



# BMC STOCK HOLDINGS, INC.

Q1 2020 Earnings Call

May 5, 2020



# 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 impact of the global outbreak of COVID-19; 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 filed with the SEC on February 27, 2020 as supplemented in our Quarterly Report on Form 10-Q for the quarter ended March 31, 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.

# NON-GAAP (ADJUSTED) FINANCIAL MEASURES

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 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 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
- Adjusted net income is defined as 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 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 EBITDA is used in monthly financial reports prepared for management and the board of directors. The Company believes that the use of 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 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 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 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.

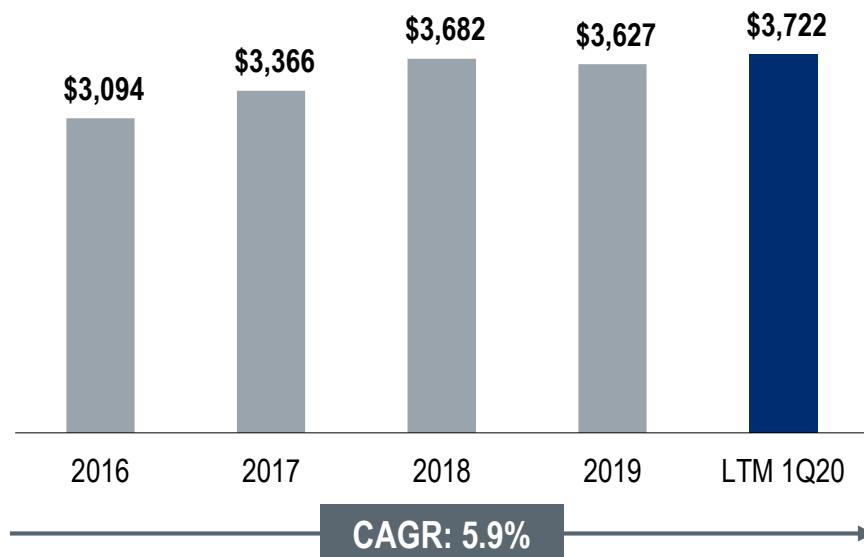
Certain guidance contained in this presentation is provided on a non-GAAP basis and cannot be reconciled to the most directly comparable GAAP measure without unreasonable effort because of the unpredictability of the amounts and timing of events affecting the calculations. For example, stock-based compensation, 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.

# RECORD FIRST QUARTER 2020 RESULTS DRIVEN BY DOUBLE-DIGIT NET SALES GROWTH

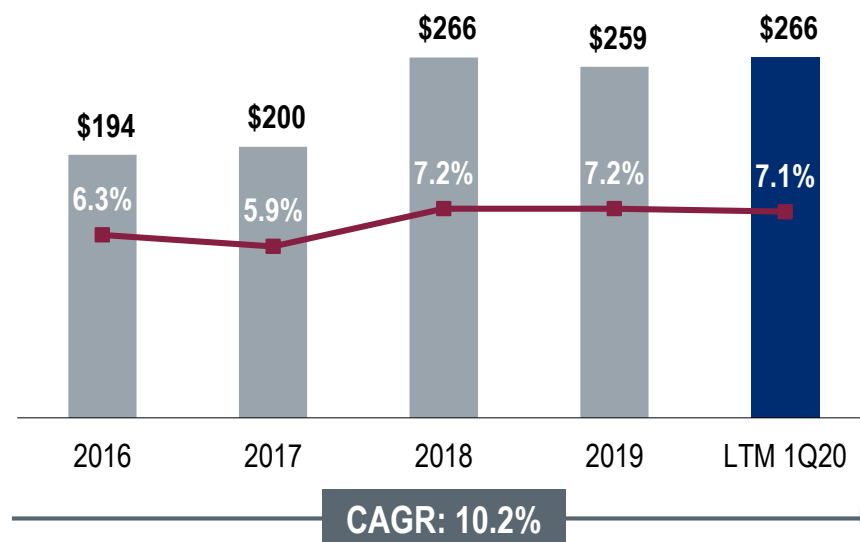
## Q1 2020 Highlights

- 11.6% Net Sales Growth driven by value-added product categories
- Total Core Organic Growth<sup>1</sup> of 5.3%
- Gross Profit increased 9.7% to \$237.1 million
- Diluted EPS increased 10.0% to \$0.33 and Adjusted Diluted EPS<sup>2</sup> increased 8.1% to \$0.40
- Total Liquidity was \$501.1 million, which included \$282.8 million of cash and \$218.3 million in borrowing capacity; no significant debt maturities until 2024

### Net Sales (\$M)



### Adj. EBITDA (\$M) & Margin<sup>2</sup> (%)



<sup>1</sup> 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 closed operations and changes in selling days, as applicable.  
<sup>2</sup> Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Diluted EPS 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 income, the most directly comparable GAAP measure.

# COVID-19 OPERATIONAL AND FINANCIAL UPDATE



## HEALTH AND SAFETY

- Created cross-function task force in early March – meets daily to ensure response is inline with necessary processes, protocols, training and communication set forth by our Company and incorporates guidelines recommended by CDC
- Implemented detailed cleaning and disinfecting processes, social distancing protocols, provided face coverings and other PPE, suspended air travel and encouraged associates to work from home when possible
- Required job site safety, signage at all locations and partnering with customers, as necessary



## BUSINESS RESPONSE

- Most facilities, products and services are in locations where they are classified as “essential” and operations continue
- Enacted several emergency pay programs to maintain continuity of pay for associates who present any symptoms or are unable to work due to COVID-19
- Launched dedicated COVID-19 resource intranet page to keep workers up-to-date
- Since March 1, 2020, our total permanent headcount was reduced by more than 400 associates and another 550 associates were placed on temporary furlough
- Reduced costs to align with decline in housing environment



## STRONG BALANCE SHEET

- Total liquidity of ~\$501.1M, including cash of \$282.8 million and revolving credit facility of \$218.3 million
- No debt maturities until 2024
- Share repurchases temporarily suspended



## MARKET & OPERATIONS UPDATE

- In late March and April, most of our markets experienced negative impacts on the top line, ranging from deceleration relative to Q1 growth to modest YoY declines
- In select states, including PA and WA, and parts of northern CA, we experienced more significant sales declines; these jurisdictions are in process of reopening building construction
- We estimate our total core organic net sales for the month of April were down mid-single digits.

Proactive Actions Taken to Remain Well Positioned to Withstand Market Uncertainty

# SHARPENING THE FOCUS ON OUR GROWTH STRATEGIES

## STRATEGIC PRIORITIES

*Achieve Industry-Leading Financial Performance through Customer Service Leadership and Operational Excellence*

01

### Organic Growth of Value-Added Products and Segments

#### Balance Customer Portfolio

- Maximize Single Family Potential
- Grow Multi-Family in Select Markets
- Grow Pro Remodeling Segment

#### Increase Mix of Value-Added Products:

- READY-FRAME
- Millwork
- Windows
- Doors
- Components

02

### Deliver Operational Excellence with the BMC Operating System

#### Best-in-Class Customer Service

#### Optimize Profitability

- Profitable Pricing
- Purchasing Rigor
- SG&A Optimization

#### Drive Continuous Improvement

03

### Building High-Performing Culture

#### Performance Management

#### BMC Leadership Academy

- Talent Development
- Recruiting

#### College Graduate Management Training Program

#### Safety

04

### Pursue Strategic Expansion

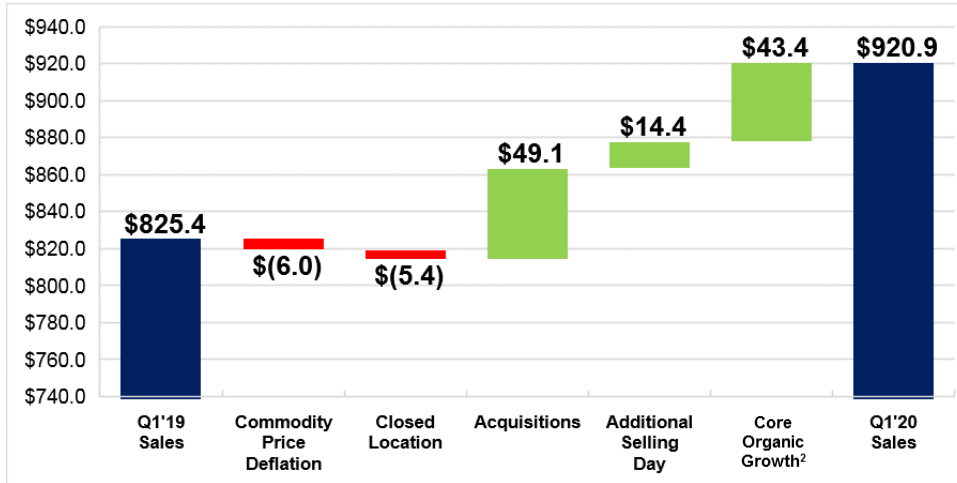
#### Areas of Focus for Tuck-in Acquisitions

- Value-Added Products
- Pro Remodel
- Improved Local Scale
- Expand Geographically

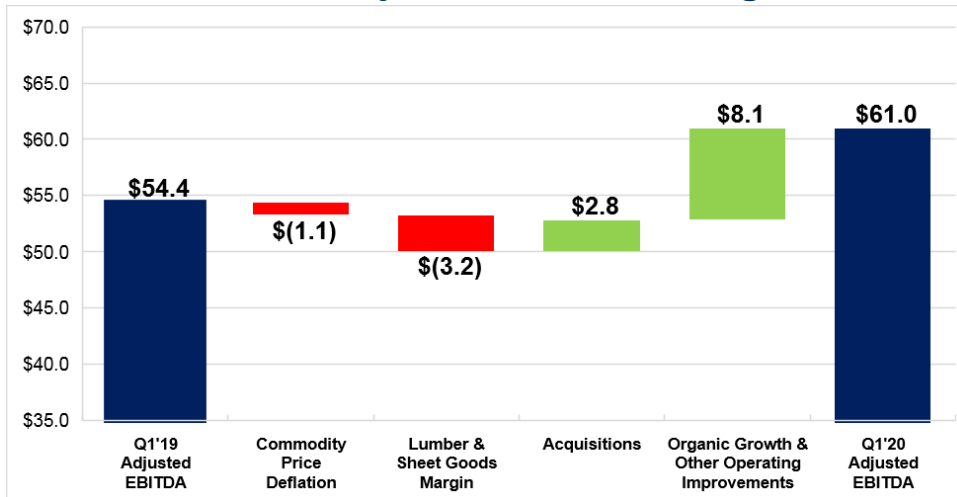
**SOLID BALANCE SHEET PROVIDES FOUNDATION FOR GROWTH**

# Q1 2020 FINANCIAL RESULTS

## Q1 2020 Net Sales Bridge (\$M)



## Q1 2020 Adjusted EBITDA<sup>1</sup> Bridge (\$M)



## Q1 2020 Commentary

- **Total 1Q20 net sales increase of 11.6%**
  - 6.0% growth from acquisitions
  - 5.3% growth from Core Organic Growth<sup>2</sup>
  - 1.7% growth from extra selling day
  - (0.7%) from commodity price deflation
  - (0.7%) from closed location
  
- **Solid Core Organic Growth<sup>2</sup> driven by the millwork, doors and windows and structural components segments**
  
- **Net sales was better than expected due to stronger than expected growth in core business as well as what was generally a pretty mild winter**
  
- **Gross profit up 9.7% to \$237.1M**
  
- **Adjusted EBITDA Margin<sup>1</sup> of 6.6%**

<sup>1</sup> 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.

<sup>2</sup> 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 closed operations and changes in selling days, as applicable.

# CAPITAL ALLOCATION PRIORITIES

## Strong Cash Flow and Balance Sheet

- Operating Cash Flow declined to \$17.1M for 1Q20, primarily due to increase in trade receivables and inventory associated with higher sales volume and timing of vendor payments in the prior year period
- Net Debt<sup>1</sup> to Adjusted EBITDA<sup>1</sup> of 0.8x at March 31, 2020
- Total liquidity to approximately \$501.1 million
- No long-term debt maturities until 2024

## Debt Maturity Schedule



## 1 Invest in Organic Strategy

- Value-add manufacturing automation and capacity
- Fleet and facility modernization drives productivity
- Technology and eBusiness tools
- Capital expenditures totaled \$30.2 million in 1Q20
- We still have approximately \$35 to \$50 million of attractive projects in flight that we will continue throughout the remaining months of the year

## 2 Complete Strategic Acquisitions

- We recognize that completing deals may be more challenging until the current level of economic uncertainty subsides
- We believe our pipeline of acquisition candidates will remain strong

## 3 Opportunistic Return of Capital

- \$75M repurchase authorization extended to November 2020 – temporarily suspended due to COVID-19
- In 1Q20, the Company repurchased 0.1 million shares at a weighted average price of \$16.20 per share
- \$54.2M capacity remaining under the authorization

Strong Balance Sheet Positions the Company to Weather COVID-19 Pandemic

<sup>1</sup> 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.



# Outlook

## Q2 2020 Net Sales Outlook

- The Company estimates the percentage decline in core organic net sales for the month of April 2020 as compared to April 2019 was in the mid-single digits.
- The Company expects year over year core organic sales declines to continue to increase in May and June.
- The Company believes the year over year percentage decline in core organic sales for the entirety of the second quarter could end up in the low double digits to mid teens.
- The Company expects minimal year over year impacts to second quarter net sales from changes in commodity prices, and it expects closed operations to reduce Q2 sales by approximately 1% and completed acquisitions to enhance Q2 sales by approximately 3% to 4%.
- So taken together, the Company estimates Q2 total sales to decline approximately 7% to 15%.

## 2020 Other Full-Year Assumptions

Capital Expenditure <sup>1</sup>		\$65 million to \$80 million
Interest expense		\$24 million to \$25 million
Effective tax rate		~25%
Depreciation & amortization expense <sup>2</sup>		\$78 million - \$83 million

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

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

# Appendix

# REPORTED (GAAP) INCOME STATEMENT

(\$ ths)	FY 2016	FY 2017	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019	Q1 20	LTM 1Q20
Net sales	3,093,743	3,365,968	3,682,448	825,405	946,375	964,249	890,564	3,626,593	920,879	3,722,067
Cost of sales	2,351,778	2,570,453	2,773,232	609,283	700,598	709,482	655,926	2,675,289	683,751	2,749,757
Gross profit	741,965	795,515	909,216	216,122	245,777	254,767	234,638	951,304	237,128	972,310
SG&A	571,799	619,546	680,273	169,934	181,431	189,284	186,952	727,601	186,922	744,589
Depreciation expense	38,441	43,022	39,627	9,573	10,043	10,501	11,091	41,208	11,519	43,154
Amortization expense	20,721	16,003	15,015	4,347	4,338	4,552	4,808	18,045	5,013	18,711
Impairment of assets	11,928	435	-	-	529	115	1,259	1,903	-	1,903
Merger and integration costs	15,340	15,336	3,998	2,790	1,382	1,295	1,018	6,485	1,168	4,863
Income from operations	83,736	101,173	170,303	29,478	48,054	49,020	29,510	156,062	32,506	159,090
Interest expense	(30,131)	(25,036)	(24,035)	(6,038)	(5,574)	(5,773)	(5,771)	(23,156)	(5,932)	(23,050)
Loss on debt extinguishment	(12,529)	-	-	-	-	-	-	-	-	-
Other income, net	4,070	5,690	10,646	2,910	3,709	3,540	3,419	13,578	2,919	13,587
Income before income taxes	45,146	81,827	156,914	26,350	46,189	46,787	27,158	146,484	29,493	149,627
Income tax expense	14,266	24,402	37,176	6,000	10,490	13,190	6,959	36,639	7,464	38,103
<b>Net income</b>	<b>30,880</b>	<b>57,425</b>	<b>119,738</b>	<b>20,350</b>	<b>35,699</b>	<b>33,597</b>	<b>20,199</b>	<b>109,845</b>	<b>22,029</b>	<b>111,524</b>

# NET SALES BY PRODUCT CATEGORY & CUSTOMER TYPE

(\$ths)	FY 2016	FY 2017	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019	Q1 20	LTM 1Q20
Millwork, doors & windows	894,889	907,377	964,684	239,922	271,135	285,750	284,030	1,080,837	295,669	1,136,584
Structural components	461,761	522,619	622,105	141,276	166,955	175,344	152,468	636,043	160,344	655,111
Lumber & sheet goods	938,563	1,114,219	1,286,481	241,959	281,855	274,908	242,148	1,040,870	259,139	1,058,050
Other building products & services	798,530	821,753	809,178	202,248	226,430	228,247	211,918	868,843	205,727	872,322
Net sales by product category	3,093,743	3,365,968	3,682,448	825,405	946,375	964,249	890,564	3,626,593	920,879	3,722,067

(\$ths)	FY 2016	FY 2017	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019	Q1 20	LTM 1Q20
Single-Family Homebuilders	2,262,124	2,526,837	2,814,100	628,718	716,974	718,690	649,475	2,713,857	674,771	2,759,910
Pro Remodeling	371,018	380,460	427,346	88,208	110,313	115,756	105,256	419,533	104,669	435,994
Multi-Family, Commercial and Other Contractors	460,601	458,671	441,002	108,479	119,088	129,803	135,833	493,203	141,439	526,163
Net sales by customer type	3,093,743	3,365,968	3,682,448	825,405	946,375	964,249	890,564	3,626,593	920,879	3,722,067

# RECONCILIATION OF NON-GAAP ITEMS

## ADJ. EBITDA, NET DEBT & NET DEBT TO LTM ADJ. EBITDA RATIO

(\$ths)	FY 2016	FY 2017	FY 2018	Q1 19	Q2 19	Q3 19	Q4 19	FY 2019	Q1 20	LTM 1Q20
Net income	30,880	57,425	119,738	20,350	35,699	33,597	20,199	109,845	22,029	111,524
Interest expense, net	30,131	25,036	23,277	5,097	4,730	4,726	4,615	19,168	5,349	19,420
Income tax expense	14,266	24,402	37,176	6,000	10,490	13,190	6,959	36,639	7,464	38,103
Depreciation and amortization	68,680	69,217	65,388	16,792	17,632	18,535	19,194	72,153	19,995	75,356
Merger and integration costs	15,340	15,336	3,998	2,790	1,382	1,295	1,018	6,485	1,168	4,863
Non-cash stock compensation expense	7,252	6,769	11,315	2,915	3,248	3,014	3,285	12,462	3,170	12,717
Acquisition costs and other items <sup>1</sup>	-	1,383	4,331	456	(80)	229	309	914	1,831	2,289
Business reorganization costs	-	435	656	-	228	72	1,467	1,767	-	1,767
Impairment of assets	11,928	-	-	-	-	-	-	-	-	-
Loss on debt extinguishment	12,529	-	-	-	-	-	-	-	-	-
Inventory step-up charges	2,884	-	-	-	-	-	-	-	-	-
<b>Adjusted EBITDA</b>	<b>193,890</b>	<b>200,003</b>	<b>265,879</b>	<b>54,400</b>	<b>73,329</b>	<b>74,658</b>	<b>57,046</b>	<b>259,433</b>	<b>61,006</b>	<b>266,039</b>
<b>Adjusted EBITDA margin</b>	<b>6.3%</b>	<b>5.9%</b>	<b>7.2%</b>	<b>6.6%</b>	<b>7.7%</b>	<b>7.7%</b>	<b>6.4%</b>	<b>7.2%</b>	<b>6.6%</b>	<b>7.1%</b>
Long Term Debt	344,827	349,059	345,197					346,032		490,241
Current Portion of Long Term Debt	1,662	100	-					-		-
Less: Cash & Cash Equivalents	(8,917)	(11,750)	(150,723)					(165,496)		(282,815)
<b>Net Debt</b>	<b>337,572</b>	<b>337,409</b>	<b>194,474</b>					<b>180,536</b>		<b>207,426</b>
<b>Net Debt to LTM Adjusted EBITDA Ratio</b>	<b>1.7</b>	<b>1.7</b>	<b>0.7</b>					<b>0.7</b>		<b>0.8</b>

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.

# RECONCILIATION OF NON-GAAP ITEMS ADJ. NET INCOME AND ADJ. DILUTED EPS

(in \$ths, except per share amounts)	Q1 2020	Q1 2019
<b>Net income</b>	<b>\$ 22,029</b>	<b>\$ 20,350</b>
Merger and integration costs	1,168	2,790
Non-cash stock compensation expense	3,170	2,915
Acquisition costs	1,831	580
Other items (a)	-	(124)
Tax effect of adjustments to net income (b)	(1,473)	(1,474)
<b>Adjusted net income</b>	<b>\$ 26,725</b>	<b>\$ 25,037</b>
Diluted weighted avg. shares	67,643	67,282
<b>Adjusted diluted earnings per share</b>	<b>\$ 0.40</b>	<b>\$ 0.37</b>

(a) Represents the effect of the settlement of pending litigation for an amount below what was previously accrued.

(b) The tax effect of adjustments to net income was based on the respective transactions' income tax rate, which was 23.9% for the three months ended March 31, 2020 and 2019.