Builders FirstSource

Fourth Quarter and Full Year Earnings Call

March 1, 2019

Safe Harbor & Non-GAAP Financial Measures

Cautionary Notice

Statements in this news release and the schedules hereto that are not purely historical facts or that necessarily depend upon future events, including statements about expected market share gains, 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 21E of the Securities Exchange Act of 1934, as amended. In addition, oral statements made by our directors, officers and employees to the investor and analyst communities, media representatives and others, depending upon their nature, may also constitute forward-looking statements. All forward-looking statements are based upon currently available information and the Company's current assumptions, expectations and projections about future events. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are by nature inherently uncertain, and actual results or events may differ materially from the results or events described in the forward-looking statements as a result of many factors. 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, many of which are beyond the Company's control or may be currently unknown to the Company, 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 growth strategies, including gaining market share, or 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 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") and may also be described from time to time in the other reports the Company files with the SEC. Consequently, all forward-looking statements in this release 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 November 1, 2018.

2018 Full Year Financial Highlights

Net sales	Gross margin	Adjusted EBITDA
$7.7b	**24.9%**	**$502m**
+9.8%	**+30 bp**	**+19.7%**
Adjusted EPS	Free Cash Flow	Leverage ratio
$1.90	**~$186m**	**3.1x**
+48.9%	**~85% of Adj net income**	**Reduction of ~1.1x**

Leverage ratio – Net debt divided by TTM Adjusted EBITDA

2018 Full Year Strategic Achievements

Organic growth

- Revenue growth of 9.8% outgrew end markets
- Invested $101m in capital expenditures to grow state-of-the-art industry leading footprint

Free Cash Flow Generation

- Generated FY18 free cash flow of $186m after funding capex
- Reduced leverage to 3.1x at 12/31 compared to 4.2x the prior year, in line with target of 2.5x – 3.5x

Exceptional Talent

- Hired and/or promoted ~160 key sales positions
- Rolled out rigorous training to formalize sales tools and standardize processes
- "Forbes 2018 Best Large Employers" list

Operational Excellence

- Continued to implement initiatives to drive efficiencies and productivity
- Rolled out the dispatch and delivery optimization system to ~140 locations
- Rolled out pricing management tools showing benefits in the special order business

Value-Added Products

- FY 2018 sales grew more than 10% in value-added products categories
- Invested ~$20m in value-added capacity including plants, automation, machinery and systems
- Largest network of value-added capacity in the industry providing customers integrated solutions

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Q4 2018 Financial Overview

Q4 2018 Financial Highlights

Revenue

$1.8b

+0.5%[1]

Sales unit volume per day: increased 3.3%, a strong finish to the year

Value-added products: grew sales per day 6.8%, faster than overall sales growth, led by a 9.1% growth in Manufactured Products

Commodity prices: deflation negatively impacted sales per day by 2.8% reflecting lower lumber and panel prices than the same period last year

Gross margin

27.1%

+290 bp

Gross margin: expanded as the sharp decline in the cost of commodities relative to our short term customer pricing commitments combined with continued pricing discipline

Lumber and panel prices: indices declined 15% and 19% respectively in Q4

Value-added products: growth in higher margin categories contributed to the improvement

Adjusted EBITDA

$125m

+29%

SG&A: increased by $36m as cost leverage was offset by increased variable costs including increased commissions and incentives related to the high gross margins achieved in the quarter

Adjusted EBITDA margin: up 150 bps over the prior year driven by the sales increase and margin expansion from growth in value-added products and declining commodity prices

Adjusted Net Income

$53m

+14%

Interest expense: declined by $7m adjusted for the one-time premium paid in Q4 17. Reduction is a result of a gain on debt extinguishment ($3.2m) and the opportunistic refinancing executed in Q4 17 as part of the disciplined capital management plan

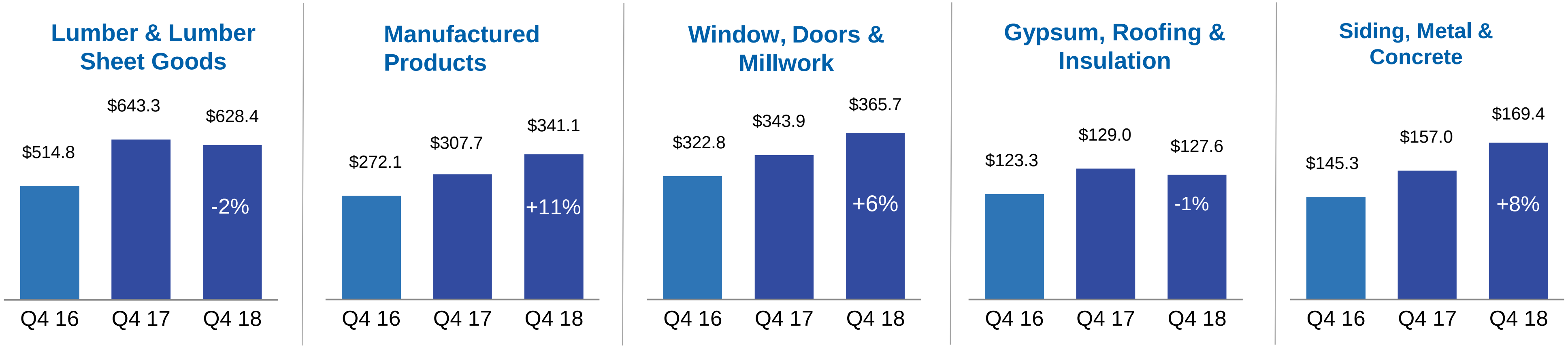
Diluted Adjusted EPS: $0.46 per share, an increase of 14.1% over the prior year

[1] Sales per day growth

Q4 2018 Net Sales by Product Category

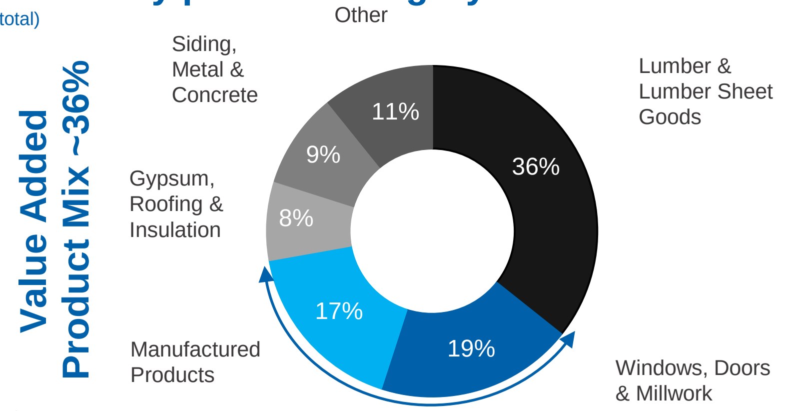
Q4 2018 sales by product category

($ in millions)



Sales mix by product category

(% of total)



Sale mix: FY 2018

Value-added products (VAP) remained at 36% of total sales

- Extent of relative growth in VAP in full year 2018 has been “masked” as commodity inflation drove an increase in lumber revenue & mix

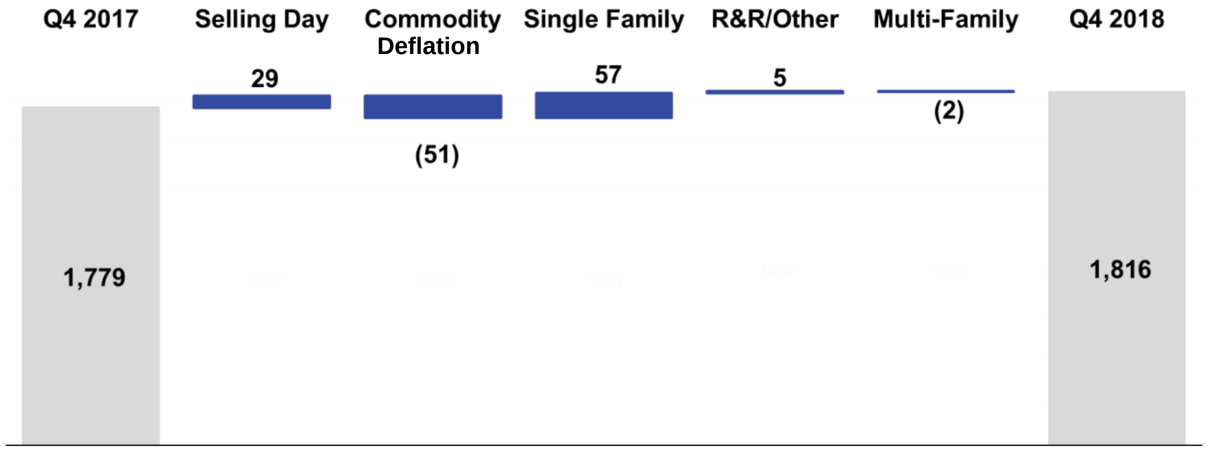
Significant VAP capacity expansion in 2018 and planned 2019:

- 2018: 1 new truss & 1 new millwork facilities, ~10 additional lines to existing plants, capacity and productivity additions to ~10 plants and capacity to ~10 door shops

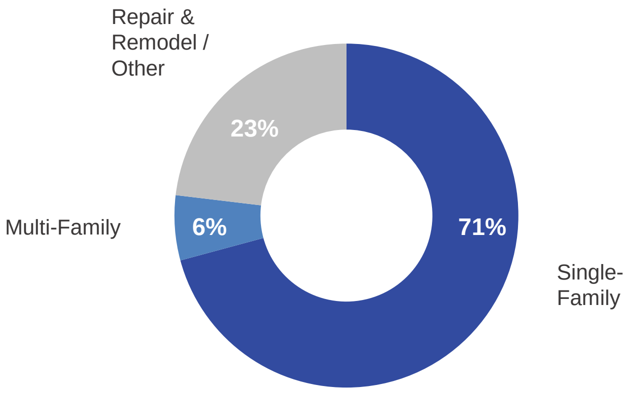
- 2019: ~$30m in growth capex to be invested in additional VAP capacity including: new truss & millwork facilities, door machines, and line upgrades at dozens of locations

Q4 2018 Net Sales by End Market

Net sales bridge
($ in millions)



Sales mix by end market
(% of total)



Sale mix: FY 2018

Single family: sales unit volume per day grew 4.5%, faster than the single-family end markets

R&R / Other: sales unit volume per day grew 1.1%

Agricultural tariffs in the Midwest continued to curb R&R market activity

Multi-family: sales unit volume declined 1.8% as expected

Net Debt and Cash flow

Debt Profile

($ in millions as of December 31st, 2018)

Revolving Credit Facility	$	179.0
2024 Secured Notes		696.4
2024 Term Loan		458.3
Other finance obligations and capital leases		243.5
Cash		(10.1)
Total Net Financial Debt	$	1,567.0

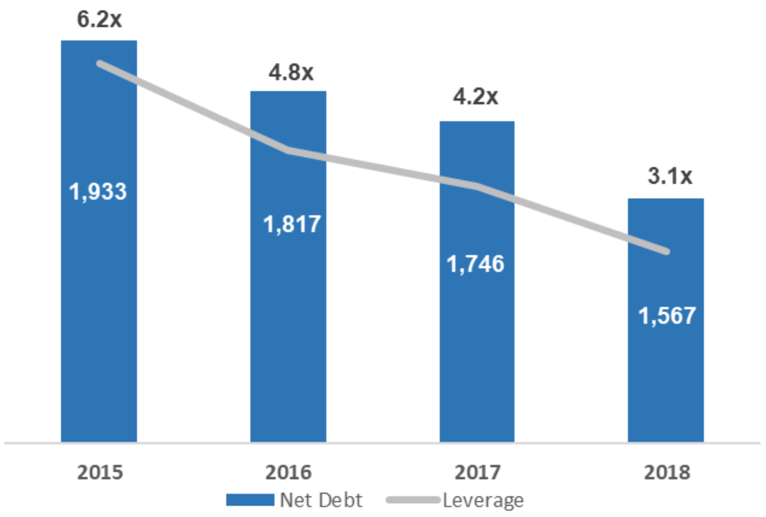
Total liquidity at December 31, 2018: $595.5m

Net debt/ Adjusted FY 2018 EBITDA December 31, 2018: 3.1x; a reduction of -1.1x from the prior year

FY 2018 Adjusted EBITDA / Adjusted go forward cash interest: ~5x

Net Debt / Leverage Ratio

($ in millions) / x times Adjusted EBITDA



Prudent balance sheet management restored financial flexibility

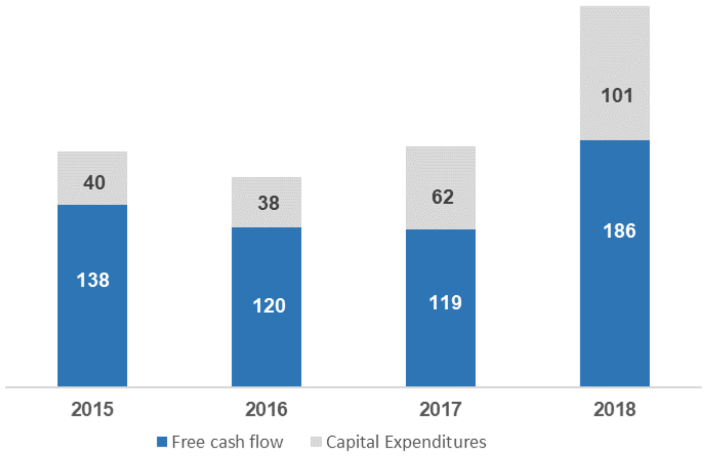
Delivered on a key milestone announced in 2015 as part of the ProBuild transaction

Integrated a transformative acquisition whose combined cash flows quickly restored leverage to the announced target level of 2.5x – 3.5x

Net Debt and Cash flow

Free Cash Flow & Capital Expenditures

($ in millions)



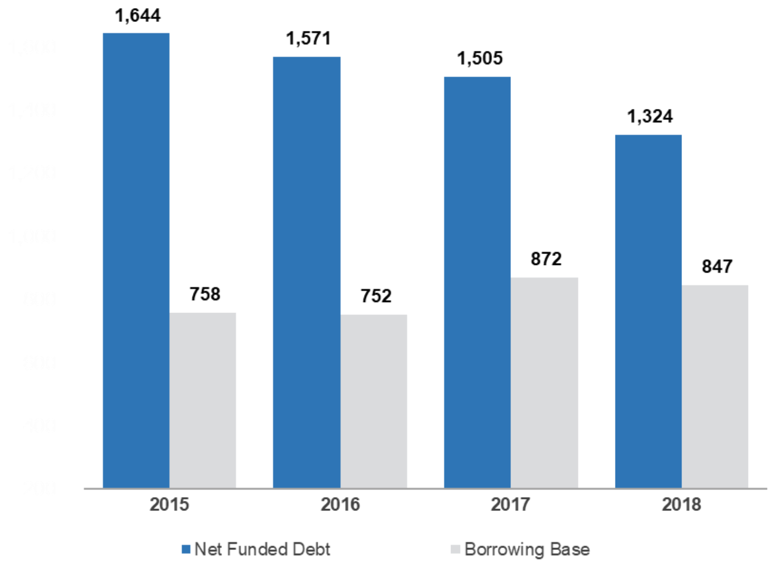
Invested in a differentiated platform and industry leading network and scale

Expanded use of technology & automation creating highly efficient state-of-the art manufacturing

Exceptional growth in free cash flow generation while at the same time investing significantly in our future

Borrowing Base & Net Funded Debt

($ in millions)



Free cash flow utilized to actively repay debt

Continue to de-risk balance sheet with current assets covering a larger portion of funded net debt

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Strategic Priorities & Outlook

Leveraging our strengths to accelerate growth and further expand profitability

Organic Investment in Value Added Product growth ✚ ***Operational Excellence Initiatives***

Leverage Platform Strengths

Strong existing business positioned for ongoing growth and profitability as single-family starts return to norm

- Market leader with exceptional size, geographic footprint, and end market exposure
- Largest number of manufacturing plants (58) strategically located across the country
- Expanding best in class sales force capacity and capabilities
- Housing market growth outlook has moderated but remains favorable
- Exceptional core growth opportunity as single-family starts return to historic norms

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 challenges in building homes more efficiently, addressing labor constraints and rising costs.
- Grow faster than the single family market

Initiatives underway, driving meaningful value creation

Category	Summary Description	Estimated EBITDA Growth
Core Business Growth	▪ Single family starts return to historic norm of 1.1m starts ▪ Repair and Remodeling growth at ~3% annually ▪ Multi-family starts return to 400K historic norm	~$130-160m
Value Added Product Growth Faster Than Market	▪ Grow faster than the single family market, leveraging value added products ▪ Expand national manufacturing footprint, increase higher margin value added mix ▪ Provide solutions to build more efficiently and address labor constrains	~$30-40m
Operational Excellence Initiatives	▪ Delivery and logistic projects to improve efficiency and customer service, including fleet tracking & routing and delivery optimization system ▪ Customer portal and automation of order entry and integrated billing providing customers access anytime and anywhere ▪ Back office automation including streamlining of accounts payable / receivable processes ▪ Pricing and margin optimization tools enabling sales to differentiate product offering including special & custom order business	~$65-75m
Financial Targets	▪ > 50% increase compared to FY2018 Adjusted EBITDA (~$750m) ▪ > $3.00 - $3.50 Adjusted EPS (~$360m - $420m Adjusted net income) ▪ > 85% Average Annual Free Cash Flow to Adjusted Net Income conversion	

Note: Assumes ~120M shares outstanding, 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.

Operational Excellence Initiative Example – Delivery Optimization

Sales & Operations Alignment

Logistics Optimization

Customer Collaboration

Digital Tools Provide:

Sales & Operations Alignment

- Stakeholders across all site functions aligned to meet customer requirements
- Electronic delivery board with enhanced reporting to improve productivity

Logistics Optimization

- GPS / black box technology monitors driver and truck performance
- Route optimization to maximize fleet efficiency and limit driver distractions

Customer Collaboration

- Ability to view order status across all market locations and lines of business
- Real-time job site notes, status updates, and delivery photos for confirmation

Tangible Impact & Benefits

Sales & yard worker productivity
Reduced expense, Higher sales / FTE
Order accuracy, Capacity expansion

Driver productivity, pounds / mile
Reduced fuel and maintenance costs
Improved safety performance

Provides customer self-service
Reduced administrative expenses
Improved customer satisfaction

2018 Recap & Outlook

Q4 / Full Year Highlights

Q4 2018:

Total unit sales volume grew 3%

Single-family unit sales volume grew 4.5%

VAP categories grew 8%

Adjusted EBITDA grew 29%

Adjusted net income up 14%

FY 2018:

Record Adjusted EBITDA of $502 million

Free Cash flow of $186 million for the full year

Net Financial Debt / Adjusted EBITDA of 3.1x

VAP categories grew by double digits

Executed on our VAP and Op. Ex plans

Hired and promoted ~160 sales team members

Created an even more durable and differentiated platform

Market Outlook

Single Family

Market fundamentals remain supportive even as growth moderates

Timing and extent of growth to be determined by economy and builders adjusting to buyers' needs

Multi-Family

Improving starts but remains mainly urban opportunities

Long lag between starts and revenue

Repair & Remodel

Overall market remains strong – Midwest remains under pressure from tariffs

Strong franchises in recovering markets

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Appendix – Financial Schedules

Reconciliation from Net Income to Adjusted EBITDA

($ millions)	Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Reconciliation to Adjusted EBITDA:				
Reported GAAP Net Income	$ 52.0	$ (42.7)	$ 205.2	$ 38.8
Integration related expenses	4.3	4.0	19.2	20.7
Debt issuance and refinancing cost (1)	(3.2)	56.3	(3.2)	58.7
(Release) of tax valuation allowance/revaluation of NOL (2)	-	29.0	-	29.0
Adjusted Net Income	**$ 53.1**	**$ 46.6**	**$ 221.2**	**$ 147.2**
Weighted average diluted common shares (in millions)	*116.4*	*116.5*	*116.6*	*115.6*
Diluted adjusted net income per share:	**$ 0.46**	**$ 0.40**	**$ 1.90**	**$ 1.27**
Reconciling items:				
Depreciation and amortization expense	25.2	22.2	97.9	93.0
Interest expense, net	26.6	33.2	111.4	134.5
Income tax (benefit) expense	15.0	(11.0)	55.6	24.1
Stock compensation expense	4.5	3.6	14.4	13.5
(Gain)/loss on sale and asset impairments	(0.9)	1.9	(1.0)	6.3
Other management-identified adjustments (2)	1.5	0.4	2.1	0.4
Adjusted EBITDA	**$ 125.0**	**$ 96.9**	**$ 501.6**	**$ 419.0**
Adjusted EBITDA Margin	*6.9%*	*5.4%*	*6.5%*	*6.0%*

(1) Gain or loss associated with refinancing long term debt
(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

Adjusted EBITDA Reconciliation by Quarter

($ millions)	Q1 17	Q2 17	Q3 17	Q4 17	FY 17	Q1 18	Q2 18	Q3 18	Q4 18	FY 18
Net sales	$ 1,533	$ 1,843.3	$ 1,878.9	$ 1,778.9	$ 7,034.2	$ 1,700.4	$ 2,089.9	$ 2,118.5	$ 1,816.0	$ 7,724.8
Gross margin	376.1	460.8	459.3	431.2	1,727.4	$ 411.1	$ 496.3	$ 522.8	$ 492.8	1,922.9
Gross margin %	*24.5%*	*25.0%*	*24.4%*	*24.2%*	*24.6%*	*24.2%*	*23.7%*	*24.7%*	*27.1%*	*24.9%*
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**	**$ 73.3**	**$ 52.0**	**$ 205.2**
Integration related expenses	5.9	5.1	5.7	4.0	20.7	4.4	6.0	4.5	4.3	19.2
Debt issuance and refinancing cost [1]	2.4	-	-	56.3	58.7	-	-	-	(3.2)	(3.2)
Revaluation of NOL [2]	-	-	-	29.0	29.0	-	-	-	-	-
Adjusted Net Income	**$ 12.1**	**$ 43.0**	**$ 45.5**	**$ 46.6**	**$ 147.1**	**$ 27.6**	**$ 62.6**	**$ 77.8**	**$ 53.1**	**$ 221.1**
Weighted average diluted common shares (in millions)	*114.6*	*115.5*	*115.9*	*116.5*	*115.6*	*116.7*	*116.7*	*116.5*	*116.4*	*116.6*
Diluted adjusted net income (loss) per share:	**$ 0.11**	**$ 0.37**	**$ 0.39**	**$ 0.40**	**$ 1.27**	**$ 0.24**	**$ 0.54**	**$ 0.67**	**$ 0.46**	**$ 1.90**
Depreciation and amortization expense	23.6	24.2	23.0	22.2	93.0	22.8	24.8	25.1	25.2	97.9
Interest expense, net	33.8	33.7	33.8	33.2	134.5	26.7	29.0	29.1	26.6	111.4
Income tax expense	0.3	19.7	15.1	(11.0)	24.1	2.2	19.0	19.4	15.0	55.5
Stock compensation expense	2.9	3.5	3.5	3.6	13.5	2.9	3.5	3.5	4.5	14.4
(Gain)/loss on sale and asset impairments	3.1	(0.2)	1.5	1.9	6.3	0.2	(0.1)	(0.2)	(0.9)	(1.0)
Other management-identified adjustments [3]	0.3	0.1	(0.4)	0.4	0.4	0.2	0.4	0.1	1.5	2.2
Adjusted EBITDA	**$ 76.1**	**$ 124.0**	**$ 122.0**	**$ 96.9**	**$ 419.0**	**$ 82.6**	**$ 139.1**	**$ 154.8**	**$ 125.0**	**$ 501.6**
Adjusted EBITDA Margin	*5.0%*	*6.7%*	*6.5%*	*5.4%*	*6.0%*	*4.9%*	*6.7%*	*7.3%*	*6.9%*	*6.5%*

(1) Gain or loss associated with refinancing long term debt
(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 December 31, Interest Expense	Net Debt Outstanding
	(in millions)	
2024 Secured Notes @ 5.625% Fixed	$ 10.2	$ 696.4
2024 Term Loan @ 5.3% (Floating LIBOR)	6.3	458.3
Revolving Credit Facility @ 4.3% (Floating LIBOR)	3.4	179.0
Amortization of deferred loan costs and debt discount	1.3	
Other finance obligations and capital leases	5.3	243.5
Gain on debt extinguishment	(3.2)	
Other	0.1	
Cash		(10.1)
Total	$ 23.4	$ 1,567.0

GAAP Financial Schedules – Income Statement

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
	(In thousands, except per share amounts)	
Sales	$ 1,815,980	$ 1,778,939
Cost of sales	1,323,201	1,347,719
Gross margin	492,779	431,220
Selling, general and administrative expenses	402,302	366,419
Income from operations	90,477	64,801
Interest expense, net	23,408	89,471
Income (loss) before income taxes	67,069	(24,670)
Income tax expense	15,048	18,031
Net income (loss)	$ 52,021	$ (42,701)
Comprehensive income (loss)	$ 52,021	$ (42,701)
Net income (loss) per share:		
Basic	$ 0.45	$ (0.38)
Diluted	$ 0.45	$ (0.38)
Weighted average common shares:		
Basic	114,898	113,239
Diluted	116,375	113,239

GAAP Financial Schedules – Income Statement

	Years Ended December 31,		
	2018	2017	2016
	(In thousands, except per share amounts)		
Sales	$ 7,724,771	$ 7,034,209	$ 6,367,284
Cost of sales	5,801,831	5,306,818	4,770,536
Gross margin	1,922,940	1,727,391	1,596,748
Selling, general and administrative expenses	1,553,972	1,442,288	1,360,412
Income from operations	368,968	285,103	236,336
Interest expense, net	108,213	193,174	214,667
Income before income taxes	260,755	91,929	21,669
Income tax expense (benefit)	55,564	53,148	(122,672)
Net income	$ 205,191	$ 38,781	$ 144,341
Comprehensive income	$ 205,191	$ 38,781	$ 144,341
Net income per share:			
Basic	$ 1.79	$ 0.34	$ 1.30
Diluted	$ 1.76	$ 0.34	$ 1.27
Weighted average common shares outstanding:			
Basic	114,586	112,587	110,754
Diluted	116,554	115,597	113,585

GAAP Financial Schedules – Balance Sheet

	December 31, 2018	December 31, 2017
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,127	$ 57,533
Accounts receivable, less allowances of $13,054 and $11,771 at December 31, 2018 and 2017, respectively	654,170	631,992
Other receivables	68,637	71,232
Inventories, net	596,896	601,547
Other current assets	43,921	33,564
Total current assets	1,373,751	1,395,868
Property, plant and equipment, net	670,075	639,303
Goodwill	740,411	740,411
Intangible assets, net	103,154	132,567
Deferred income taxes	22,766	75,105
Other assets, net	22,152	22,870
Total assets	$ 2,932,309	$ 3,006,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	423,168	514,282
Accrued liabilities	292,526	271,597
Current maturities of long-term debt and lease obligations	15,565	12,475
Total current liabilities	731,259	798,354
Long-term debt and lease obligations, net of current maturities, debt discount, and debt issuance costs	1,545,729	1,771,945
Other long-term liabilities	58,983	59,616
Total liabilities	2,335,971	2,629,915
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at December 31, 2018 and 2017	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 115,078 and 113,572 shares issued and outstanding at December 31, 2018 and 2017, respectively	1,151	1,136
Additional paid-in capital	560,221	546,766
Retained earnings (accumulated deficit)	34,966	(171,693)
Total stockholders' equity	596,338	376,209
Total liabilities and stockholders' equity	$ 2,932,309	$ 3,006,124

GAAP Financial Schedules – Cash Flow

	Years Ended December 31, 2018	2017 (In thousands)	2016
Cash flows from operating activities:			
Net income	$ 205,191	$ 38,781	$ 144,341
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	97,906	92,993	109,793
Amortization and write-off of debt issuance costs and debt discount	4,642	6,092	7,502
(Gain) loss on extinguishment of debt	(3,170)	56,657	55,776
Payment of original issue discount	—	—	(1,259)
Deferred income taxes	51,823	49,104	(124,787)
Stock compensation expense	14,420	13,508	10,549
Net (gain) loss on sales of assets and asset impairments	(1,393)	6,965	(336)
Changes in assets and liabilities			
Receivables	(9,221)	(75,673)	(44,552)
Inventories	(5,425)	(60,645)	(33,965)
Other current assets	(10,356)	8	(4,873)
Other assets and liabilities	5,637	8,315	(828)
Accounts payable	(89,392)	65,764	36,585
Accrued liabilities	22,168	(23,341)	4,281
Net cash provided by operating activities	282,830	178,528	158,227
Cash flows from investing activities:			
Purchases of property, plant and equipment	(101,411)	(62,407)	(42,662)
Proceeds from sale of property, plant and equipment	4,753	2,981	8,305
Cash used for acquisitions, net	—	—	(3,970)
Net cash used in investing activities	(96,658)	(59,426)	(38,327)
Cash flows from financing activities:			
Borrowings under revolving credit facility	1,662,000	1,370,000	907,000
Payments under revolving credit facility	(1,833,000)	(1,020,000)	(967,000)
Proceeds from issuance of notes	—	—	750,000
Repayments of long-term debt and other loans	(65,312)	(379,926)	(807,517)
Proceeds from long-term debt and other loans	3,818	—	—
Payments of debt extinguishment costs	(134)	(48,704)	(42,869)
Payments of loan costs	—	(2,799)	(15,663)
Exercise of stock options	3,945	8,055	6,627
Repurchase of common stock	(4,895)	(2,644)	(1,092)
Net cash used in financing activities	(233,578)	(76,018)	(170,514)
Net (decrease) increase in cash and cash equivalents	(47,406)	43,084	(50,614)
Cash and cash equivalents at beginning of period	57,533	14,449	65,063
Cash and cash equivalents at end of period	$ 10,127	$ 57,533	$ 14,449

Builders FirstSource

First we **Listen** – Then we **Deliver**

Investor Relations

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