



Beacon Roofing Supply, Inc.

# 2016 Second Quarter Earnings Call May 2, 2016





## Highlights

- ❑ Record second quarter sales of \$823.5 million, nearly double prior year (99.3% growth)
- ❑ Organic growth of 27.7% in existing markets (31.4% growth in residential roofing)
- ❑ Gross margin improvement of 40 basis points to 23.8% of sales
- ❑ Adjusted EPS of \$0.03 (GAAP EPS of (\$0.10)) vs. (\$0.20) in prior year
- ❑ Second quarter adjusted EBITDA grew to \$36.9 million from (\$3.6) million in prior year
- ❑ RSG integration and synergy realization on track
- ❑ Record first half sales of \$1.8 billion vs. \$1.0 billion in prior year (78.4% growth)
- ❑ Completed seven acquisitions year to date in Fiscal 2016



## RSG Integration Update

- ❑ Branch Consolidation activities almost complete
- ❑ ERP system conversion complete
- ❑ Successfully migrating RSG branches to Beacon operating structure
- ❑ Minimal loss of revenue post consolidation
- ❑ Synergy realization is on target to expectations
- ❑ Notable improvement in RSG gross margins vs. prior year under Beacon supply chain contracts



## Consolidated Adjusted - Statements of Income

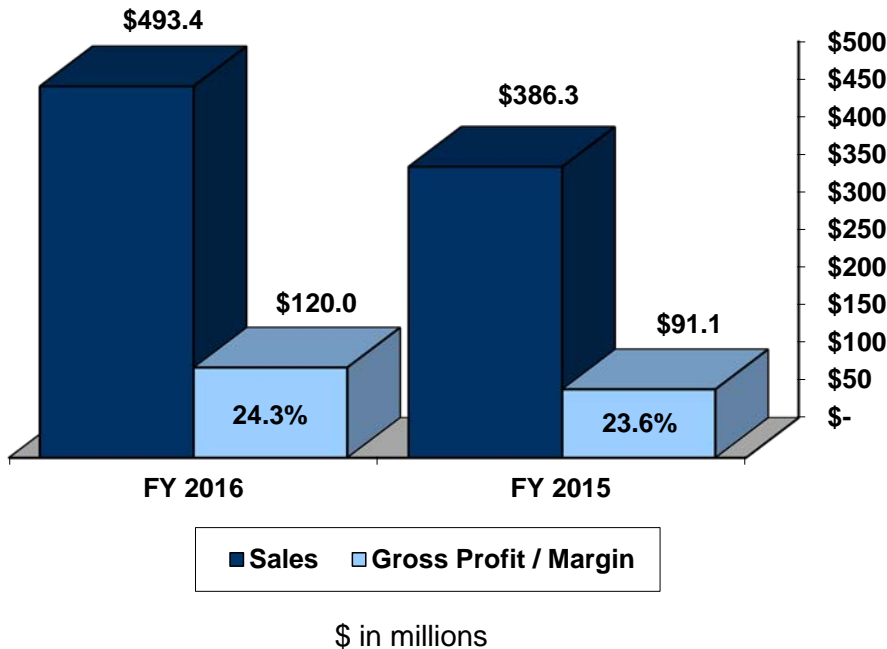
(\$ in Millions)	Three Months Ended				Six Months Ended			
	Actual	% of	Actual	% of	Actual	% of	Actual	% of
	Mar-16	Net Sales	Mar-15	Net Sales	Mar-16	Net Sales	Mar-15	Net Sales
Net sales	\$823.5		\$413.2		\$1,800.0		\$1,009.2	
Cost of products sold	627.8	76.2%	316.4	76.6%	1,371.1	76.2%	774.9	76.8%
Gross profit	195.8	23.8%	96.8	23.4%	429.0	23.8%	234.3	23.2%
Operating expenses	180.7	21.9%	111.0	26.9%	361.3	20.1%	224.7	22.3%
Income from operations	15.0	1.8%	(14.2)	(3.4)%	67.6	3.8%	9.6	1.0%
interest expense, financing costs and other	11.8	1.4%	2.5	0.6%	24.3	1.3%	5.2	0.5%
Income before provision for income taxes	3.2	0.4%	(16.7)	(4.0)%	43.3	2.4%	4.4	0.4%
Provision for income taxes	(1.6)	(0.2)%	6.9	1.7%	(17.0)	(0.9)%	(1.3)	(0.1)%
Net Income	\$1.7	0.2%	(\$9.8)	(2.4)%	\$26.4	1.5%	\$3.1	0.3%
EPS Adjusted	\$0.03		(\$0.20)		\$0.44		\$0.06	

\* The second quarter 2016 Consolidated Statements of Operations includes \$5.5 million of non-recurring charges, \$5.7 million of additional amortization for acquired intangibles, and \$1.2 million of interest expense, financing costs and other for the recognition of certain costs related to the RSG acquisition. For the six months ended March 31, 2016 Consolidated Statements of Operations includes \$25.5 million of non-recurring charges, \$11.4 million of additional amortization for acquired intangibles, and \$5.0 million of interest expense, financing costs and other for the recognition of certain costs related to the RSG acquisition. Management believes the Adjusted Net Income for second quarter 2016 and 6 months ended March 31, 2016 provides a meaningful comparison to prior periods operating results as it adjusts for the impact of the RSG Acquisition.

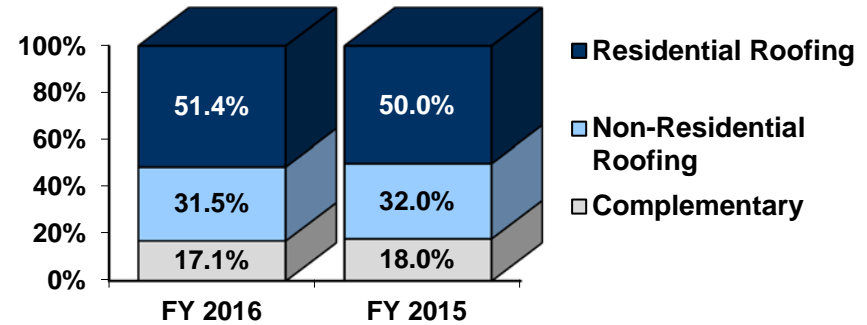


# Quarterly Results

**Existing Market Sales, Gross Profit & Gross Margin**



**Existing Market Product Mix**



**Organic Sales Growth (Decline)**

Northeast	52.4%
Mid-Atlantic	32.0%
Southeast	47.2%
Southwest	30.4%
Midwest	11.1%
West	5.1%
Canada	(3.0%)
<b>Total</b>	<b>27.7%</b>

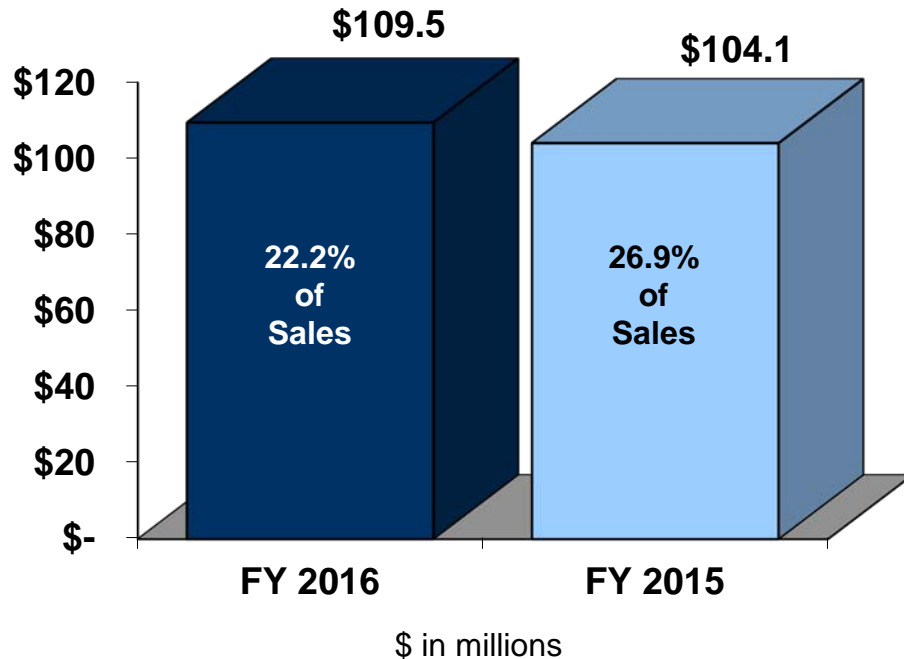
\* Sales Growth 25.7% on a same day basis

Existing Market results above exclude growth from acquired branches until they have been under ownership for at least four full fiscal quarters at the start of the fiscal reporting period.



# Quarterly Results

## Existing Market Operating Expenses



### Operating Expense Incr. (Decr.)

Payroll, employee benefits, stock comp	\$ 8.0
Depreciation & amortization	0.5
Greenfields	0.5
Other	(1.9)
Bad Debt Expense	(1.7)
<b>Total</b>	<b>\$ 5.4</b>

Existing Market results above exclude growth from acquired branches until they have been under ownership for at least four full fiscal quarters at the start of the fiscal reporting period.



## RSG Non-Recurring Acquisition Costs

<i>(\$, in millions)</i>	Q2 2016	YTD 2016	P&L Line Item
<b>Integration Costs</b>	<b>\$5.5</b>	<b>\$19.6</b>	
Misc. SG&A	\$5.5	\$15.3	Op Ex
Stock Comp. Expense	\$0.0	\$4.3	Op Ex
<b>Transaction Costs</b>	<b>\$1.2</b>	<b>\$10.8</b>	
Misc. SG&A	\$0.0	\$5.0	Op Ex
Interest Expense	\$1.2	\$5.0	Other (income / expense)
(Gain) / Loss on Assets	\$0.0	\$0.8	Op Ex
<b>Incremental Amortization</b>	<b>\$5.7</b>	<b>\$11.4</b>	<b>Op Ex</b>
<b>Total</b>	<b>\$12.4</b>	<b>\$41.9</b>	

RSG acquisition costs reflected on a pre-tax basis  
Totals may not foot due to rounding



## Amortization Impact on Net Income and EPS

(\$, in millions)	Year-to-Date		Full Year	
	All Included	Incremental Excluded	All Included	Incremental Excluded
Legacy Beacon	(\$7)	(\$7)	(\$16)	(\$16)
Legacy RSG	(\$12)	(\$12)	(\$25)	(\$25)
Q1 Beacon Acquisitions	(\$1)	(\$1)	(\$3)	(\$3)
Incremental RSG	(\$11)	-----	(\$23)	-----
<b>FY16 Net Income Impact</b>	<b>(\$19)</b>	<b>(\$13)</b>	<b>(\$40)</b>	<b>(\$27)</b>
<b>EPS Impact</b>	<b>(\$.32)</b>	<b>(\$.21)</b>	<b>(\$0.67)</b>	<b>(\$0.44)</b>

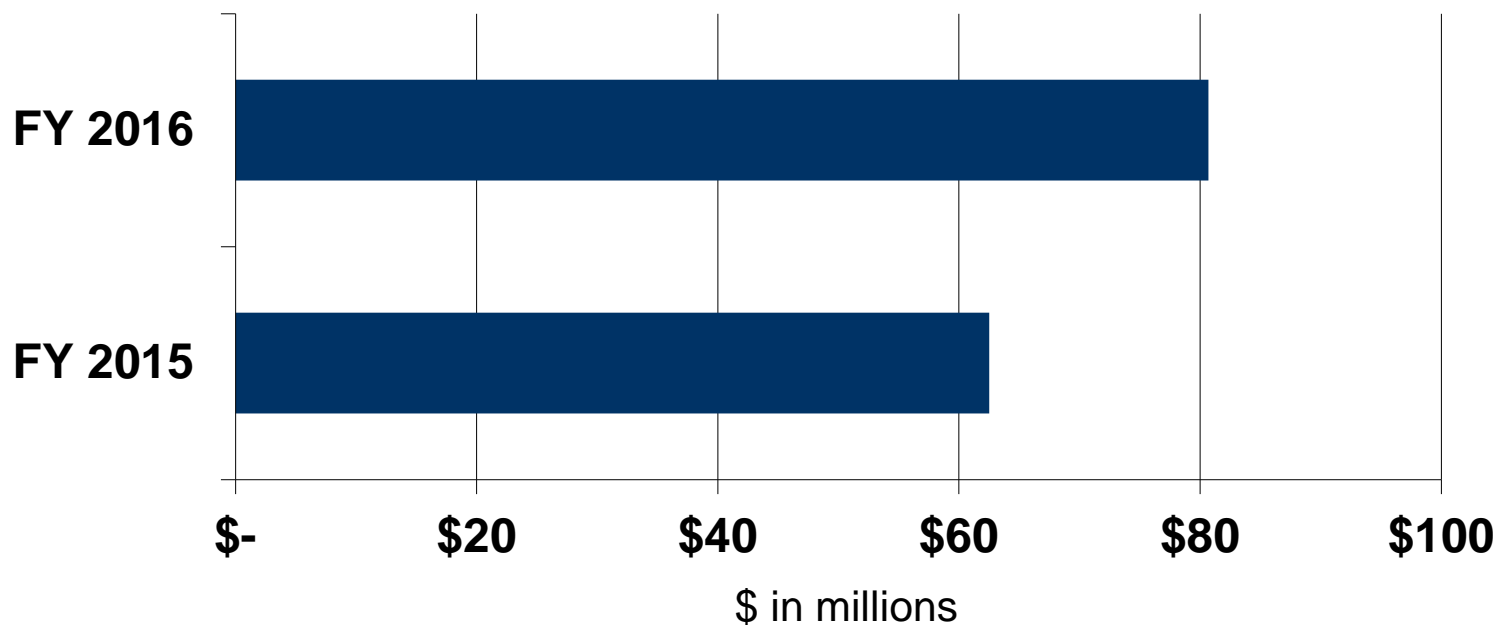
EPS assumes diluted shares of 60.1 million





## YTD Results

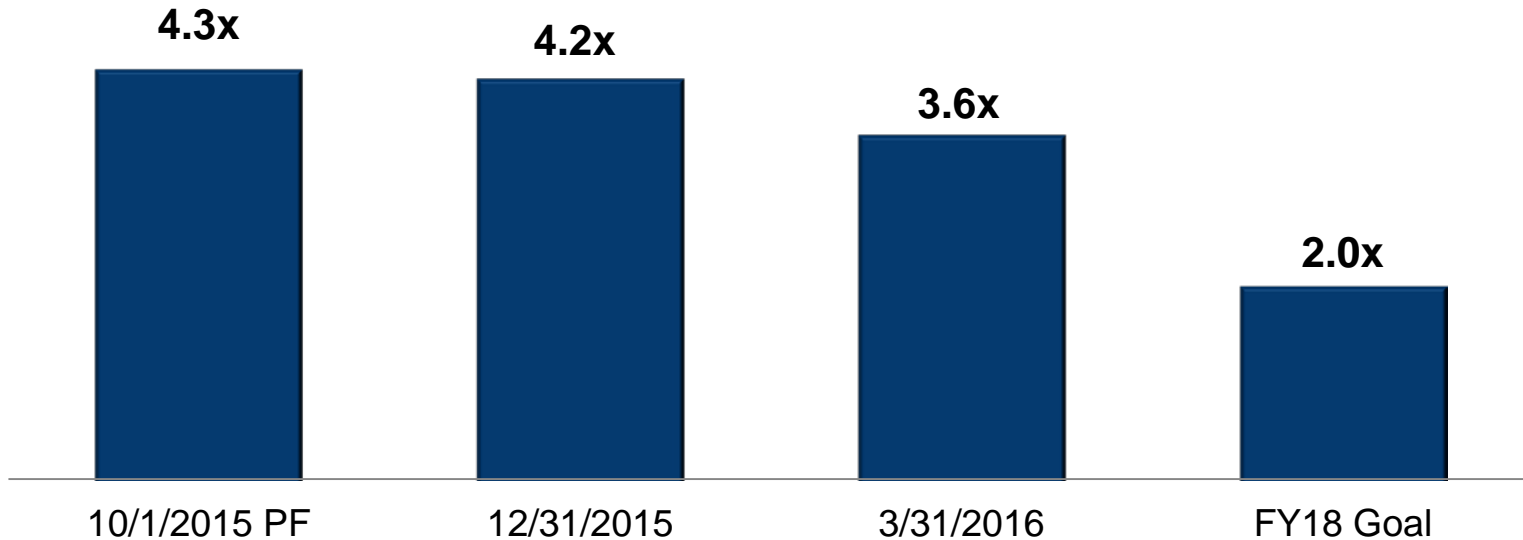
### Cash Flow From Operations



	<u>Net Income</u>	<u>Non-Cash &amp; WC Adj.</u>	<u>CF from Ops.</u>
<b>FY 2016</b>	\$1.4	\$79.3	\$80.7
<b>FY 2015</b>	\$3.1	\$59.4	\$62.5



## Net Debt Leverage Ratio



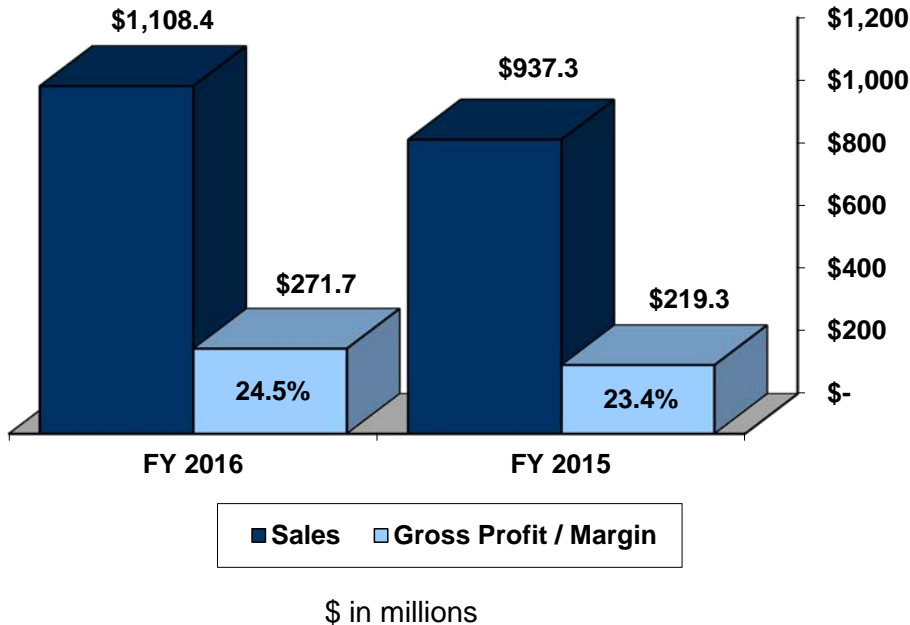
Net Debt leverage calculation = Total debt net of cash /  
Trailing 4 quarter Proforma EBITDA

- ❑ YTD cash available for debt pay down approximately \$150 million, YTD funded \$100 million in acquisitions, netting approximately \$50 million in debt pay down

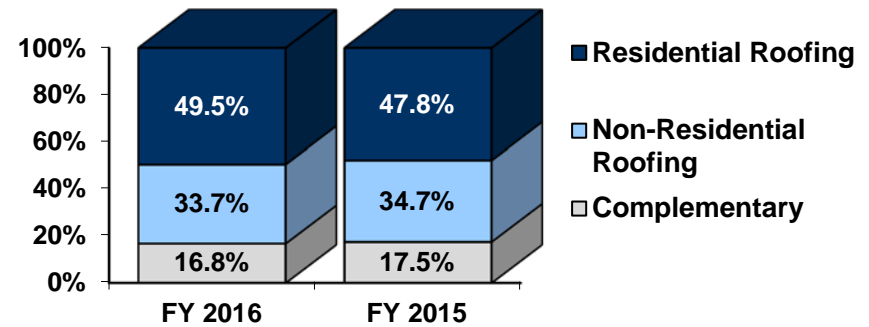


## Year-to-Date Results

**Existing Market Sales, Gross Profit & Gross Margin**



**Existing Market Product Mix**



**Organic Sales Growth (Decline)**

Northeast	26.3%
Mid-Atlantic	17.5%
Southeast	34.4%
Southwest	24.9%
Midwest	4.4%
West	22.2%
Canada	(1.7%)
<b>Total</b>	<b>18.3%</b>

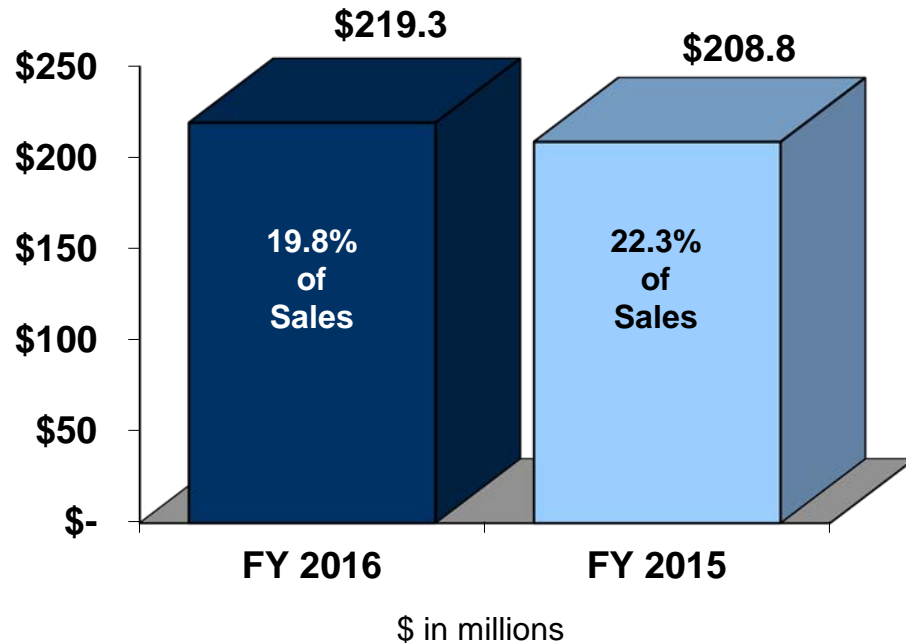
\* **Sales Growth 17.3% on a same day basis**

Existing Market results above exclude growth from acquired branches until they have been under ownership for at least four full fiscal quarters at the start of the fiscal reporting period.



## Year-to-Date Results

### Existing Market Operating Expenses



#### Operating Expense Incr. (Decr.)

Payroll, employee benefits, stock comp	\$ 11.4
Greenfields	2.2
Bad debt expense	0.5
Other	(2.0)
Selling expenses	(1.3)
Depreciation & amortization	(0.3)
<b>Total</b>	<b>\$ 10.5</b>

**Existing Market** results above exclude growth from acquired branches until they have been under ownership for at least four full fiscal quarters at the start of the fiscal reporting period.



## FY16 Sales Guidance

**First Half Actual \$1.8B**

**Second Half \$2.3 - \$2.4B**

**Fiscal 2016 \$4.1 - 4.2B**

### Key Assumptions for 2H \$2.3B:

- ✓ 2H 30% higher than 1H – seasonality
- ✓ Low to mid single digit existing market growth in 2H – full year approximately double digit
- ✓ No price increase impact
- ✓ Some pull forward into Q2 from 2H
- ✓ Additional acquisitions beyond RSG contribute \$70M in sales in 2H
- ✓ Average storm impact in 2H
- ✓ Favorable weather patterns for roofing

### Key Assumptions for 2H \$2.4B:

- ✓ 2H 35% higher than 1H – seasonality
- ✓ High single digit existing market growth in 2H – full year mid teens
- ✓ Favorable price impact in storm markets
- ✓ Some pull forward into Q2 from 2H
- ✓ Additional acquisitions beyond RSG contribute \$75M in sales in 2H
- ✓ Above average storm impact in 2H
- ✓ Favorable weather patterns for roofing



## FY16 Adjusted EPS Guidance

**First Half Actual \$0.44**

**Second Half \$1.56 – \$1.66**

**Fiscal 2016 \$2.00 - \$2.10**

### Key Assumptions for 2H \$1.56:

- ✓ 2H Sales of \$2.3B
- ✓ No price increase impact
- ✓ Product mix consistent with 1H
- ✓ GM in 2H up 20bps from 1H (10bps from PY) due to RSG synergy impact
- ✓ Op Exp leverage continues due to traditional 50% variable structure
- ✓ RSG synergy improvements at target of \$30M
- ✓ 39% effective tax rate continues

### Key Assumptions for 2H \$1.66:

- ✓ 2H Sales of \$2.4B
- ✓ Ability to pass through price increase
- ✓ Product mix consistent with 1H
- ✓ GM in 2H up 30bps from 1H (20bps from PY) due to improved price and increased RSG synergy impact
- ✓ Op Exp leverage continues due to traditional 50% variable structure
- ✓ RSG synergy improvements above target of \$30M
- ✓ 39% effective tax rate continues