Builders FirstSource Reports Second Quarter 2019 Results

Above market growth, strong margin management and continuing strategic plan execution drive another outstanding quarterly performance

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Builders FirstSource, Inc. (Nasdaq: BLDR) today reported its results for the second quarter ending June 30, 2019.

"During the second quarter, we continued to expand our sales of value-added products and solutions to our customers and delivered solid results for our shareholders. We generated above market growth, expanded margins and progressed on the execution of our strategic plan. Our operational excellence initiatives are on track, continuing to gain momentum and are delivering results as planned. I am also pleased with our strong cash flow and working capital management, which reduced our ratio of net financial debt to Adjusted EBITDA to 2.7x," said CEO Chad Crow.

"Our second quarter results included an estimated sales volume increase of 2.4 percent led once more by growth in our value-added product categories. Although deflation in commodity prices decreased total net sales, our team generated a strong gross margin of 27.2 percent and drove Adjusted EBTIDA higher by 4.7 percent," added CFO Peter Jackson.

Second Quarter 2019 Highlights:

Net sales for the quarter were lower by 8.9 percent - Commodity deflation decreased sales by 11.3 percent - Sales volume grew by an estimated 2.4 percent, led by above market performance in the single-family customer segment - Driven by 5.0 percent volume growth in our value-added product categories Gross margin dollars and percent increased by 4.2 percent and 350 basis points, respectively Adjusted EBITDA margin increased by 90 basis points Adjusted Net Income increased by 18 percent

The Company has provided supplemental non-GAAP financial information for the consolidated company that is adjusted to exclude one-time integration, one-time refinancing, and other costs ("Adjusted"). As the information included herein includes non-GAAP financial information, please refer to the accompanying financial schedules for non-GAAP reconciliations to their GAAP equivalents.

Second Quarter 2019 Compared to Second Quarter 2018:

Net Sales

Net sales for the second quarter ending June 30, 2019 were $1.9 billion, an 8.9 percent decrease compared to a year ago, driven by the impact of deflation in the price of lumber and lumber sheet goods of approximately 11.3 percent. Lumber and lumber sheet goods sales declined 25.8 percent, attributable to the deflation in commodity prices as compared to the same period a year ago. Our remaining product categories, excluding our gypsum, roofing and insulation, achieved increased sales due to higher sales volume. Sales volume, excluding commodity deflation, grew by an overall 2.4 percent. Single-family segment sales volume grew by 3.8 percent versus a decline of 6.2 percent in actual U.S. Census Bureau single-family starts during the period. Multi-family gained 3.2 percent while repair and remodel / other end market partially offset the growth with a 2.2 percent decline. Sales volume in our value-added product categories grew by 5.0 percent, including 5.9 percent in our Manufactured Products and 4.1 percent in Windows, Doors and Millwork category.

Gross Margin

Gross margin was $517.2 million, an increase of $20.8 million over the prior year. Our gross margin percentage

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increased to 27.2 percent from 23.7 percent in the prior year period, a 350 basis point increase. The margin percentage increase was attributable to an improved product mix, the decline in the cost of commodities relative to our customer pricing commitments and our team's continued focus on pricing discipline. Particularly strong ongoing growth in the value-added product categories contributed to the mix improvement.

Selling, General and Administrative Expenses

SG&A in the second quarter of 2019 was $401.5 million, an increase of approximately $9.7 million, the largest component

of which was increased variable compensation related to higher gross margins. As a percentage of sales, SG&A increased by 240 basis points to 21.1 percent, primarily due to increased variable compensation, related to our improved gross margins, as well as lumber and panel deflation.

Interest Expense

Interest expense increased by $0.4 million to $29.4 million compared to the same period last year. The year over year increase is largely due to charges related to debt financing transactions executed in the second quarter. Adjusting for $4.3 million in one-time charges, interest expense declined by $3.9 million due to lower outstanding debt balances as compared to the prior year quarter, offset somewhat by the effect of higher interest rates.

Income Tax Expense

Income tax expense in the second quarter of 2019 was $19.7 million, or an effective tax rate of 22.8 percent. In the same period of the prior year, income tax expense was $19.0 million, or an effective tax rate of 25.1 percent.

Adjusted Net Income

Net income was $66.6 million, or $0.57 per diluted share, compared to $56.6 million, or $0.49 per diluted share, in the same period a year ago. Adjusted net income was $74.1 million, or $0.63 per diluted share, compared to $62.6 million, or $0.54 per diluted share, in the second quarter of 2018. The increase of $11.5 million, or 18.4 percent, was primarily driven by the improvement in gross margin and lower adjusted interest expense.

Adjusted EBITDA

Adjusted EBITDA grew $6.5 million to $145.6 million, an increase of 4.7 percent. The increase was driven by the factors described above. As a result, Adjusted EBITDA improved to 7.6 percent of sales in the second quarter from 6.7 percent in the same period a year ago.

Year to Date June 30, 2019 Financial Information:

Net Sales

Net sales year to date were $3.5 billion, a 6.7 percent decrease compared to the first half of 2018, largely driven by the impact of commodity price deflation of 10.4 percent while one less selling day decreased sales by 0.7 percent. Sales volume growth of 4.4 percent was driven primarily by growth in our value-added product categories.

Gross Margin

Gross margin increased $51.8 million to $959.1 million. Our gross margin percentage increased to 27.1 percent in the first half of 2019 from 23.9 percent in the first six months of 2018, a 320 basis point increase. The increase was

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primarily attributable to an improved product mix, the decline in the cost of commodities relative to our customer pricing commitments and continued pricing discipline. In addition, sales growth in our higher margin, value-added product categories contributed to increased gross profit dollars compared to the prior year.

Adjusted Net Income

GAAP net income was $102.3 million, or $0.88 per diluted share, compared to $79.8 million, or $0.68 per diluted share, in the first half of 2018, an increase of $0.20 per diluted share, or 29.4 percent.

Adjusted net income was $113.9 million, or $0.98 per diluted share, compared to $90.2 million, or $0.77 per diluted share, in the first-half of 2018, an increase of $0.21 per diluted share. The year over year increase of $23.7 million, or 26.3 percent, was primarily driven by the improvement in gross margin and lower adjusted interest expense. The gross margin increase was attributable to an improved product mix and the decline in the cost of commodities relative to our customer pricing commitments versus the prior year period.

Adjusted EBITDA

Adjusted EBITDA for the first half of 2019 grew $24.7 million to $246.5 million, or 7.0 percent of sales, compared to $221.8 million, or 5.9 percent of sales, for the first half of 2018, an increase of 11.1 percent. The year over year improvement was due to the factors described above.

Capital Structure, Leverage, and Liquidity Information:

Adjusted EBITDA, on a trailing twelve-month basis, was $526.3 million and net debt was $1,438.7 million as of June 30,

2019. Our leverage ratio decreased from 3.0x net debt to Adjusted EBITDA at March 31, 2019 to 2.7x as of June 30, 2019, a reduction of 0.3x and well within the Company's leverage target ratio of between 2.5x and 3.5x. Net cash provided from operations and investing was $138.0 million due primarily to the impact of commodity deflation on the value of working capital in the first six months compared to the prior year period. We now expect to generate between $180 – 210 million in cash from operations and investing for the full year, after funding our capital expenditures and the acquisition of three manufacturing locations completed in the third quarter as described below. Liquidity as of June 30, 2019 was $755.3 million, consisting of net borrowing availability under the revolving credit facility and cash on hand. In May 2019, we issued $400 million of 6.75% Senior Secured Notes ("2027 Notes") due in 2027. The net proceeds of this issuance were used to repay $300 million of the funds drawn under our existing term loan credit facility and to repurchase approximately $97 million of our outstanding 2024 Notes and pay related transaction fees. In July of 2019, we issued an additional $75 million in Notes of the same series to repurchase a portion of our 2024 Notes and pay related transaction fees and expenses. In July 2019, we acquired certain assets and operations of Sun State Components for approximately $43 million in cash. The assets include three truss manufacturing facilities located in Arizona and Nevada expanding our presence to 40 states and 77 of the top 100 U.S. metropolitan statistical areas.