

# Builders FirstSource, Inc. (NYSE: BLDR)

Dominant industry position with strong track record, attractive growth prospects

Rahul Parikh

Junior Analyst

rkp7593@nyu.edu

Price Target: \$77.57 (43.3 % Upside)

September 29<sup>th</sup>, 2021

## Business Description:

Builders FirstSource is a distributor and manufacturer of lumber, building material products, and other building supplies across the United States. They operate in 500+ locations across the country, including 85 of the top 100 MSA's. Balanced end-market exposure (72% sales to new SF Housing / 22% R&R / 6% MF housing). The top 10 customers accounted for approximately 15.8% of net sales, and no single customer accounted for more than 6% of net sales.

## Investment Thesis:

- BMC merger significantly upgrades scale, adaptability, and leverage:** BLDR completed its 'super merger' with BMC Construction earlier this year. The merger makes BLDR the largest player in the US space and fleshes out their product line to meet all homebuilders needs. Specifically, BMC fills out the holes in the manufactured products that BLDR offers and adds leverage to the notoriously volatile lumber supply chain. Both segments show significant growth in Q1 2021 (post-acquisition). This makes BLDR the only supplier of its scale with a full product line and adds to their geographical footprint. BLDR is now fully integrated down the value chain, solidifying itself as a one stop shop for homebuilders marks an industry shift. Historically, homebuilding companies and independent builders would use multiple services for different products (e.g., Roofing, Lumber, Turn-Key Services). With the industry trending towards consolidated suppliers, BLDR is now the obvious choice. BLDR's track record with acquisitions is very strong. Previous acquisitions have proved to be accretive and quickly integrated, comparatively to peers. In 2014/2015, BLDR completed their major ProBuild acquisition, along with 7 small scale acquisitions. After the initial year of high overhead, Operations stabilized and BLDR realized synergies, net income bounced back to around 200,000 and sales growth outpaced COGS by a 40% margin. Overall, the acquisition period quickly catalyzed revenue and FCF growth, and BLDR have purchased companies at comparatively low multiples to their peers. In terms of the future, the acquisition strategy is to target companies with advancements in prefab and utilize the unique FCF leverage they have. Specifically with the BMC acquisition, management has already raised cost synergy guidance from 100m to 150m. The increase in market share allows BLDR to capitalize on favorable macro trends. An artificially low 30-year mortgage rate, pent up demand from a supply shortage, and strong SF housing starts are on the horizon. Other tailwinds include demographic changes, WFH, and a record low supply of homes.

- Underappreciated Prefab business catalyzes future non-commodity growth:** In conventional "stick-build" construction, builders cut and assemble lumber on site. Prefabricated components are engineered in an offsite location using specialized equipment and labor. This outsourced task allows for optimal material usage, lower overall labor costs and improved quality of structural elements. In addition, using prefabricated components results in faster construction because carry a 1000 bps gross margin% premium over lumber sheet goods and 60% of homes in the U.S. currently built w/o any prefab components, so there is room to capitalize on the technology. BLDR is by far the furthest along in prefab advancements in the industry, and they are now working towards automating the prefab process, to increase efficiency. The market consensus is that the industry produces commodities. BLDR is significantly different on 2 fronts. Firstly, lumber sales have fallen to 30% of revenue, down to nearly half of its weight just 3 years ago. Secondly, the more manufactured products that BLDR prefabs, the more diversified their product offerings become, because they are providing an additional value-add service to customers. In fact, BLDR's investment in prefab is evident in their roll-up strategy, which is focused on targeting companies that specialize in prefabricating a specific building material. Buying prefab allows more value-added products to be manufactured offsite, making life easier for the homebuilder. Automating manufacturing also allows BLDR to focus on its turn-key services that increase brand loyalty, like design assistance, process management, and professional installation of products.

## Key Ratios and Statistics:

Share Price (9/29/21)	\$53.92
Market Cap (000's)	\$11,170
Enterprise Value	\$13,180
52-Week Low	\$29.73
52-Week High	\$55.54
Revenue (FY20)	\$8,558
EBIT (FY20)	\$5,438

(\$Mm)	2019A	2020A	2021E	2022E
Revenue:	728,043	855,874	2,057,810	2,154,330
EBITDA:	49,234	66,042	186,087	183,809
Net Income:	22,180	31,353	105,694	102,355

Figure 1 – BLDR Price Action



Figure 2 – BLDR ROIC History

	ROIC				
	2017	2018	2019	2020	2021
Q1	3.17%	3.50%	5.26%	4.11%	6.80%
Q2	5.52%	5.57%	7.62%	6.56%	17.16%
Q3	5.61%	6.79%	8.39%	6.60%	
FY	19.67%	24.06%	27.77%	24.86%	

## Operating Build

Income Statement - BLDR	2018	2019	2020	2021 (p)	2022 (p)	2023 (p)	2024 (p)	2025 (p)
(In Thousands, Except per share data)								
<b>Revenue Breakdown</b>								
Lumber & Lumber sheet goods	4,480,367	3,858,628	3,081,195	6,717,004	6,985,684	7,125,398	7,267,906	7,413,264
Manufactured Products	1,158,716	1,237,673	1,626,186	4,634,630	4,935,881	5,281,393	5,651,090	6,046,667
Windows, Doors and Millwork	1,004,220	1,164,869	1,626,186	3,984,156	4,143,522	4,350,698	4,611,740	4,934,562
Other services (Turn Key, Roofing)	1,081,468	1,019,260	2,139,719	5,242,310	5,478,214	5,642,561	5,811,838	5,986,193
<b>Total Revenues:</b>	<b>7,724,771</b>	<b>7,280,431</b>	<b>8,558,874</b>	<b>20,578,101</b>	<b>21,543,302</b>	<b>22,400,050</b>	<b>23,342,574</b>	<b>24,380,686</b>
Cost of Sales:	5,801,831	5,303,602	6,336,290	15,022,014	15,618,894	16,128,036	16,573,228	17,066,480
<b>Gross Margin</b>	<b>1,922,940</b>	<b>1,976,829</b>	<b>2,222,584</b>	<b>5,556,087</b>	<b>5,924,408</b>	<b>6,272,014</b>	<b>6,769,347</b>	<b>7,314,206</b>
Merger Synergies	-	-	-	50,000	50,000	50,000	-	-
SGA:	1,553,972	1,584,523	1,678,730	4,115,620	4,524,093	4,704,011	4,901,941	5,119,944
<b>EBIT:</b>	<b>368,968</b>	<b>392,306</b>	<b>543,854</b>	<b>1,490,467</b>	<b>1,450,315</b>	<b>1,618,004</b>	<b>1,867,406</b>	<b>2,194,262</b>
Interest Expense	108,213	109,551	135,688	117,817	121,019	124,841	121,226	122,362
<b>EBT</b>	<b>260,755</b>	<b>282,755</b>	<b>408,166</b>	<b>1,372,650</b>	<b>1,329,296</b>	<b>1,493,162</b>	<b>1,746,180</b>	<b>2,071,900</b>
Tax Expense	55,564	60,946	94,629	315,709	305,738	343,427	401,621	476,537
<b>Net Income</b>	<b>205,191</b>	<b>221,809</b>	<b>313,537</b>	<b>1,056,940</b>	<b>1,023,558</b>	<b>1,149,735</b>	<b>1,344,559</b>	<b>1,595,363</b>

Drivers - BLDR								
Lumber & Lumber sheet goods growth		-13.9%	-20.1%	118.0%	4.0%	2.0%	2.0%	2.0%
Manufactured Products growth		6.8%	31.4%	185.0%	6.5%	7.0%	7.0%	7.0%
Windows Doors and Millwork growth		16.0%	39.6%	145.0%	4.0%	5.0%	6.0%	7.0%
Other services growth		-5.8%	109.9%	145.0%	4.5%	3.0%	3.0%	3.0%
Total Revenue growth		-5.8%	17.6%	140.4%	4.7%	4.0%	4.2%	4.4%
Cost of sales % Revenue	75.1%	72.8%	74.0%	73.0%	72.5%	72.0%	71.0%	70.0%
Gross Margin % Revenue	24.9%	27.2%	26.0%	27.0%	27.5%	28.0%	29.0%	30.0%
SGA % Revenue	20.1%	21.8%	19.6%	20.0%	21.0%	21.0%	21.0%	21.0%
EBIT % Revenue	4.8%	5.4%	6.4%	7.2%	6.7%	7.2%	8.0%	9.0%
Interest Expense % Revenue	1.4%	1.5%	1.6%	0.6%	0.6%	0.6%	0.5%	0.5%
Tax Expense % Revenue	21.3%	21.6%	23.2%	23.0%	23.0%	23.0%	23.0%	23.0%

## Valuation

Discounted Cash Flow - Unlevered Free Cash Flow						
(In thousands)	2021	2022	2023	2024	2025	TV
EBIT	1,490,467	1,450,315	1,618,004	1,867,406	2,194,262	
Tax Expense	(315,709)	(305,738)	(343,427)	(401,621)	(476,537)	
NOPAT	1,174,758	1,144,577	1,274,576	1,465,785	1,717,725	
D&A	370,406	387,779	403,201	420,166	438,852	
Cap EX	(329,250)	(344,693)	(358,401)	(373,481)	(390,091)	
Changes in NWC	863,035	63,270	53,895	46,696	51,751	
Free Cash Flow	352,879	1,124,394	1,265,481	1,465,773	1,714,735	<b>22,585,396</b>
Discounted Free Cash Flow	319,979	924,504	943,499	990,941	1,051,170	13,845,348

WACC Table	
Equity %	73.00%
Debt %	27.00%
Risk Free Rate	1.31%
Levered beta	2.41
ERP	4.38%
Cost of equity	11.87%
Cost of debt	6.00%
Calculated WACC	10.28%
WACC Used	10.28%

Valuation	
Terminal Growth	2.50%
Implied Multiple	8.58
EV	18,075,441.17
Net Debt	1,953,551.00
Equity Val	16,121,890.17
S/O	207,830.00
<b>Target Price</b>	<b>\$ 77.57</b>
Current price	\$ 54.12
<b>Implied Upside:</b>	<b>43.33%</b>

## Sensitizing Terminal Growth and WACC

Weighted Average Cost of Capital						
TV Growth Rate	43.334%	8%	9.00%	10.00%	11.00%	12.00%
	1%	73%	47%	27%	11%	-2%
	1.50%	85%	56%	34%	16%	2%
	2.00%	99%	66%	41%	22%	7%
	2.50%	116%	78%	50%	29%	12%
	3.00%	137%	92%	60%	36%	17%
	3.50%	162%	108%	71%	44%	24%
	4.00%	193%	128%	85%	54%	31%

## Precedent Transactions

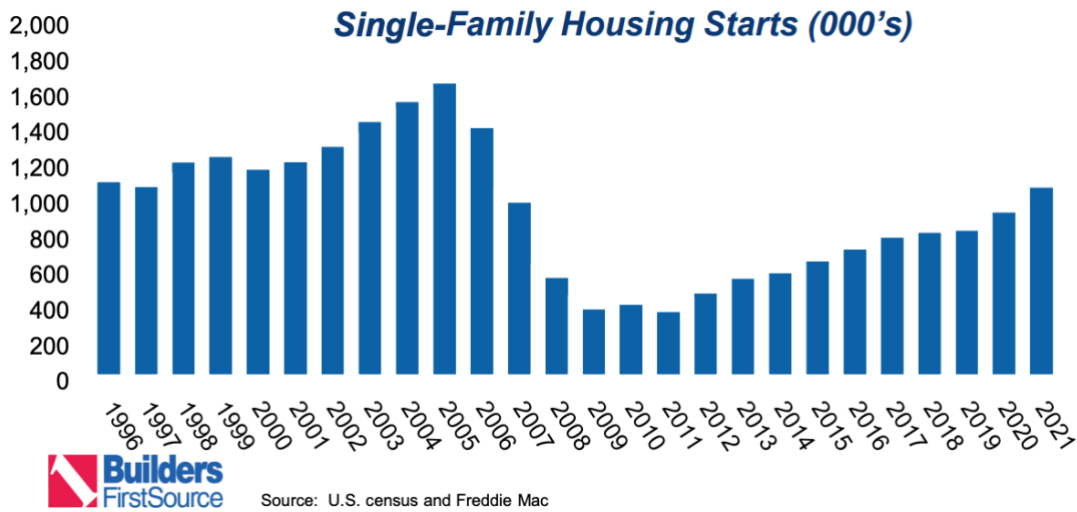
Date	Acquiror	Target	EV / EBITDA
January 2021	Builders FirstSource, Inc.	BMC Stock Holdings, Inc	7.3x
August 2020	Clayton, Dubilier & Rice	HD Supply Holdings, Inc.'s Construction & Industrial	9.0x
May 2018	Reece Limited	Morseco Inc.	14.4x
April 2018	GMS Inc.	WSB Titan	9.2x
August 2017	Beacon Roofing Supply, Inc.	Allied Building Products Corp.	13.6x
June 2017	Clayton, Dubilier & Rice	HD Supply Holdings, Inc.'s, Waterworks Business	10.5x
August 2016	ABC Supply Co., Inc.	L&W Supply	12.9x
July 2015	Beacon Roofing Supply, Inc.	Roofing Supply Group	14.6x
July 2015	The Home Depot, Inc.	Interline Brands, Inc.	11.1x
June 2015	Stock Building Supply Holdings, Inc.	Building Materials Holding Corporation	11.4x
April 2015	Builders FirstSource, Inc.	ProBuild Holdings LLC	9.6x
May 2014	CCMP Capital Advisors, LLC	The Hillman Companies, Inc.	11.7x
February 2014	AEA Investors	Gypsum Management & Supply, Inc.	10.0x
May 2012	GS Capital Partners and P2 Capital Partners	Interline Brands, Inc.	9.7x
September 2010	Hellman & Friedman	Associated Materials Incorporated	9.0x
April 2010	Oak Hill Capital Partners	The Hillman Companies, Inc.	10.0x
June 2007	Bain, Carlyle Group & Clayton, Dubilier & Rice	HD Supply Holdings, Inc.	8.5x

<b>Mean</b>	11.0x
<b>Median</b>	10.5x

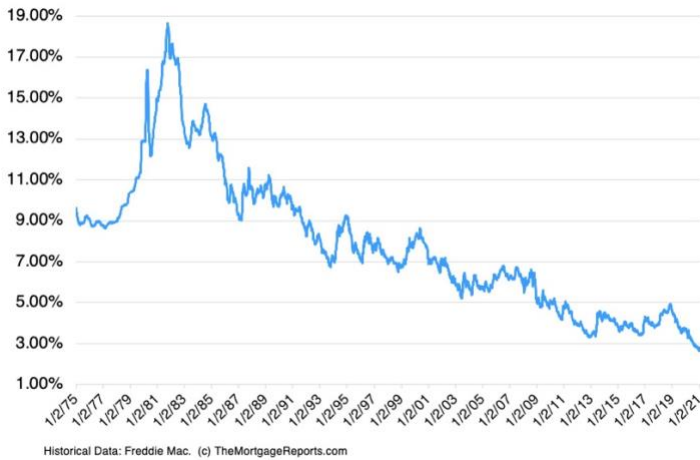
## Comparable Company Analysis

BLDR Comp Set	Enterprise Value	EV/LTM EBITDA	LTM EBITDA Margin	Net Debt/EBITDA	EBITDA, 1 Yr Growth	ROIC (Annualized)	Revenues, 1 Yr Growth
Beacon Roofing	5,870.0	9.92x	8.8%	3.1x	14.00%	14.04%	2.74%
Bluelinx Holdings	1,250.0	7.80x	9.0%	1.7x	19.00%	18.52%	13.00%
UFP Industries	4,984.0	7.50x	8.9%	1.0x	21.00%	19.94%	16.50%
Cavco Industries,	1,940.0	16.50x	9.1%	0.2x	15.80%	22.68%	12.50%
GMS Inc (NYSE:	3,233.0	9.08x	9.8%	3.5x	14.25%	16.90%	10.70%
Masonite	3,430.0	10.12x	12.0%	2.8x	2.40%	15.80%	4.80%
<b>Worldwide (NYSE:</b>							
<b>Builders</b>	13,130.0	8.19x	11.6%	1.5x	61.00%	24.86%	38.76%
<b>Summary Statistics</b>							
<b>High</b>	13,130.0	16.50x	12.0%	3.5x	61.00%	24.86%	38.76%
<b>Low</b>	1,250.0	7.50x	8.8%	0.2x	2.40%	14.04%	2.74%
<b>Mean</b>	4,833.9	9.87x	9.9%	2.0x	21.06%	18.96%	14.14%
<b>Median</b>	3,430.0	9.08x	9.1%	1.7x	15.80%	18.52%	12.50%

**SF Housing Start Growth**



**30 Year Mortgage Rate**



**Demographic Flip**

Millennial generation driving significant increase in peak household formation years (Ages 35-44)

