



BMC STOCK HOLDINGS, INC.

Full-Year 2019 Earnings Call

February 27, 2020

© 2020 BMC. All Rights Reserved.



Disclaimer

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this document may include, without limitation, statements regarding sales growth, price changes, earnings performance, strategic direction and the demand for our products as a result of national and international economic and other conditions. Forward-looking statements are typically identified by words or phrases such as "may," "might," "predict," "future," "seek to," "assume," "goal," "objective," "continue," "will," "could," "should," "would," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "prospects," "guidance," "possible," "predict," "propose," "potential" and "forecast," or the negative of such terms and other words, terms and phrases of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties, many of which are outside BMC's control. BMC cautions readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement; therefore, investors and shareholders should not place undue reliance on such statement. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements included in this communication.

A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements. These factors include without limitation: the state of the homebuilding industry and repair and remodeling activity, the economy and the credit markets; fluctuation of commodity prices and prices of our products as a result of national and international economic and other conditions; the impact of potential changes in our customer or product sales mix; our concentration of business in the Texas, California and Georgia markets; the potential loss of significant customers or a reduction in the quantity of products they purchase; seasonality and cyclicity of the building products supply and services industry; competitive industry pressures and competitive pricing pressure from our customers and competitors; our exposure to product liability, warranty, casualty, construction defect, contract, tort, employment and other claims and legal proceedings; our ability to maintain profitability and positive cash flows; our ability to retain our key employees and to attract and retain new qualified employees, while controlling our labor costs; product shortages, loss of key suppliers or failure to develop relationships with qualified suppliers, and our dependence on third-party suppliers and manufacturers; the implementation of our supply chain and technology initiatives; the impact of long-term non-cancelable leases at our facilities; our ability to effectively manage inventory and working capital; the credit risk from our customers; our ability to identify or respond effectively to consumer needs, expectations, market conditions or trends; our ability to successfully implement our growth strategy; the impact of federal, state, local and other laws and regulations; the impact of changes in legislation and government policy; the impact of unexpected changes in our tax provisions and adoption of new tax legislation; our ability to utilize our net operating loss carryforwards; natural or man-made disruptions to our distribution and manufacturing facilities; our exposure to environmental liabilities and subjection to environmental laws and regulation; the impact of health and safety laws and regulations; the impact of disruptions to our information technology systems; cybersecurity risks; our exposure to losses if our insurance coverage is insufficient; our ability to operate on multiple Enterprise Resource Planning ("ERP") information systems and convert multiple systems to a single system; the impact of our indebtedness; the impact of the various financial covenants in our secured credit agreement and senior secured notes indenture; and other factors discussed or referred to in the "Risk Factors" section of BMC's most recent Annual Report on Form 10-K to be filed with the SEC on February 27, 2020.

All such factors are difficult to predict and are beyond BMC's control. All forward-looking statements attributable to BMC or persons acting on BMC's behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and BMC undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless otherwise required by law.

Basis of Presentation

On December 1, 2015, the merger (the "Merger") of Stock Building Supply Holdings, Inc. ("SBS" or "Legacy SBS") with Building Materials Holding Corporation ("Legacy BMC") was completed. Some of this presentation includes financial and operating results, plans, objectives, expectations and intentions, and other statements that are not historical facts related to the Merger. The Merger was accounted for as a "reverse acquisition" under the acquisition method of accounting, with Legacy SBS treated as the legal acquirer and Legacy BMC treated as the acquirer for accounting purposes. As such, the Company has accounted for the Merger by using Legacy BMC historical information and accounting policies and adding the assets and liabilities of Legacy SBS as of the completion date of the Merger at their estimated fair values. As a result, current year results reported pursuant to U.S. generally accepted accounting principles ("GAAP") are not comparable to periods prior to the completion of the Merger.

Non-GAAP (Adjusted) Financial Measures

Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share are intended as supplemental measures of the Company's performance that are not required by, or presented in accordance with, GAAP. The Company believes that Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share provide useful information to management and investors regarding certain financial and business trends relating to the Company's financial condition and operating results.

- Adjusted net sales is defined as BMC net sales plus pre-Merger SBS net sales.
- Adjusted EBITDA is defined as net income plus interest expense (income), income tax expense, depreciation and amortization, merger and integration costs, non-cash stock compensation expense, acquisition costs and other items.
- Adjusted EBITDA margin is defined as Adjusted EBITDA divided by net sales or, for 2015, Adjusted net sales.
- Adjusted net income is defined as BMC net income adjusted for merger and integration costs, non-cash stock compensation expense, acquisition costs, other items and after-tax effecting those items.
- Adjusted diluted earnings per share is defined as Adjusted net income divided by diluted weighted average shares.

Company management uses Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share for trend analyses, for purposes of determining management incentive compensation and for budgeting and planning purposes. Adjusted net sales and Adjusted EBITDA are used in monthly financial reports prepared for management and the board of directors. The Company believes that the use of Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share provide additional tools for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other distribution and retail companies, which may present similar non-GAAP financial measures to investors. However, the Company's calculation of Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share are not necessarily comparable to similarly titled measures reported by other companies. Company management does not consider Adjusted net sales, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted diluted earnings per share in isolation or as alternatives to financial measures determined in accordance with GAAP. The principal limitation of Adjusted EBITDA and Adjusted net income is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. Some of these limitations are: (i) Adjusted EBITDA and Adjusted net income do not reflect changes in, or cash requirements for, working capital needs; (ii) Adjusted EBITDA does not reflect interest expense, or the requirements necessary to service interest or principal payments on debt; (iii) Adjusted EBITDA does not reflect income tax expenses or the cash requirements to pay taxes; (iv) Adjusted net income and Adjusted EBITDA do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; (v) although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA and Adjusted net income do not reflect any cash requirements for such replacements and (vi) Adjusted net income and Adjusted EBITDA do not consider the potentially dilutive impact of issuing non-cash stock-based compensation. In order to compensate for these limitations, management considers Adjusted net sales, Adjusted EBITDA and Adjusted net income in conjunction with GAAP results.

Net debt is a non-GAAP measure that represents long-term debt and the current portion of long term debt less cash and cash equivalents. Management uses net debt as one of the means by which it assesses financial leverage, and it is therefore useful to investors in evaluating the Company's business using the same measures as management. Net debt is also useful to investors because it is often used by securities analysts and other interested parties in evaluating the Company's business. Net debt does however have certain limitations and should not be considered as an alternative to or in isolation from long-term debt or any other measure calculated in accordance with GAAP. Other companies, including other companies in the Company's industry, may not use net debt in the same way or may calculate it differently than as presented herein.

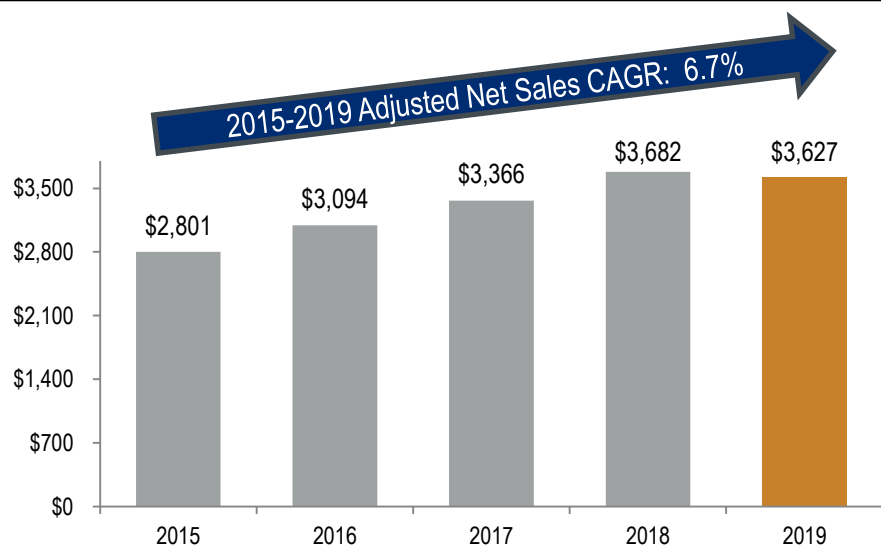
Certain guidance contained in this presentation is provided on a non-GAAP basis and cannot be reconciled to the most directly comparable GAAP measure without unreasonable effort because of the unpredictability of the amounts and timing of events affecting the calculations. For example, stock-based compensation, amortization of intangible assets, acquisition related costs and restructuring costs are all impacted by the timing and size of potential future actions, which are difficult to predict. In addition, from time to time, the Company excludes certain items that occur infrequently, which are also inherently difficult to predict and estimate. It is also difficult to predict the tax effect of the items the Company excludes and to estimate certain discrete tax items, like the resolution of tax audits or changes to tax laws. Material changes to any one of the exclusions could have a significant effect on the Company's guidance and future GAAP results.

Solid Organic Value-Added Product Growth and Acquisitions Drive Full-Year Gross Profit Growth

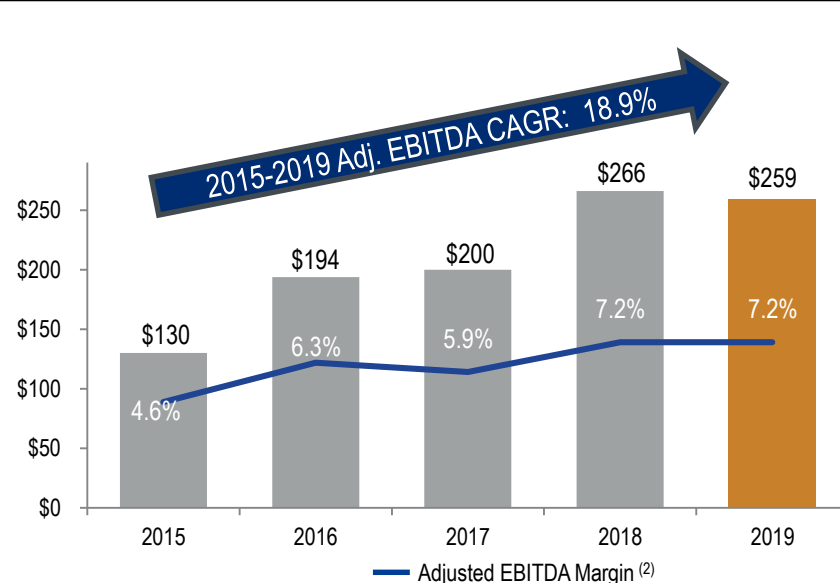
2019 Highlights

- **4.6% Core Organic Growth¹ in Structural Components and 6.0% Core Organic Growth¹ in Millwork, Doors & Windows**
- **Total Core Organic Growth¹ of 3.1%**
- **Gross profit increased 4.6% to a record \$951.3 million**
- **Operating cash flow up 17% to a record \$245.9 million**

Adjusted Net Sales² (\$mm)



Adjusted EBITDA² (\$mm)



1. Core Organic Growth is calculated as the total change in net sales excluding the estimated impact of changes in commodity-related prices, the net sales of non-comparable acquired or disposed operations and changes in selling days, as applicable.

2. Adjusted Net Sales, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. See Non-GAAP (Adjusted) Financial Measures pages of this presentation for definitions thereof and the Appendix to this presentation for a reconciliation thereof to net sales and net income, as applicable, the most directly comparable GAAP measure.

Sharpening the Focus on Our Growth Strategies

STRATEGIC PRIORITIES

GOAL	Achieve Industry-Leading Financial Performance through Customer Service Leadership and Operational Excellence			
PILLARS	1 Organic Growth of Value Added Products and Segments	2 Deliver Operational Excellence with the BMC Operating System	3 Build High Performing Culture	4 Pursue Strategic Expansion
KEY ACTIVITIES	Balance Customer Portfolio: <ul style="list-style-type: none"> • Maximize Single Family Potential • Grow Multi-Family in select markets • Grow Pro Remodeling Segment Increase Mix of Value Added Products: <ul style="list-style-type: none"> • READY-FRAME • Millwork • Windows • Doors • Components 	Best in Class Customer Service Optimize Profitability: <ul style="list-style-type: none"> • Profitable Pricing • Purchasing Rigor • SG&A Optimization Drive Continuous Improvement	Performance Management BMC Leadership Academy: <ul style="list-style-type: none"> • Talent Development • Recruiting College Graduate Management Training Program Safety	Areas of Focus for Tuck-In Acquisitions: <ul style="list-style-type: none"> • Value Added Products • Pro Remodel • Improved Local Scale • Expand Geographically

Solid Balance Sheet Provides Foundation for Growth

Continued Strong Execution of Our Strategy in Q4 2019

PILLAR 1: Organically Grow Value-Added Categories

- Solid 3.9% in Core Organic Growth driven by value-added product categories
- Net sales from non-commodity and value-added products increases to 72.8% of total net sales (up 460 bps)
- Penetration of Ready-Frame® and other Components continues to increase

PILLAR 2: Deliver Operational Excellence

- Improved customer service, evidenced by increasing On Time and In Full metrics
- 3 automated truss facilities “live” and two more under construction or in planning; opportunity for more
- Delivered \$15.2 million of benefits to 2019 Operating Income

PILLAR 3: Build a High-Performing Culture

- Committed to driving a culture of continuous improvement
- Increased training of sales and management leaders (75 management trainees hired and 250 employee graduates of leadership programs in the past two years)
- Best practice councils in key lines of business (Truss, Ready-Frame®, Millwork) facilitate the implementation of leading edge processes and technology

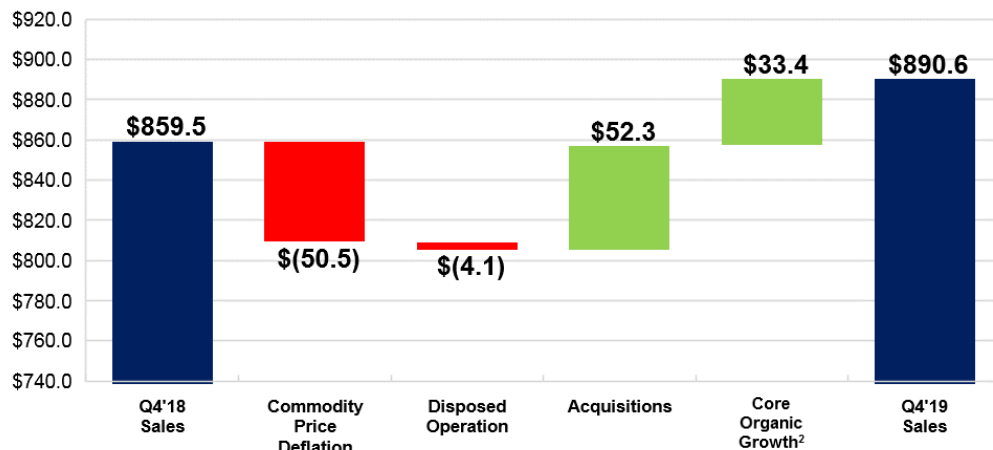
PILLAR 4: Pursue Strategic Acquisitions

- Six acquisitions completed in 2019 totaling nearly \$275 million in annualized sales
- Have identified over 300 potential tuck-in opportunities with \$25M - \$250M in annual revenue
- Significant pipeline of active opportunities
- Strong balance sheet provides flexibility to evaluate multiple opportunities



Q4 2019 Financial Results

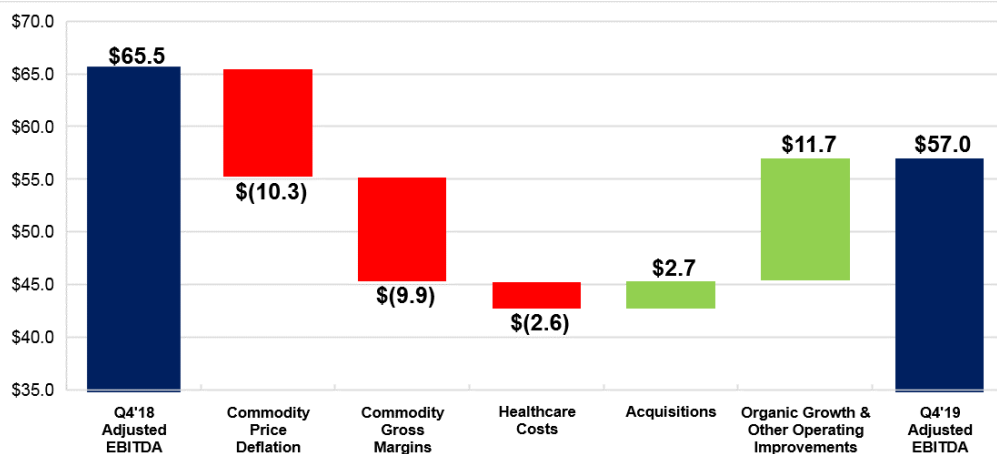
Q4 2019 Net Sales Bridge



Q4 2019 Commentary

- **Total Q419 net sales increase of 3.6% :**
 - 6.1% growth from acquisitions
 - 3.9% growth from Core Organic Growth²
 - (5.9%) from commodity price deflation
 - (0.5%) from the disposition of Coleman Floor
- **Solid Core Organic Growth² in Millwork, Doors & Windows and Structural Components**
- **Gross profit up 2.4% to \$234.6 million**
- **Adjusted EBITDA¹ of \$57.0 million**
 - Approximately \$14 million in benefits from organic growth, operational improvements and acquisitions
 - Partially offset primarily by commodity deflation
- **Adjusted EBITDA margin¹ of 6.4%**

Q4 2019 Adjusted EBITDA¹ Bridge



1. Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. See Non-GAAP (Adjusted) Financial Measures pages of this presentation for definitions thereof and the Appendix to this presentation for a reconciliation to net income, the most directly comparable GAAP measure.

2. Core Organic Growth is calculated as the total change in net sales excluding the estimated impact of changes in commodity-related prices, the net sales of non-comparable acquired or disposed operations and changes in selling days, as applicable.

Capital Allocation Priorities

Strong Balance Sheet Enables Accelerated Investment in Value-Creation Opportunities

Strong Cash Flow & Balance Sheet

- Record Operating Cash Flow of \$245.9 million for full year 2019
- Net debt¹ to Adjusted EBITDA¹ of 0.7x at December 31, 2019
- \$527.8 million of cash and excess revolver availability
- No long-term debt maturities until October 2024

1

Invest in Organic Strategy

- Value-add manufacturing automation and capacity
- Fleet and facility modernization drives productivity
- Technology and eBusiness tools
- Target capital expenditures of 1.5% - 2.5% of sales per year²

2

Complete Strategic Acquisitions

- ~300 potential tuck-in businesses identified with annual revenues between \$25 million - \$250 million
- Target \$150 million - \$300 million in bolt-on revenue per annum with flexibility for larger opportunities

3

Opportunistic Return of Capital

- \$75 million repurchase authorization extended to November 2020
- In Q4 of 2019, the Company did not repurchase any shares
- \$55.7 million capacity remaining under the authorization

1. Net Debt and Adjusted EBITDA are Non-GAAP financial measures. See the Non-GAAP (Adjusted) Financial Measures slide in this presentation for definitions thereof and the Appendix of this presentation for a reconciliation thereof to long term debt and net income, as applicable, the most directly comparable GAAP measure.

2. The capital expenditure expectation is net of proceeds from the sale of property, equipment and real estate.

2020 Outlook – Solid Momentum for 2020

2020 Full Year Expectations

2020 Sales Growth ¹	\$3.85 billion to \$4.0 billion (+6% to +10%)
2020 Gross Margin	25.5% to 26.0%
2020 Adjusted EBITDA Growth ²	\$280 million to \$295 million (+8% to +14%)

Key Full Year 2020 Assumptions

Single family starts growth across BMC geographies	Mid-single digits
<i>Random Lengths</i> dimensional lumber index to trade in a range of	\$360/m - \$400/m
Capital Expenditures ³	\$80 million to \$100 million
Interest expense	\$23 million to \$24 million
Effective tax rate	24.0% to 25.0%
Depreciation & amortization expense ⁴	\$78 million to \$83 million

1. Includes the following acquisitions: Barefoot & Company, Locust Lumber, Kingston Lumber, Heritage One, Colorado Fasteners and DeFord.

2. Adjusted EBITDA is a Non-GAAP financial measure. See the Non-GAAP (Adjusted) Financial Measures slide in this presentation for a definition thereof and a discussion of certain matters regarding non-GAAP guidance.

3. The 2020 capital expenditure expectation is net of proceeds from the sale of property, equipment and real estate.

4. Depreciation expense forecast includes depreciation accounted for within cost of sales.



Appendix

BMC Stock Holdings, Inc. Reported (GAAP) Income Statement

(\$ ths)	FY 2015	FY 2016	FY 2017	Q1 18	Q2 18	Q3 18	Q4 18	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019
Net sales	1,576,746	3,093,743	3,365,968	834,202	998,461	990,264	859,521	3,682,448	825,405	946,375	964,249	890,564	3,626,593
Cost of sales	1,215,336	2,351,778	2,570,453	635,118	758,862	748,961	630,291	2,773,232	609,283	700,598	709,482	655,926	2,675,289
Gross profit	361,410	741,965	795,515	199,084	239,599	241,303	229,230	909,216	216,122	245,777	254,767	234,638	951,304
SG&A	306,843	571,799	619,546	160,204	169,828	176,204	174,037	680,273	169,934	181,431	189,284	186,952	727,601
Depreciation expense	15,700	38,441	43,022	9,506	9,758	10,059	10,304	39,627	9,573	10,043	10,501	11,091	41,208
Amortization expense	3,626	20,721	16,003	3,657	3,816	3,790	3,752	15,015	4,347	4,338	4,552	4,808	18,045
Impairment of assets	-	11,928	435	-	-	-	-	-	-	529	115	1,259	1,903
Merger and integration costs	22,993	15,340	15,336	1,687	481	1,459	371	3,998	2,790	1,382	1,295	1,018	6,485
Income from operations	12,248	83,736	101,173	24,030	55,716	49,791	40,766	170,303	29,478	48,054	49,020	29,510	156,062
Interest expense	(27,552)	(30,131)	(25,036)	(5,982)	(6,008)	(5,926)	(6,119)	(24,035)	(6,038)	(5,574)	(5,773)	(5,771)	(23,156)
Loss on debt extinguishment	-	(12,529)	-	-	-	-	-	-	-	-	-	-	-
Other income, net	784	4,070	5,690	1,950	2,927	2,953	2,816	10,646	2,910	3,709	3,540	3,419	13,578
Income (loss) before income taxes	(14,520)	45,146	81,827	19,998	52,635	46,818	37,463	156,914	26,350	46,189	46,787	27,158	146,484
Income (benefit) tax expense	(9,689)	14,266	24,402	4,639	12,230	10,960	9,347	37,176	6,000	10,490	13,190	6,959	36,639
Net income (loss)	(4,831)	30,880	57,425	15,359	40,405	35,858	28,116	119,738	20,350	35,699	33,597	20,199	109,845

BMC Stock Holdings, Inc. Reconciliation of Non-GAAP Items

Adjusted Net Sales

(\$ths)	FY 2015	FY 2016	FY 2017	Q1 18	Q2 18	Q318	Q4 18	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019
Net sales	1,576,746	3,093,743	3,365,968	834,202	998,461	990,264	859,521	3,682,448	825,405	946,375	964,249	890,564	3,626,593
Pre-merger SBS net sales	1,223,875	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted net sales	2,800,621	3,093,743	3,365,968	834,202	998,461	990,264	859,521	3,682,448	825,405	946,375	964,249	890,564	3,626,593

(\$ths)	FY 2015	FY 2016	FY 2017	Q1 18	Q2 18	Q318	Q4 18	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019
Structural components	420,337	461,761	522,619	135,829	167,617	166,919	151,740	622,105	141,276	166,955	175,344	152,468	636,043
Lumber & sheet goods	864,868	938,563	1,114,219	288,086	368,123	357,286	272,986	1,286,481	241,959	281,855	274,908	242,148	1,040,870
Millwork, doors & windows	794,643	894,889	907,377	229,518	249,194	251,606	234,366	964,684	239,922	271,135	285,750	284,030	1,080,837
Other building products & services	720,773	798,530	821,753	180,769	213,527	214,453	200,429	809,178	202,248	226,430	228,247	211,918	868,843
Adjusted net sales by product category	2,800,621	3,093,743	3,365,968	834,202	998,461	990,264	859,521	3,682,448	825,405	946,375	964,249	890,564	3,626,593

(\$ths)	FY 2015	FY 2016	FY 2017	Q1 18	Q2 18	Q318	Q4 18	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019
Single-Family Homebuilders	2,163,581	2,262,124	2,526,837	638,858	764,795	760,131	650,316	2,814,100	628,718	716,974	718,690	649,475	2,713,857
Pro Remodeling	338,509	371,018	380,460	96,146	118,138	113,416	99,646	427,346	88,208	110,313	115,756	105,256	419,533
Multi-Family, Commercial and Other Contractors	298,531	460,601	458,671	99,198	115,528	116,717	109,559	441,002	108,479	119,088	129,803	135,833	493,203
Adjusted net sales by customer type	2,800,621	3,093,743	3,365,968	834,202	998,461	990,264	859,521	3,682,448	825,405	946,375	964,249	890,564	3,626,593

BMC Stock Holdings, Inc. Reconciliation of Non-GAAP Items

Adjusted EBITDA, Net Debt and Net Debt to LTM Adjusted EBITDA Ratio

(\$ths)	FY 2015	FY 2016	FY 2017	Q1 18	Q2 18	Q3 18	Q4 18	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019
Net income (loss)	(4,831)	30,880	57,425	15,359	40,405	35,858	28,116	119,738	20,350	35,699	33,597	20,199	109,845
Pre-merger SBS income from continuing operations	6,842	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense, net	30,189	30,131	25,036	5,982	6,008	5,809	5,478	23,277	5,097	4,730	4,726	4,615	19,168
Income tax expense (benefit)	(9,974)	14,266	24,402	4,639	12,230	10,960	9,347	37,176	6,000	10,490	13,190	6,959	36,639
Depreciation and amortization	39,251	68,680	69,217	15,681	16,253	16,626	16,828	65,388	16,792	17,632	18,535	19,194	72,153
Merger and integration costs	37,998	15,340	15,336	1,687	481	1,459	371	3,998	2,790	1,382	1,295	1,018	6,485
Non-cash stock compensation expense	5,452	7,252	6,769	1,775	3,141	3,310	3,089	11,315	2,915	3,248	3,014	3,285	12,462
Acquisition costs and other items ¹	4,216	-	1,383	2,057	311	346	1,617	4,331	456	(80)	229	309	914
Business reorganization costs	383	-	435	-	-	-	656	656	-	228	72	1,467	1,767
Impairment of assets	-	11,928	-	-	-	-	-	-	-	-	-	-	-
Loss on debt extinguishment	-	12,529	-	-	-	-	-	-	-	-	-	-	-
Inventory step-up charges	10,285	2,884	-	-	-	-	-	-	-	-	-	-	-
Headquarters relocation	3,865	-	-	-	-	-	-	-	-	-	-	-	-
Insurance deductible reserve adj. and fire casualty loss	3,026	-	-	-	-	-	-	-	-	-	-	-	-
Loss on portfolio transfer	2,826	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	129,528	193,890	200,003	47,180	78,829	74,368	65,502	265,879	54,400	73,329	74,658	57,046	259,433
Adjusted EBITDA margin	4.6%	6.3%	5.9%	5.7%	7.9%	7.5%	7.6%	7.2%	6.6%	7.7%	7.7%	6.4%	7.2%
Long Term Debt	400,216	344,827	349,059					345,197					346,032
Current Portion of Long Term Debt	2,777	1,662	100					-					-
Less: Cash & Cash Equivalents	(1,089)	(8,917)	(11,750)					(150,723)					(165,496)
Net Debt	401,904	337,572	337,409					194,474					180,536
Net Debt to LTM Adjusted EBITDA Ratio	3.1	1.7	1.7					0.7					0.7

1. Includes acquisition costs, expense incurred related to pending litigation, costs incurred in connection with the departure of the Company's former chief executive officer and the search for and appointment of his permanent replacement, income related to the final settlement of insurance claims made by the Company for a fire at one of the Company's facilities, severance and other expense related to store closures and business optimization, public offering transaction-related costs, management fees and restructuring expense.

BMC Stock Holdings, Inc. Reconciliation of Non-GAAP Items

Adjusted Net Income and Adjusted Diluted Earnings Per Share

(in \$ths, except per share amounts)	Q4 2019	Q4 2018
Net income	\$ 20,199	\$ 28,116
Merger and integration costs	1,018	371
Non-cash stock compensation expense	3,285	3,089
Acquisition costs	309	1,562
Business reorganization costs (a)	1,467	656
Other items (b)	-	(159)
Tax effect of adjustments to net income (c)	(1,275)	(1,340)
Adjusted net income	\$ 25,003	\$ 32,295
Diluted weighted avg. shares	67,609	67,764
Adjusted diluted earnings per share	\$ 0.37	\$ 0.48

- (a) Represents asset impairment charges related to the relocation of the operations of certain of the Company's facilities and charges related to the disposition of the Company's Coleman Floor business and exit from the Arkansas market.
- (b) Represents costs incurred in connection with the departure of the Company's former chief executive officer and the search for and appointment of his permanent replacement and a tax benefit related to a measurement period adjustment to the Company's accounting for the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act Adjustment"). Other items for the three months ended December 31, 2018 have been revised from previously reported amounts to exclude the excess windfall related to an error in the calculation of excess windfall tax benefits on stock option exercises in certain prior periods (the "Income Tax Adjustment") that was reflected in historical results.
- (c) The tax effect of adjustments to net income was based on the respective transactions' income tax rate, which was 23.6% and 23.4% for the three months ended December 31, 2019 and 2018, respectively. The tax effect of adjustments to net income excludes non-deductible impairment of assets of \$0.7 million for the three months ended December 31, 2019 and the Income Tax Adjustment and 2017 Tax Act Adjustment for the three months ended December 31, 2018.

