25.0%*	*25.3%*	*25.1%*	*24.5%*	*25.0%*	*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**	**$ 37.9**	**$ 173.6**
Integration related expenses	5.4	7.5	8.0	5.1	26.0	5.9	5.1	24.1
One time debt issuance and refinancing cost [1]	(7.7)	1.7	53.3	9.7	57.0	2.4	-	65.4
Release of tax valuation allowance	5.1	(16.0)	(117.6)	(3.1)	(131.7)	-	-	(120.8)
Facility closure costs	-	(1.7)	0.0	0.2	(1.5)	-	-	0.2
Adjusted Net Income (Loss)	**(14.2)**	**20.9**	**69.2**	**18.3**	**94.1**	**12.1**	**43.0**	**142.5**
Weighted average diluted common shares (in millions)	*109.9*	*113.5*	*114.3*	*114.2*	*113.6*	*114.6*	*115.5*	
Diluted adjusted net income (loss) per share:	**$ (0.13)**	**$ 0.18**	**$ 0.61**	**$ 0.16**	**$ 0.83**	**$ 0.11**	**$ 0.37**	
Depreciation and amortization expense	30.8	30.6	25.6	22.9	109.8	23.6	24.2	96.2
Interest expense, net	42.9	41.1	39.0	34.7	157.7	33.8	33.7	141.1
Income tax expense	(0.6)	20.2	(13.9)	3.2	9.0	0.3	19.7	9.4
Stock compensation expense	2.6	2.6	2.6	2.8	10.5	2.9	3.5	11.8
(Gain)/loss on sale and asset impairments	-	1.0	(4.3)	2.9	(0.3)	3.1	(0.2)	1.6
Other management-identified adjustments [2]	0.3	0.3	0.1	0.0	0.8	0.3	0.1	0.6
Adjusted EBITDA	**$ 61.8**	**$ 116.7**	**$ 118.3**	**$ 84.8**	**$ 381.6**	**$ 76.1**	**$ 124.0**	**$ 403.2**
Adjusted EBITDA Margin	*4.4%*	*7.0%*	*6.8%*	*5.5%*	*6.0%*	*5.0%*	*6.7%*	*6.0%*

(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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited) (In thousands, except per share amounts)			
Sales	$ 1,843,297	$ 1,677,300	$ 3,376,361	$ 3,074,415
Cost of sales	1,382,500	1,258,969	2,539,512	2,306,335
Gross margin	460,797	418,331	836,849	768,080
Selling, general and administrative expenses	369,456	341,909	705,231	668,878
Income from operations	91,341	76,422	131,618	99,202
Interest expense, net	33,710	42,802	69,867	78,027
Income before income taxes	57,631	33,620	61,751	21,175
Income tax expense	19,721	4,179	20,019	8,714
Net Income	$ 37,910	$ 29,441	$ 41,732	$ 12,461
Comprehensive Income	$ 37,910	$ 29,441	$ 41,732	$ 12,461
Net income per share:				
Basic	$ 0.34	$ 0.27	$ 0.37	$ 0.11
Diluted	$ 0.33	$ 0.26	$ 0.36	$ 0.11
Weighted average common shares:				
Basic	112,443	110,339	112,205	110,133
Diluted	115,465	113,504	115,025	112,922

GAAP Financial Schedules – Balance Sheet

	June 30, 2017	December 31, 2016
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,931	$ 14,449
Accounts receivable, less allowances of $12,657 and $11,571 at June 30, 2017 and December 31, 2016, respectively	720,639	569,208
Other receivables	52,519	55,781
Inventories, net	651,041	541,771
Other current assets	39,331	34,772
Total current assets	1,470,461	1,215,981
Property, plant and equipment, net	643,295	656,101
Assets held for sale	4,493	4,361
Goodwill	740,411	740,411
Intangible assets, net	145,600	159,373
Deferred income taxes	108,636	115,320
Other assets, net	17,814	18,340
Total assets	$ 3,130,710	$ 2,909,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	$ 32,687	$ 35,606
Accounts payable	503,533	409,759
Accrued liabilities	265,605	293,115
Current maturities of long-term debt and lease obligations	12,939	16,217
Total current liabilities	814,764	754,697
Long-term debt and lease obligations, net of current maturities, debt discount and debt issuance costs	1,887,802	1,785,835
Other long-term liabilities	61,039	59,735
Total liabilities	2,763,605	2,600,267
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 112,582 and 111,564 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,126	1,115
Additional paid-in capital	534,721	527,868
Accumulated deficit	(168,742)	(219,363)
Total stockholders' equity	367,105	309,620
Total liabilities and stockholders' equity	$ 3,130,710	$ 2,909,887

GAAP Financial Schedules – Cash Flow

	Six months ended June 30,	
	2017	2016
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	$ 41,732	$ 12,461
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	47,765	61,349
Amortization and write-off of deferred loan costs and debt discount	3,790	4,084
Gain on extinguishment of debt	—	(6,015)
Deferred income taxes	15,573	6,650
Bad debt expense	(588)	(87)
Stock compensation expense	6,379	5,127
Net loss on sale of assets and asset impairments	2,988	996
Changes in assets and liabilities:		
Receivables	(147,501)	(124,728)
Inventories	(107,865)	(67,472)
Other current assets	(3,605)	3,448
Other assets and liabilities	3,417	3,663
Accounts payable and checks outstanding	89,226	111,741
Accrued liabilities	(27,657)	(43,016)
Net cash used in operating activities	(76,346)	(31,799)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(24,568)	(22,672)
Proceeds from sale of property, plant and equipment	2,004	923
Cash used for acquisitions, net	—	(3,970)
Net cash used in investing activities	(22,564)	(25,719)
Cash flows from financing activities:		
Borrowings under revolving credit facility	687,000	479,000
Repayments under revolving credit facility	(588,000)	(435,000)
Repayments of long-term debt and other loans	(5,294)	(42,189)
Payments of debt extinguishment costs	—	(1,050)
Payments of loan costs	(2,799)	(4,452)
Exercise of stock options	2,958	3,430
Repurchase of common stock	(2,473)	(1,092)
Net cash provided by (used in) financing activities	91,392	(1,353)
Net change in cash and cash equivalents	(7,518)	(58,871)
Cash and cash equivalents at beginning of period	14,449	65,063
Cash and cash equivalents at end of period	$ 6,931	$ 6,192


Builders
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