FBM Q418 Earnings Presentation

Earnings Call - February 26, 2019 - 8:30AM ET
Forward-Looking Statements

This presentation contains “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “project,” “plan,” or words or phrases with similar meaning. Forward-looking statements contained in this presentation relate to, among other things, the Company's projected financial performance, and operating results including projected net sales, gross margin, adjusted S&GA, capital expenditures, adjusted EBITDA, net debt leverage, adjusted EBITDA margin and adjusted earnings per share, as well as statements regarding the Company’s progress towards its strategic objectives, including the performance of current greenfield branches, the opening of additional greenfield branches and the successful integration and performance of the Company's acquisitions. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements. We do not intend, and undertake no obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable law. Investors are referred to the Company's filings with the Securities and Exchange Commission, including its Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q for additional information regarding the risks and uncertainties that may cause actual results to differ materially from those expressed in any forward-looking statement.

Non-GAAP Financial Measures

In addition to results under generally accepted accounting principles ("GAAP") this presentation contains certain non-GAAP financial measures, including adjusted net income, adjusted earnings per share ("EPS"), net debt leverage and adjusted EBITDA, which are provided as supplemental measures of financial performance. These measures are presented because they are important metrics used by management as one of the means by which it assesses financial performance. Adjusted net income, adjusted EPS, net debt leverage and adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. These measures, when used in conjunction with related GAAP financial measures, provide investors with an additional financial analytical framework that may be useful in assessing our company and its results of operations. Adjusted net income, adjusted EPS, net debt leverage and adjusted EBITDA have certain limitations, which are discussed in greater detail in the Company’s filings with the Securities and Exchange Commission and its earnings releases, and should not be considered as alternatives to net income, reported EPS or any other measures of financial performance prepared in accordance with GAAP. Other companies, including other companies in our industry, may not use such measures or may calculate one or more of the measures differently than we do, limiting their usefulness as a comparative measure. A reconciliation of these non-GAAP measures to the most directly comparable GAAP measure is set forth in the appendix to this presentation.
Q4 2018 & 2018 FULL YEAR HIGHLIGHTS

Q4 Highlights

• Strong fourth quarter results to finish 2018:
  • Net sales increased 16.3% to $516.2M YoY
  • Base business net sales increased 10.6% to $439.1M
  • Wallboard base business growth of 6.1%; wallboard price/mix up 2.3%, unit volume up 3.8% YoY
  • SG&A leverage of 22.6% versus 22.7% YoY; adjusted SG&A leverage\(^1\) of 22.1% versus 22.5%
  • Net income from cont. ops. of $1.9M; EPS of $0.04; adjusted EPS\(^2\) of $0.16
  • Adjusted EBITDA\(^2\) of $41.2M; adjusted EBITDA margin\(^2\) of 8.0%
  • Reduced net debt leverage\(^3\) from 4.3x at Q318 to 3.6x at December 31, 2018

Full Year 2018 Highlights

• A record year of financial performance:
  • Net sales increased 14.2% to $2.0B YoY
  • Base business net sales increased 8.4% to $1.8B YoY
  • Wallboard base business growth of 4.4%; wallboard price/mix up 2.3%, unit volume growth up 2.1%
  • SG&A leverage of 21.7% versus 22.3% YoY; adjusted SG&A leverage\(^1\) of 21.3% versus 21.7% YoY
  • Net loss from cont. ops. of $36.4M (includes loss on debt refinance of $58.5M); loss per share of $0.85; adjusted EPS\(^2\) of $0.41
  • Adjusted EBITDA\(^2\) of $155.2M; adjusted EBITDA margin\(^2\) of 7.6%
  • Annual cash interest savings of $12.0M to $15.0M after debt refinance and MI sale

2018 M&A and Greenfield Expansion

• Completed four acquisitions adding 16 branch locations
  • Contributed approximately $63.0M to 2018 net sales
  • Expanded our geographical footprint in 12 states
• Opened five greenfield branches
• Divested the MI business. Net proceeds of approximately $116.0M used to pay down ABL credit facility

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\(^1\)Adjusted SG&A leverage is calculated as SG&A expenses, excluding one-time costs, divided by net sales. Q418 and Q417 exclude one-time SG&A expenses of $2.3 million and $0.8 million, respectively. FY18 and FY17 exclude one-time SG&A expenses of $9.2 million and $11.9 million, respectively.  
\(^2\)Adjusted EBITDA, adjusted EBITDA margin, adjusted SG&A leverage, net debt leverage and adjusted EPS are non-GAAP measures. Adjusted EBITDA margin represents adjusted EBITDA divided by net sales. For a reconciliation of net income (loss) to adjusted EBITDA and adjusted net income see the appendix.  
\(^3\)For a calculation of net debt leverage, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018.
# Long-Term Strategic Priorities

## Strengthen Balance Sheet
- Reduce net debt leverage
- Drive working capital efficiency
- Disciplined capital spending

## Drive Organic Growth
- Greenfield expansion opportunities in underserved markets
- Expand the products we offer our customers
- Optimize the pricing of the products we sell to customers
- Grow market share

## Expand Profit Margins
- Drive procurement savings
- Leverage our economies of scale
- Execute our cost-out initiatives
- Grow wallboard net sales

## Platform Expansion
- Grow asset base through strategic acquisitions
- Scalable infrastructure facilitates efficient integration of acquisitions
- Grow complementary and other products net sales
Shift in product mix reflects higher metal framing prices
- Net sales growth of 16.3% YoY driven by base business growth of 10.6%
- Gross profit increased 16.9% due to higher net sales across our product lines

Note: Results do not include the mechanical insulation segment, which was sold in Q418 and is in discontinued operations.
Gross margin increased from earlier quarters due to pricing initiatives, product-cost stabilization, and incentives from our suppliers.

Adjusted SG&A leverage\(^1\) improved primarily due to higher net sales and operating efficiencies.

Adjusted EBITDA margin\(^2\) of 8.0% improved 50bps YoY primarily due to improved operating efficiencies and improved SG&A leverage.

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\(^1\)Adjusted SG&A leverage is calculated as SG&A expenses, excluding one-time expenses of $2.3 million for Q418 and $0.8 million for Q417, divided by net sales.

\(^2\)Adjusted EBITDA, adjusted EBITDA margin and adjusted SG&A leverage are non-GAAP measures. Adjusted EBITDA margin represents adjusted EBITDA divided by net sales. For a reconciliation of net income (loss) to adjusted EBITDA, see the appendix.
Q418 NET SALES BY PRODUCT

Wallboard Net Sales ($M)
- 4Q17: $173
- 4Q18: $198
- +14.5% YoY Base Business Growth

Suspended Ceiling Systems Net Sales ($M)
- 4Q17: $81
- 4Q18: $91
- +13.1% YoY Base Business Growth

Metal Framing Net Sales ($M)
- 4Q17: $68
- 4Q18: $97
- +43.5% YoY Base Business Growth

Complementary & Other Products Net Sales ($M)
- 4Q17: $122
- 4Q18: $129
- +6.0% YoY Base Business Growth
Shift in product mix reflects higher metal framing prices

Net sales growth of 14.2% YoY driven by base business growth of 8.4%

Gross profit increased 13.1% due to higher net sales across our product lines

Note: Results do not include the mechanical insulation segment, which was sold in Q418 and is in discontinued operations.
• In 2018, multiple product-cost increases impacted gross margin mainly in Q2 and Q3; Q4 was positively impacted by incentives from our suppliers

• Adjusted SG&A leverage\(^1\) improvement of 40bps YoY due to higher net sales and operating efficiencies

• Adjusted EBITDA margin\(^2\) was flat YoY due to higher product costs

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\(^1\) Adjusted SG&A leverage is calculated as SG&A expenses, excluding one-time expenses of $9.2 million for 2018 and $11.9 million for 2017, divided by net sales.

\(^2\) Adjusted EBITDA, adjusted EBITDA margin and adjusted SG&A leverage are non-GAAP measures. Adjusted EBITDA margin represents adjusted EBITDA divided by net sales. For a reconciliation of net income (loss) to adjusted EBITDA, see the appendix.
2018 FULL YEAR NET SALES BY PRODUCT

Wallboard Net Sales ($M)

- 2017: $701
- 2018: $781 (4.3% YoY Base Business Growth)

Metal Framing Net Sales ($M)

- 2017: $280
- 2018: $361 (23.2% YoY Base Business Growth)

Suspended Ceiling Systems Net Sales ($M)

- 2017: $329
- 2018: $380 (8.3% YoY Base Business Growth)

Complementary & Other Product Net Sales ($M)

- 2017: $479
- 2018: $522 (5.3% YoY Base Business Growth)
REINVEST IN THE BUSINESS

- 2019 capital expenditures expected to be approximately 1.4%-1.5% of net sales
- Continued investment in greenfield branches with plans to open four to six locations in 2019

PURSUE STRATEGIC ACQUISITIONS

- Strong acquisition pipeline targeting market leaders in highly fragmented industry
- Four acquisitions completed during 2018 contributed approximately $63.0 million to net sales in 2018

MANAGE LEVERAGE

- Expect to reduce net debt leverage to between 2.6x to 3.0x by the end of 2020
- Annual cash interest savings of $12.0M to $15.0M expected after debt refinance and MI sale
2018 ACQUISITION & DIVESTITURE TIMELINE

- **FEB 2018**: Consists of 54 distribution branches and 13 co-located fabrication facilities.
- **AUG**: PA, VA
- **OCT**: SD, IA
- **NOV**: USA, CAN

1 Consists of 54 distribution branches and 13 co-located fabrication facilities.
2016-2018 GREENFIELD BRANCHES RETURN ON INVESTMENT

Return on Invested Capital

Year Opened

2018 2017 2016
10% 19% 21%

Greenfield Branch Performance in 2018

<table>
<thead>
<tr>
<th>Year Opened</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Locations</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Average Capital Expenditure&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$780</td>
<td>$575</td>
<td>$599</td>
</tr>
<tr>
<td>ROIC&lt;sup&gt;2&lt;/sup&gt;</td>
<td>10%</td>
<td>19%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Return on Investment Increases Over Time

<sup>1</sup> Dollars in thousands.
<sup>2</sup> Management estimates. Represents adjusted EBITDA divided by invested capital (net working capital plus capital expenditures).
As of December 31, 2018

178 Branches Total
28 US States
5 Canadian Provinces

Existing/Acquired Branch
2018 Greenfield
# 2019 GUIDANCE

<table>
<thead>
<tr>
<th></th>
<th>2018 Results</th>
<th>2019 Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>$2.04B</td>
<td>$2.10B to $2.25B</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>28.9%</td>
<td>29.1% to 29.3%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>$155M</td>
<td>$160M to $180M</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA Margin</strong></td>
<td>7.6%</td>
<td>7.6% to 8.0%</td>
</tr>
<tr>
<td><strong>Adjusted EPS</strong></td>
<td>$0.41</td>
<td>$0.70 to $0.90</td>
</tr>
<tr>
<td><strong>Net Debt Leverage</strong></td>
<td>3.6x</td>
<td>3.2x to 3.5x</td>
</tr>
</tbody>
</table>

1. Guidance for 2019 includes anticipated contributions from acquisitions and planned greenfield branches.
2. Adjusted EBITDA, adjusted EBITDA margin, net debt leverage and adjusted EPS are non-GAAP financial measures.
3. For a calculation of net debt leverage, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018.
OUR FOUNDATION VALUES

Safety Comes First
There is nothing more important than operating safely.

Be Customer Driven
Listen to and work diligently for our customers.

We Value Our People
The most important asset we have is our employees.

Integrity is Honesty
Do what is right and tell the truth regardless of the outcome.

Pursue Excellence
Strive to be the company of choice in the markets we serve.
APPENDIX
Q4 AND 2018 FULL YEAR NET INCOME (LOSS) TO ADJUSTED EBITDA RECONCILIATION

<table>
<thead>
<tr>
<th>Description</th>
<th>Three Months Ended December 31,</th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Net income (loss) from continuing operations</td>
<td>$ 1,925</td>
<td>$ 74,759</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>10,244</td>
<td>15,838</td>
</tr>
<tr>
<td>Loss on extinguishment of debt</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Income tax expense (benefit)</td>
<td>7,671</td>
<td>(8,170)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>20,500</td>
<td>18,199</td>
</tr>
<tr>
<td>Unrealized gain on derivative financial instruments</td>
<td>(209)</td>
<td>(14)</td>
</tr>
<tr>
<td>IPO and public company readiness expenses</td>
<td>—</td>
<td>157</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>788</td>
<td>210</td>
</tr>
<tr>
<td>Non-cash purchase accounting effects&lt;sup&gt;a&lt;/sup&gt;</td>
<td>—</td>
<td>(127)</td>
</tr>
<tr>
<td>(Gain) loss on disposal of property and equipment</td>
<td>(61)</td>
<td>48</td>
</tr>
<tr>
<td>Hurricane-related costs&lt;sup&gt;b&lt;/sup&gt;</td>
<td>—</td>
<td>(20)</td>
</tr>
<tr>
<td>Transaction costs&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1,553</td>
<td>411</td>
</tr>
<tr>
<td>Management fees&lt;sup&gt;d&lt;/sup&gt;</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Decrease in TRA liability&lt;sup&gt;e&lt;/sup&gt;</td>
<td>(1,189)</td>
<td>(68,033)</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>$ 41,222</td>
<td>$ 33,258</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA margin</strong>&lt;sup&gt;f&lt;/sup&gt;</td>
<td>8.0%</td>
<td>7.5%</td>
</tr>
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</table>

<sup>a</sup> Adjusts for the effect of the purchase accounting step-up in the value of inventory to fair value as a result of acquisitions.

<sup>b</sup> Represents costs incurred and insurance proceeds from Hurricanes Harvey and Irma.

<sup>c</sup> Represents costs related to our transactions, including fees to financial advisors, accountants, attorneys, other professionals and certain internal corporate development costs.

<sup>d</sup> Represents fees paid to former private equity sponsors for services provided pursuant to past management agreements. These fees are no longer being incurred.

<sup>e</sup> Related to adjustment in liability related to the Tax Cut and Jobs Act of 2017. See Note 20, Tax Receivable Agreement, in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

<sup>f</sup> Adjusted EBITDA margin represents adjusted EBITDA divided by net sales.
<table>
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<tr>
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<td>—</td>
</tr>
<tr>
<td>Decrease in TRA liability (e)</td>
<td>(1,189)</td>
<td>(68,033)</td>
</tr>
<tr>
<td>Tax effects (f)</td>
<td>4,162</td>
<td>(257)</td>
</tr>
<tr>
<td>Adjusted net income</td>
<td>$6,969</td>
<td>$7,134</td>
</tr>
</tbody>
</table>

Earnings (loss) per share data as reported:

<table>
<thead>
<tr>
<th>Description</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.04</td>
<td>$0.04</td>
</tr>
<tr>
<td></td>
<td>$1.74</td>
<td>$1.74</td>
</tr>
<tr>
<td></td>
<td>$(0.85)</td>
<td>$(0.85)</td>
</tr>
<tr>
<td></td>
<td>$1.88</td>
<td>$1.88</td>
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</tbody>
</table>

Earnings per share data as adjusted:

<table>
<thead>
<tr>
<th>Description</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.16</td>
<td>$0.16</td>
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<tr>
<td></td>
<td>$0.17</td>
<td>$0.17</td>
</tr>
<tr>
<td></td>
<td>$0.41</td>
<td>$0.41</td>
</tr>
<tr>
<td></td>
<td>$0.23</td>
<td>$0.23</td>
</tr>
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</table>

Weighted average shares outstanding:

<table>
<thead>
<tr>
<th>Description</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42,903,161</td>
<td>42,865,407</td>
</tr>
<tr>
<td></td>
<td>42,892,879</td>
<td>41,486,496</td>
</tr>
</tbody>
</table>

(a) Adjusts for the effect of the purchase accounting step-up in the value of inventory to fair value as a result of acquisitions.
(b) Represents costs incurred and insurance proceeds from Hurricanes Harvey and Irma.
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(e) Related to adjustment in liability related to the Tax Cut and Jobs Act of 2017. See Note 20, Tax Receivable Agreement, in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.
(f) Represents the tax effect and one-time, non-recurring tax items.