

Builders FirstSource



Second Quarter 2018 Earnings Call

August 8, 2018



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 7, 2018.

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



Differentiated market leader with exceptional geographic and 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

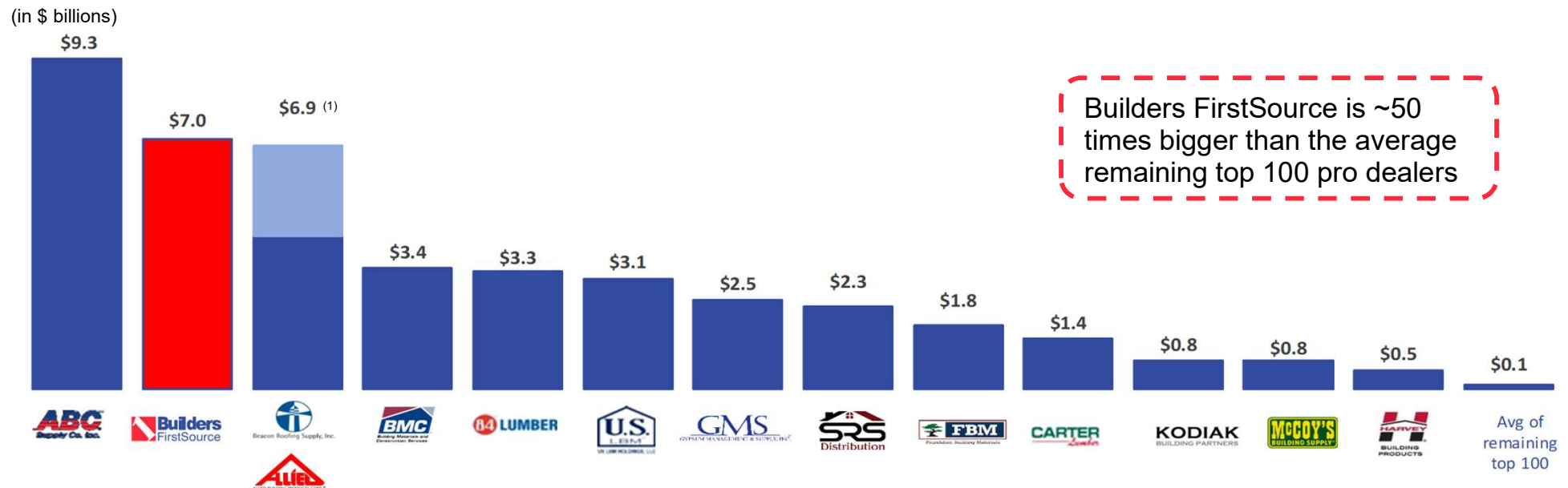


Builders FirstSource: Differentiated market leader capitalizing on strategic advantages and enhanced focus on growth



- The largest LBM (Lumber and Building Material) supplier 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
- 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

2017 Pro Forma Sales of Top Distribution Pro Dealers



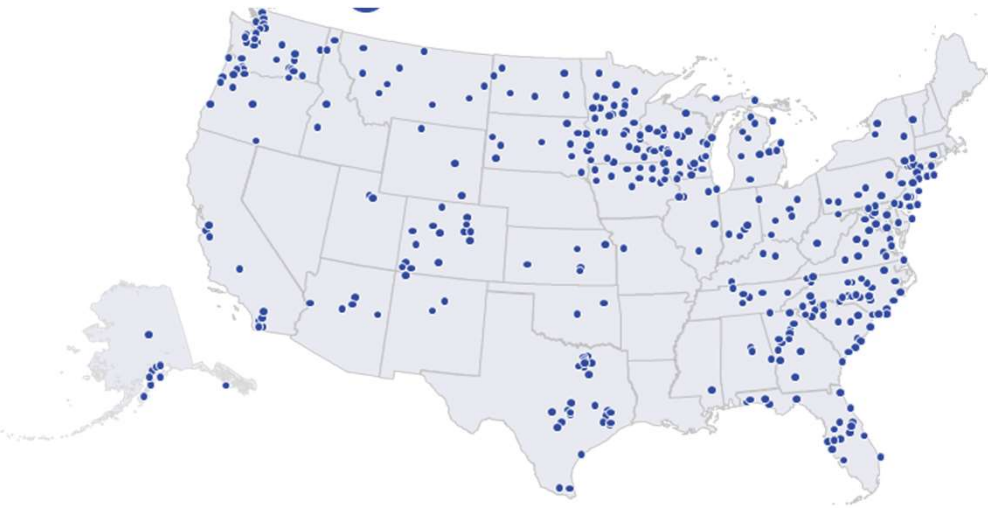
Source: ProSales 2018 Survey, Wall Street equity research (1) Full year 2016 pro Forma for notable acquisitions

Exceptional geographic diversity and balanced end market exposure

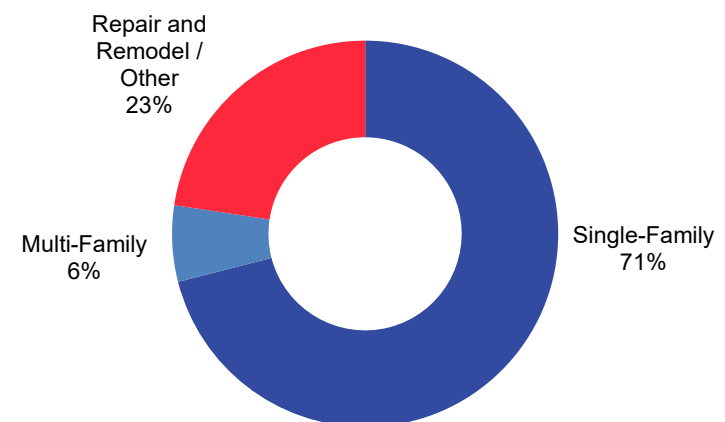


- Diversity, scale and expansive geographic footprint enables exceptional customer reach and less exposure to any one market
 - Presence in 75 of top 100 MSAs and in 40 states
- National scale facilitates strategic partnerships with customers and suppliers
 - Unique positioning to offer large production homebuilders consistent service across 40 states
 - Advantaged purchasing power as the largest distributor of building products to the pro channel
- The highly fragmented homebuilding market provides a diverse customer base, where no one customer accounts for more than 5% of sales and top 10 account for ~16%
- 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 over 400 locations in 40 states



YTD Q2-2018 sales by end market



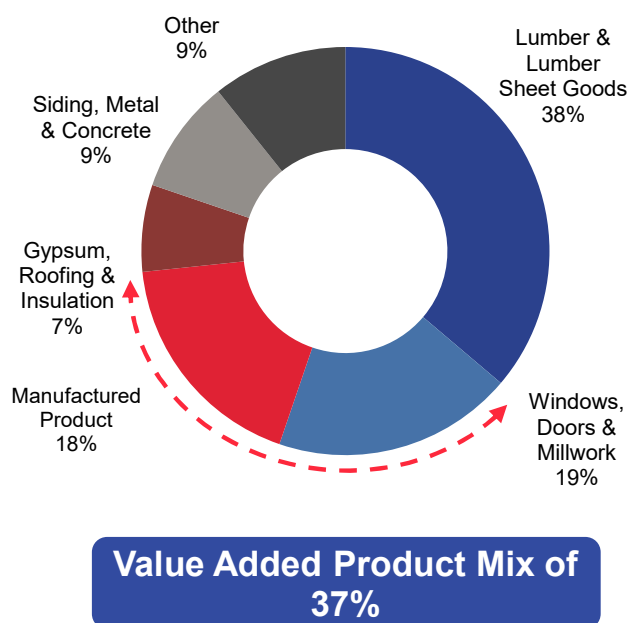
Labor shortages and extended building cycle times increase the relative value of our high margin value-added products



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

- Capacity expansion
 - In 2018, we are adding 3 new truss manufacturing facilities, 10 additional lines to existing plants, capacity and productivity additions to 10 plants, 1 new millwork facility, and capacity to 10 door shops
- Value added products sales grew 11.1% in Q2 vs prior year
 - Manufactured Products increased 18.7%
 - Commodity inflation drove increase in lumber revenue and mix

YTD Q2-2018 sales by product category



Lumber & Sheet Goods



Manufactured product



Windows, doors & millwork



Gypsum, roofing & insulation



Other products & services



Siding, metal, & concrete

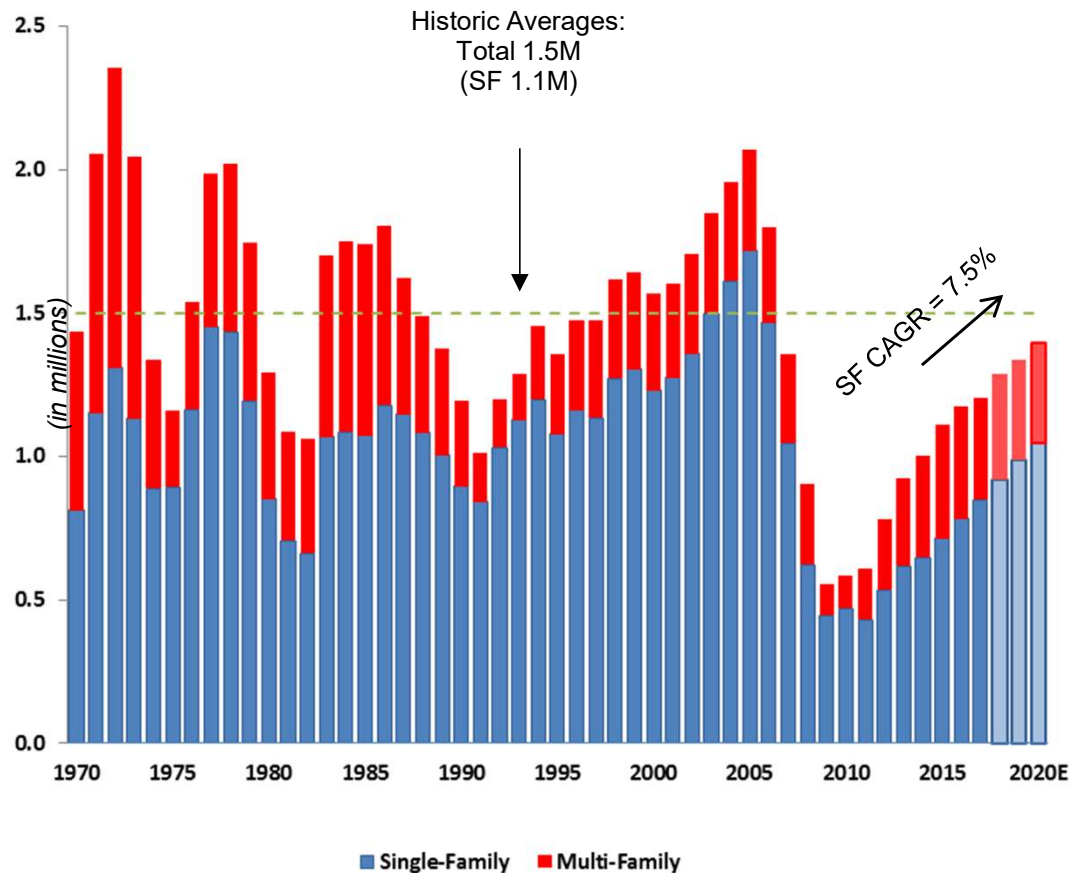


Note: Sales exclude the impact of closed locations

Supportive US housing market dynamics and outlook

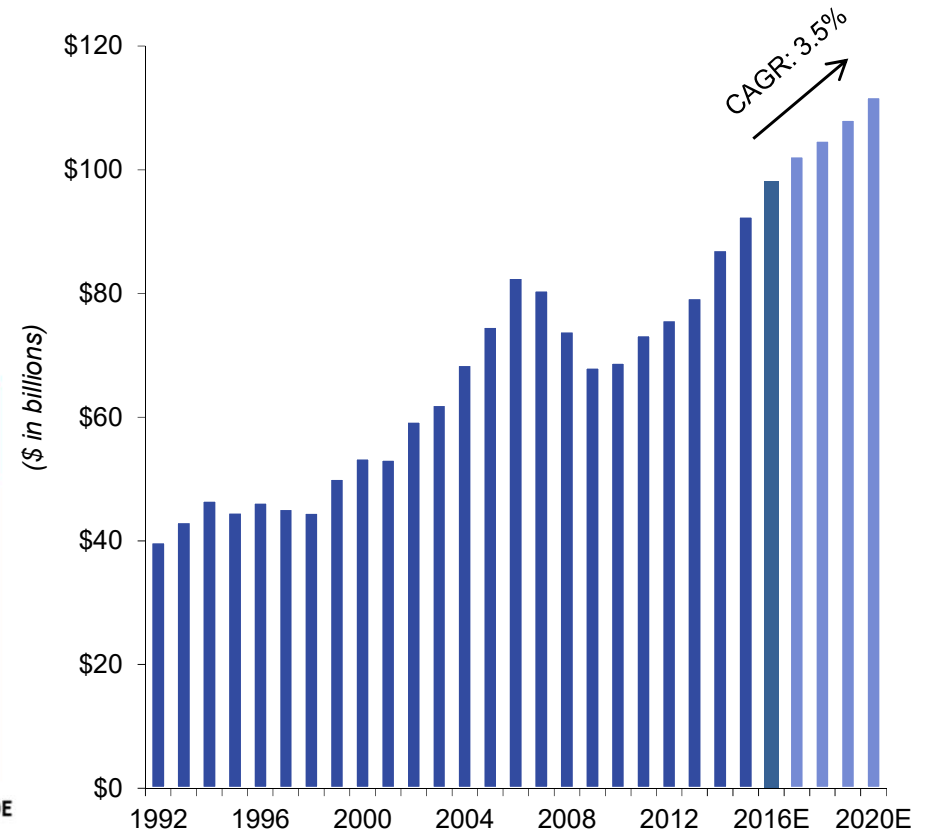


U.S. housing starts⁽¹⁾



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: US Census, National Association of Home Builders. Estimates (2017 – 2020) wall street and economic research

² Source: Home Improvement Research Institute.

Leveraging our strengths to accelerate growth and further expand profitability



*Existing
Business*



*Organic
Investment in
Value Added
Product growth*



*Operational
Excellence
Initiatives*



*Core Business
Growth*

*(Single family starts
return to historic norm of
1.1M)*

*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
 - Expanding best in class sales force capacity and capability
 - 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 value to shareholders
 - Significant resulting cash flow provides opportunity for debt reduction, returning cash to shareholders, and increasing investment in organic and acquisitive growth
 - Our long term leverage target is between 2.5-3.5 X EBITDA

Initiatives underway, with meaningful value creation



Category	Summary Description	Estimated EBITDA Growth
Core Business Growth	- Single family starts return to historic norm of 1.1M - Repair and Remodeling growth at ~3% annually - Multi-family starts return to 400K historic norm	~\$250-280M
Value Added Product Growth Faster Than Market	- Grow faster than the single family market, leveraging value added products - Expand national manufacturing footprint, providing access to higher margin value added products - Provide solutions to build more efficiently and address labor constraints	~\$30-40M
Operational Excellence Initiatives	- Delivery and logistic projects to improve efficiency and customer service, including black box technology and delivery and dispatch system - Home builder integration, including customer portal and automation of order entry and integrated billing - Back office automation - Pricing and margin optimization tools - Operational reporting improvements that enable more efficient operations and indirect spending reductions	~\$65-75M

We believe will enable Builders FirstSource, within 4-5 years, to:

- ✓ ~ Double Baseline (2016) EBITDA
- ✓ ~ EPS \$3.00 - \$3.50
- ✓ ~ 2.5 – 3.0 x Baseline (2016) Free Cash Flow
- ✓ ~ Over \$1B Cumulative Cash Generation

Note: Assumes ~120M shares outstanding at the end of 4-5 years, CapEx between 1.5-1.7% of sales to capture savings and elevated associated depreciation, no further debt refinancing, and return to normalized housing starts of 1.1M SF and 400K MF starts. See page 1 regarding Forward-Looking Statements and Risk Factors



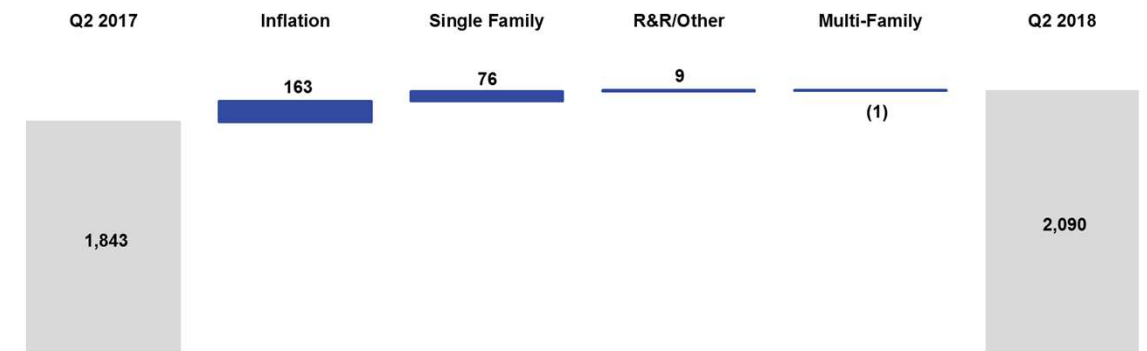
Adjusted Financial Overview

Q2 2018 Adjusted results



Net Revenue Bridge

(\$ in millions)



■ Sales grew 13.4% over prior year

- Sales volume grew 6.0% in single family and 1.8% in R&R & other
- Multi-family down as expected
- Commodity price inflation benefited sales by 8.8%
- Valued added product sales up 11.1% led by an increase of 18.7% in Manufactured Products

■ Gross margins decreased by 130 bps largely as a result of commodity inflation

- Lumber and panel prices have increased 26% and 27% respectively since year end
- Higher sustained commodity prices generally benefit operating results, but results in gross margin percentage compression when prices are rising and expansion when prices are shrinking due to short term pricing commitments provided customers
- Additionally, higher sales in commodity products has a negative mix impact on gross margin percent

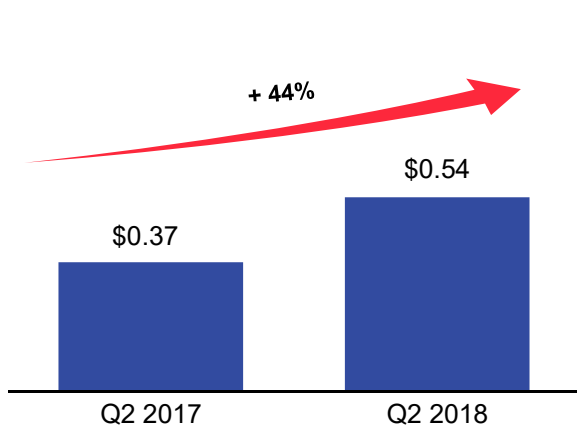
■ SG&A as a % of sales decreased by 130 basis points

- Improvement driven by cost leverage and continued cost management

■ Adjusted EBITDA increased 12.2% over Q2 2017

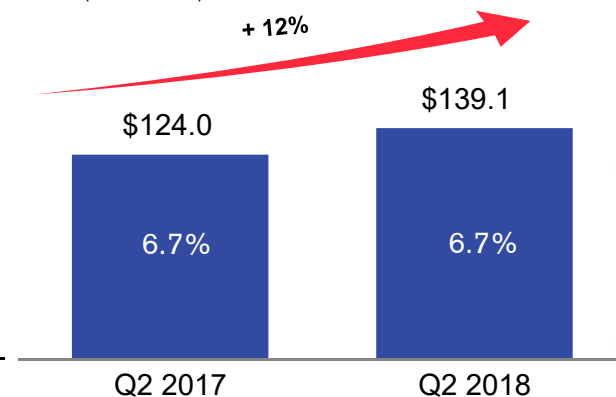
- Driven by sales increases and strong cost management which enabled the company to fully offset the impact of commodity inflation on EBITDA margin

Adjusted Earnings Per Share ⁽¹⁾



Adjusted EBITDA⁽¹⁾

(\$ in millions)



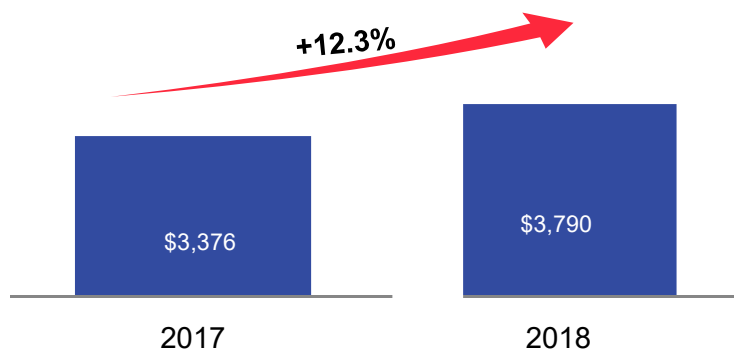
(1) See Adjusted (Non- GAAP) EBITDA reconciliations to GAAP on page 14

2018 YTD Financial Highlights



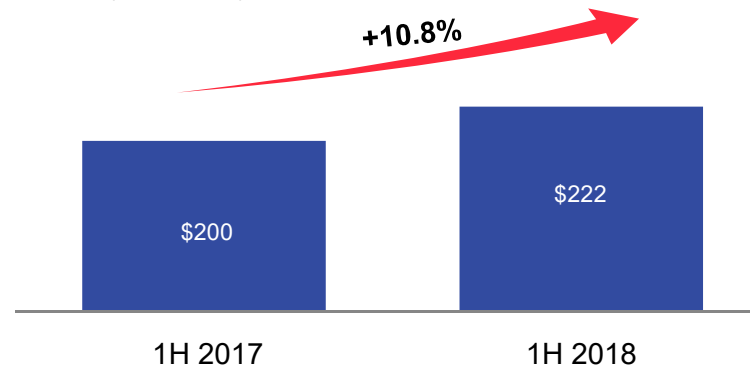
Net sales

(\$ in millions)



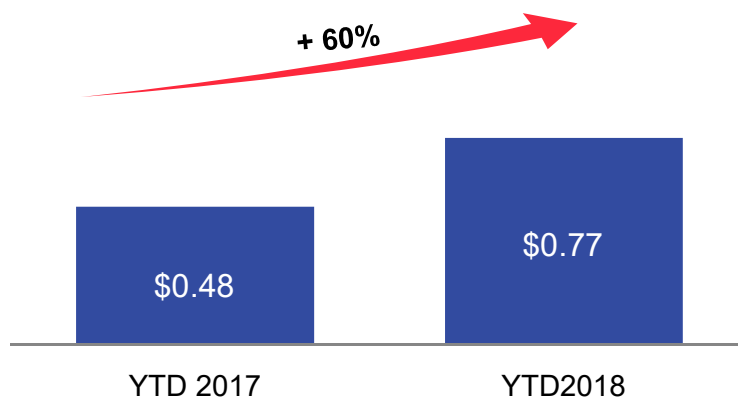
Adjusted EBITDA

(\$ in millions)



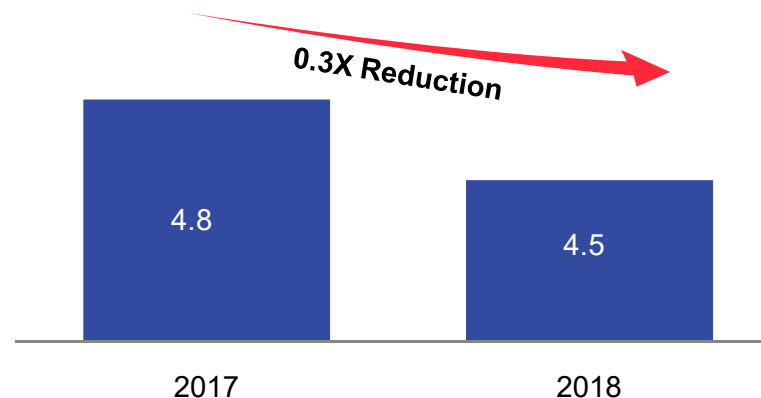
Adjusted Earnings Per Share

(\$ in millions)



Leverage Ratio

(x Adjusted EBITDA)



(1) See reconciliations to GAAP on page 14

Free cash flow and deleveraging priorities



The following financial attributes...

Strong projected free cash flow generation

Relatively low capital intensive business

Our current NOL should shelter the Company from paying all but \$15-20M of cash taxes in 2018

Focus on working capital efficiency, expected to run 10% of incremental sales despite the impact of lumber inflation

Refinancing transactions reduced 2018 cash interest

We believe will enable Builders FirstSource in 2018 to...

Generate net free cash flow of \$170-190M

Fund capital investments at 1.5% of sales

Improve our leverage ratio to < 3.5X

Fund organic growth opportunities and expand share of wallet through value added products

Reduce debt



Appendix - Financial Schedules

Reconciliation from Net Income to Adjusted EBITDA



	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<i>(in \$ millions)</i>				
Reported GAAP Net Income	\$ 56.6	\$ 37.9	\$ 79.8	\$ 41.7
Integration related expenses	6.0	5.1	10.4	11.0
Debt issuance and refinancing cost ⁽¹⁾	-	-	-	2.4
Adjusted Net Income	62.6	43.0	90.2	55.1
<i>Weighted average diluted common shares (in millions)</i>	<i>116.7</i>	<i>115.5</i>	<i>116.7</i>	<i>115.0</i>
Diluted adjusted net income per share:	\$ 0.54	\$ 0.37	\$ 0.77	\$ 0.48
Reconciling items:				
Depreciation and amortization expense	24.8	24.2	47.6	47.8
Interest expense, net	29.0	33.7	55.7	67.5
Income tax (benefit) expense	19.0	19.7	21.2	20.0
Stock compensation expense	3.5	3.5	6.4	6.4
(Gain)/loss on sale and asset impairments	(0.1)	(0.2)	0.1	2.9
Other management-identified adjustments ⁽²⁾	0.3	0.1	0.6	0.4
Adjusted EBITDA	\$ 139.1	\$ 124.0	\$ 221.8	\$ 200.1
<i>Adjusted EBITDA Margin</i>	<i>6.7%</i>	<i>6.7%</i>	<i>5.9%</i>	<i>5.9%</i>

(1) Cost associated with refinancing long term debt in 2017. (2) Primarily relates to severance and one time cost.

Adjusted EBITDA Reconciliation by Quarter



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full Year	Quarter 1	Quarter 2	T12M
	2017	2017	2017	2017	2017	2018	2018	Q2-18
Financial Data								
Net sales	\$ 1,533.1	\$ 1,843.3	\$ 1,878.9	\$ 1,778.9	\$ 7,034.2	\$ 1,700.4	\$ 2,089.9	\$ 7,448.1
Sales adjustment for closed locations	-	-	-	-	-	-	-	-
Net sales excluding closed locations	1,533.1	1,843.3	1,878.9	1,778.9	7,034.2	1,700.4	2,089.9	7,448.1
Gross margin	376.1	460.8	459.3	431.2	1,727.4	411.0	496.3	1,797.8
Gross margin %	24.5%	25.0%	24.4%	24.2%	24.6%	24.2%	23.7%	24.1%
Reconciliation from Net Income to Adjusted EBITDA:								
GAAP Net Income (Loss)	\$ 3.8	\$ 37.9	\$ 39.7	\$ (42.7)	\$ 38.8	\$ 23.2	\$ 56.6	\$ 76.8
Integration related expenses	5.9	5.1	5.7	4.0	20.7	4.4	6.0	20.1
Debt issuance and refinancing cost ⁽¹⁾	2.4	-	-	56.3	58.7	-	-	56.3
Revaluation of NOL ⁽²⁾	-	-	-	29.0	29.0	-	-	29.0
Adjusted Net Income	12.1	43.0	45.4	46.6	147.2	27.6	62.6	182.2
Weighted average diluted common shares (in millions)	114.6	115.9	115.9	116.5	115.6	116.7	116.7	
Diluted adjusted net income (loss) per share:	\$ 0.11	\$ 0.37	\$ 0.39	\$ 0.40	\$ 1.27	\$ 0.24	\$ 0.54	
Depreciation and amortization expense	23.6	24.2	23.0	22.2	93.0	22.8	24.8	92.8
Interest expense, net	33.8	33.7	33.8	33.2	134.5	26.7	29.0	122.7
Income tax expense	0.3	19.7	15.1	(11.0)	24.1	2.2	19.0	25.3
Stock compensation expense	2.9	3.5	3.5	3.6	13.5	2.9	3.5	13.5
(Gain)/loss on sale and asset impairments	3.1	(0.2)	1.5	1.9	6.3	0.2	(0.1)	3.5
Other management-identified adjustments ⁽³⁾	0.3	0.1	(0.3)	0.4	0.4	0.2	0.3	0.6
Adjusted EBITDA	\$ 76.1	\$ 124.0	\$ 122.0	\$ 96.9	\$ 419.0	\$ 82.6	\$ 139.1	\$ 440.6
Adjusted EBITDA Margin	5.0%	6.5%	6.5%	5.4%	6.0%	4.9%	6.7%	6.1%

(1) Cost associated with refinancing long term debt in 2017. (2) In 2017, the company revalued its NOL tax asset given the tax reform that allows for a lower federal corporate tax rate. (3) Primarily relates to severance and one time cost.

Interest Reconciliation and Debt Outstanding



Three months ended
June 30, 2018

	<u>Interest Expense</u>	<u>Net Debt Outstanding</u>	<u>Adjusted FY2018 Forecasted Cash Interest</u> ⁽¹⁾
		(in millions)	
2024 Secured Notes @ 5.625% Fixed	\$ 10.5	\$ 750.0	\$ 42.2
2024 Term Loan @ 5.0% (Floating LIBOR) ⁽²⁾	6.2	460.6	22.8
Revolving Credit Facility @ 3.8% (Floating LIBOR) ⁽²⁾	5.6	533.0	13.7
Amortization of deferred loan costs and debt discount	1.2	-	-
Lease finance obligations and capital leases	5.3	242.4	21.1
Other	0.2	-	-
Cash	-	(13.2)	-
Total	<u>\$ 29.0</u>	<u>\$ 1,972.8</u>	<u>\$ 99.7</u>

- Total liquidity at June 30, 2018 was \$298.0M
- The Company has an extended debt maturity profile
- The net debt/Adjusted EBITDA (on a trailing 12 month basis) leverage ratio on June 30, 2018 was 4.5x, a 0.3x reduction from the prior year
- Adjusted EBITDA (on a trailing 12 month basis) / Adjusted annual go forward cash interest is greater than 4x

(1) Excludes issuance cost and one time items. Assumes Q2 borrowing rates on variable debt. (2) Assumes average forecasted 2018 balances for the Term Loan and the Revolving Credit Facility

GAAP Financial Schedules – Income Statement



	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
	(In thousands, except per share amounts)			
Sales	\$ 2,089,888	\$ 1,843,297	\$ 3,790,324	\$ 3,376,361
Cost of sales	1,593,560	1,382,500	2,882,944	2,539,512
Gross margin	496,328	460,797	907,380	836,849
Selling, general and administrative expenses	391,769	369,456	750,677	705,231
Income from operations	104,559	91,341	156,703	131,618
Interest expense, net	28,957	33,710	55,699	69,867
Income before income taxes	75,602	57,631	101,004	61,751
Income tax expense	18,980	19,721	21,162	20,019
Net Income	<u>\$ 56,622</u>	<u>\$ 37,910</u>	<u>\$ 79,842</u>	<u>\$ 41,732</u>
Comprehensive Income	<u>\$ 56,622</u>	<u>\$ 37,910</u>	<u>\$ 79,842</u>	<u>\$ 41,732</u>
<i>Net income per share:</i>				
Basic	<u>\$ 0.49</u>	<u>\$ 0.34</u>	<u>\$ 0.70</u>	<u>\$ 0.37</u>
Diluted	<u>\$ 0.49</u>	<u>\$ 0.33</u>	<u>\$ 0.68</u>	<u>\$ 0.36</u>
<i>Weighted average common shares:</i>				
Basic	<u>114,636</u>	<u>112,443</u>	<u>114,365</u>	<u>112,205</u>
Diluted	<u>116,693</u>	<u>115,465</u>	<u>116,695</u>	<u>115,025</u>

GAAP Financial Schedules – Balance Sheet



	June 30, 2018	December 31, 2017
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,196	\$ 57,533
Accounts receivable, less allowances of \$13,437 and \$11,771 at June 30, 2018 and December 31, 2017, respectively	820,396	631,992
Other receivables	71,345	71,232
Inventories, net	782,757	601,547
Other current assets	39,258	33,564
Total current assets	1,726,952	1,395,868
Property, plant and equipment, net	655,572	639,303
Assets held for sale	8,153	5,273
Goodwill	740,411	740,411
Intangible assets, net	119,424	132,567
Deferred income taxes	55,726	75,105
Other assets, net	16,614	17,597
Total assets	\$ 3,322,852	\$ 3,006,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	\$ 19,849	\$ —
Accounts payable	562,549	514,282
Accrued liabilities	250,381	271,597
Current maturities of long-term debt and lease obligations	13,971	12,475
Total current liabilities	846,750	798,354
Long-term debt and lease obligations, net of current maturities, debt discount and debt issuance costs	1,954,243	1,771,945
Other long-term liabilities	60,388	59,616
Total liabilities	2,861,381	2,629,915
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, \$0.01 par value, 200,000 shares authorized; 114,671 and 113,572 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,147	1,136
Additional paid-in capital	550,707	546,766
Accumulated deficit	(90,383)	(171,693)
Total stockholders' equity	461,471	376,209
Total liabilities and stockholders' equity	\$ 3,322,852	\$ 3,006,124

GAAP Financial Schedules – Cash Flow



	Six Months Ended June 30,	
	2018	2017
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	\$ 79,842	\$ 41,732
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	47,587	47,765
Amortization and write-off of debt issuance costs and debt discount	2,308	3,790
Deferred income taxes	18,863	15,573
Stock compensation expense	6,428	6,379
Net loss (gain) on sale of assets and asset impairments	(326)	2,988
Changes in assets and liabilities:		
Receivables	(177,765)	(148,089)
Inventories	(189,925)	(107,865)
Other current assets	(5,693)	(3,605)
Other assets and liabilities	2,498	3,417
Accounts payable and checks outstanding	67,129	89,226
Accrued liabilities	(19,915)	(27,657)
Net cash used in operating activities	(168,969)	(76,346)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(49,948)	(24,568)
Proceeds from sale of property, plant and equipment	1,075	2,004
Net cash used in investing activities	(48,873)	(22,564)
Cash flows from financing activities:		
Borrowings under revolving credit facility	904,000	687,000
Repayments under revolving credit facility	(721,000)	(588,000)
Repayments of long-term debt and other loans	(6,852)	(5,294)
Payments of loan costs	—	(2,799)
Exercise of stock options	2,212	2,958
Repurchase of common stock	(4,855)	(2,473)
Net cash provided by financing activities	173,505	91,392
Net change in cash and cash equivalents	(44,337)	(7,518)
Cash and cash equivalents at beginning of period	57,533	14,449
Cash and cash equivalents at end of period	\$ 13,196	\$ 6,931

