

Initiating Coverage:

Builders FirstSource, Inc. (\$BLDR)

Framing the Downside: BLDR's Foundation Cracking Fast

Key Take-away: Builders FirstSource screens as cheap relative to their branded manufacturer competitors, but trades at an unreasonable premium to peers with similar distributor economics. With the highest leverage in the group, BLDR will be most negatively affected by lower normalized margin following market developments, as well as a potential for slower than expected housing sector recovery. The two historical pillars that held up the share price, margin resilience and share buybacks, are simultaneously failing, with increasing competition from larger players.

Continuous Bleeding: 2026 Q2 sales numbers showed an 8.8% year over year decline, a 260 bps decrease in gross margin, a massive 35% EBITDA drop, and a miss on EPS. FY26 guidance was cut for the third consecutive earnings call, signaling that management is failing again to create an inflection point for the company against a difficult macro environment for homebuilders. This implies that 2026 will be the fourth consecutive year of earnings decline, each with mid-year negative revisions.

Buyback Blinks: Repurchases of shared were completely halted in Q2 to prioritize debt paydown at 3.6x leverage, which is the first time that they have stalled since 2021. The guidance for Free Cash Flow is \$400M-\$500M, roughly half of the 2025 total, turning capital allocation into a harsh trade-off between staying afloat and managing float. The cost-savings target was also raised to \$115M, which is a measure of austerity and does not bode well for future repurchases.

Smaller Homes, Smaller Margins: Management has flagged comparable home values as having declined ~10% since 2019 as builders are increasingly forced to value-engineer to hit price points. Each house has less content, and each segment is facing structural ASP headwinds due to increased competition from big-box stores such as Home Depot, Lowes, and Menards.

Valuation: We initiate coverage with a \$42.00 Price Target



Consortium Research Group
Industrials | Building Products
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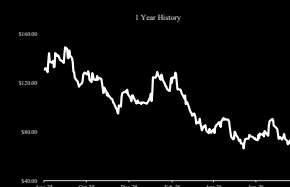
Stock Rating: Underweight

Price Target: \$42.00

Price: \$75.37

Potential Downside: (44.50)%

Ticker: \$BLDR



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Company Overview

Company Description: Builders is the largest U.S. supplier of structural and value-added building products to professional home builders. They are involved in distribution, factory-built components, and turnkey installation. Their largest individual products are lumber, windows, doors, cabinetry, and siding, as well as countertops, hardware, and roofing. They have 590 locations across 43 states and are 71% exposed to single-family housing, with great concentration in the Sun Belt. They have had over 80 acquisitions since 1998, including recent large ones of ProBuild in 2015 and BMC in 2021.

A Manufacturer's Multiple: Builders has a ~30% gross margin but only an ~8% EBITDA margin, which is exactly why it cannot be valued like a Trex or a Masco. Value-added products such as manufactured goods + windows and doors are ~47% of sales and a majorly outsized share of gross profits: lumber and distributed specialty are the low-margin, most contestable slices. Around 40% of EV is net debt so EV/EBITDA prices the entire balance sheet while the PE flatters versus structural peers.

Bolt-Ons and Buybacks: Builders has 5.2 billion in net debt. It is 3.6x leveraged, which is up from 0.7x in 2022, giving them the highest debt-to-EBITDA ratio in the entire peer set, with interest expense rising as free cash flow continues to fall precipitously. The per-share compounding rested on a free cash flow-funded buyback but with that engine paused the story needs it but is idle. Without any dividend and with no maturities until 2030, they have around 1.6 billion in liquidity. That cushion argues for a balance sheet defense over a per-share offense in terms of raising share price.

Industry Overview

The Starts Depression: Single-family home starts are at multi-year lows and still negative year over year. Total starts are at their weakest since 2020, in the midst of the pandemic, and BLDR is approximately 71% anchored to this supply. Mortgages forecast above 6% into 2027, 6.2% from NAHB, 6.5% from MBA through 2028. A sub-6% rate is very unlikely before late 2027 and this lock-in keeps existing supply frozen. The 4 million home deficit and 1.8 million missing households are real but don't help earnings until the starts figures inflect; the demand is simply deferred until economic conditions improve.

The Incredible Shrinking Home: Comparable home values are down more than 10% since 2019 as builders tend towards smaller more value-engineered homes, which compresses content per start across BLDR's entire book. This reframes the obvious margin pressure as structural, cyclical. With less product going into each house and weaker ASPs, they hit margin even at stable volumes. Repairs and renewals, which account for around 16% of sales, are decelerating towards half percent growth and won't offset new construction weakness until housing turns. Materials are also shifting. Advances in printable home technology pose a major threat in 2027 and beyond for traditional home building.

Home Depot Enters the Arena: Home Depot is expanding in pro distribution, primarily roofing, drywall, siding, and trade credit, which hits the 30% of BLDR's gross profit that is in the contestable zone. The two best pure-play distribution competitors, Beacon and GMS, were both acquired in 2025, leaving scarcity for bulls and strategic opponents consolidating BLDR's lane. Management referred to the new situation as the competitive dynamic and irrational small competitor pricing as a driver of the specialty margin hit. This, in addition to the volume problem, leaves BLDR with serious concerns about a shrinking moat from all sides.

Peer Comparisons

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
UFP INDUSTRIES, INC. (XNAS:UFPI)	\$5,237	\$4,787	20.3x	\$6,230	\$498
BOISE CASCADE COMPANY (XNYS:BCC)	\$3,044	\$3,135	29.4x	\$6,367	\$313
LOUISIANA-PACIFIC CORPORATION (XNYS:LPX)	\$5,060	\$5,274	65.6x	\$2,559	\$318
OWENS CORNING (XNYS:OC)	\$11,653	\$17,404	N/A	\$9,838	\$2,035
Builders FirstSource, INC.	\$7,799	\$12,973	78.0x	\$14,449	\$1,150

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
UFP INDUSTRIES, INC. (XNAS:UFPI)	9.6x	16.6%	8.1%	5.4%	(6.4%)
BOISE CASCADE COMPANY (XNYS:BCC)	10.0x	16.3%	4.9%	2.4%	(3.8%)
LOUISIANA-PACIFIC CORPORATION (XNYS:LPX)	16.6x	19.8%	12.4%	6.9%	(13.0%)
OWENS CORNING (XNYS:OC)	8.6x	27.2%	20.7%	13.9%	(5.1%)
Builders FirstSource, INC.	11.3x	29.9%	8.2%	4.2%	(8.3%)

High	16.58x	29.9%	20.7%	13.9%	(3.8%)
75th Percentile	11.28x	27.2%	12.4%	6.9%	(5.1%)
Average	11.21x	22.0%	10.9%	6.6%	(7.3%)
Median	10.02x	19.8%	8.2%	5.4%	(6.4%)
25th Percentile	9.61x	16.6%	8.1%	4.2%	(8.3%)
Low	8.55x	16.3%	4.9%	2.4%	(13.0%)

BLDRS VALUATION

Implied Enterprise Value (25th Percentile)	\$	11,054
Implied Enterprise Value (Median)	\$	11,518
Implied Enterprise Value (75th Percentile)	\$	12,973
Implied Share Price (25th Percentile)	\$	54.47
Implied Share Price (Median)	\$	58.78
Implied Share Price (75th Percentile)	\$	72.30

Source: S&P Capital IQ

Investment Theses

Normalization Isn't What the Street Thinks: The 2021 to 2024 peak era with 35% gross margins and 17% EBITDA margins were commodity-price and COVID-inflated. A \$2 billion normalized EBITDA anchor is a bubble; the true normal is only around \$1.4 billion. Gross margin has fallen every year, and management refers to it as normalization not a simple dip, demonstrating that the increase in competition in the space is boxing out BLDR in non-specialized areas. When decomposing margin into commodity pass-through versus genuine mix segments, the mix benefit is much smaller than claimed by management, especially with value engineering shrinking as content.

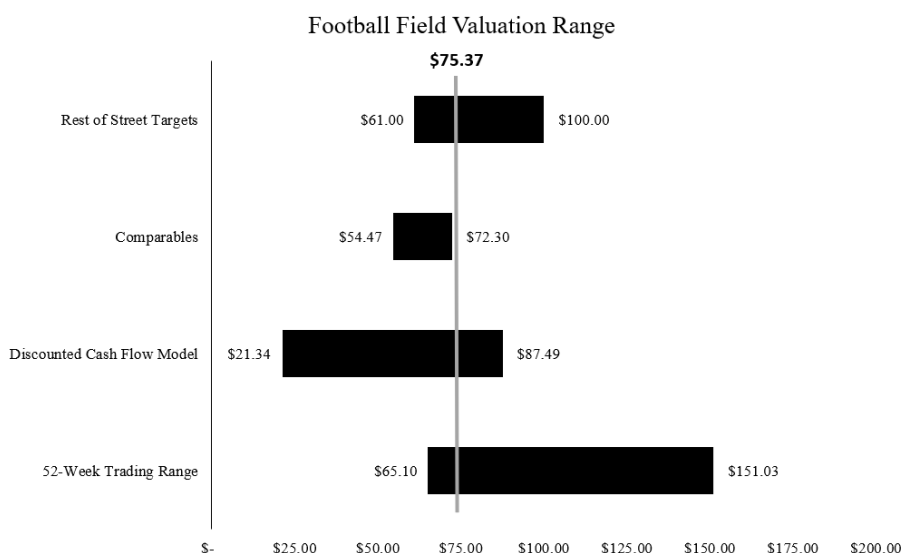
The Street is Benchmarking the Wrong Company: The consensus of cheap in this sector relies on a default set of competitors stuffed with 18% to 28% EBITDA margin branded manufacturers like Tress, Masco, Carlyle, and Griffin, whose economics are completely unrelated to builders, which is an 8% margin distributor. Comparing across business models is a category error, and a very common one in the street evaluation models.

Against the four peers that actually share its economics, which are UFPI, BCC, LPX, and OC, the sign flips. BLDR moves from a 7% discount to a premium with the highest leverage in the group. UFPI, BCC, and OC cluster in a tight 7.7 to 8.7x band, which tells you that they share similar structures. On the right peer set, BLDR is expensive on a trough EBITDA with the worst balance sheet in the group.

Fewer Households, Not Just Fewer Homes: The bull case rests on a 4 million-household structural deficit and 1.8 million missing millennial and Gen Z households releasing pent-up demand, but the biggest driver of household formation is collapsing. Net internal migration fell from 2.7 million in 2024 to 1.3 million in 2025. U.S. population growth dropped from 3.2 million to 1.8 million. The deficit is closing via weaker demand, not increased supply. On the supply side enforcement is pulling out the labor needed to build. Immigrants are 26% of the construction workforce and well over half in the most reliant trades, such as drywall, roofers, and painters. Around 13% are undocumented and 28% of contractors reported enforcement-related disruption in the prior six months. The industry needs around 450,000 net new workers in 2027 just to keep pace. The bull rebuttal is that labor scarcity forces prefab, which is BLDR's margin catalyst, but that doesn't track with the current data. The mix percentage peaked in FY23, and prefab plants are large-scale money losers below 80% utilization. The labor shock is a volume cap, not a margin windfall.

Price Target & Valuation

Our analysis gives \$BLDR a price target of \$42.00 and an Underweight rating.



Potential Downsides to Our Rating

Rates Break Downward: A sustained sub-6% mortgage rate unlocks the 4 million home deficit faster than is modeled. Operating leverage cuts both ways. In this case a volume snapback upwards on high fixed cost value-added plants expands margin quickly. The Sun Belt and new construction concentration capture an outsized share of any single-family starts. This risk is mitigated by Fed Chair Kevin Warsh's insistence that inflation is the primary economic problem, implying that rates will not be cut for the foreseeable future.

The Buyback Returns: Faster-than-expected deleveraging, aided by a \$115 million cost take-out and release of working capital, could restart repurchases at a depressed price. No debt maturity until 2030 and \$1.6 billion in liquidity could give management room to move sooner than feared. A single large well-timed authorization of repurchases could re-rate sentiment without an earnings inflection, which will still likely be negative. The mitigant here is that the debt far outstrips their current cash reserves, so management is unlikely to recklessly burn cash, especially with cash flow decreasing precipitously.

The Mix Shift is Real: If construction labor scarcity truly forces pre-fab adoption, a value-added mix could drift up to 55% and structurally lift normalized margin. BLDR's local manufacturing and turnkey moat may prove more insulated from Home Depot than the model assumes, which would protect around 60% of gross profit. Current data does not

Our Price Target:

\$42.00

Four-peer comp median + a normalized EBITDA. 15-20% downside as multiple trough multiples meet for a lower true base due to structural impairments and weakened moat.

Our Upside Case:

\$87.50

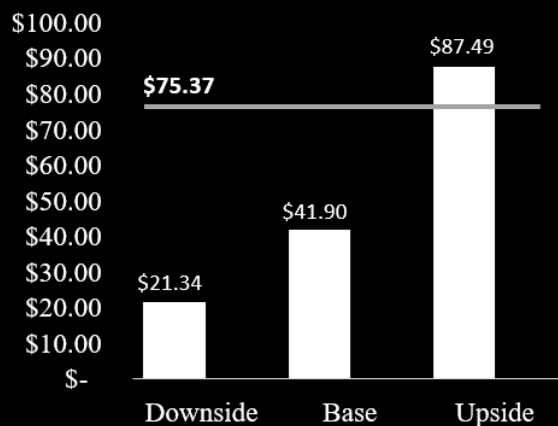
Rates break to below six percent, the deferred demand from young American workers releases into the market, and profitability improves causing buybacks to return and operating leverage to draw down.

Our Downside Case:

\$21.50

Trough margins continue to deteriorate beyond management expectations, and the multiple de-rates on an over-levered, cyclical company. Alternative homebuilding methods, such as 3D-printed concrete abodes, sustain popularity and take housing construction share.

DCF Case Values



support this approach, and it is unlikely that they can continue with previous M&A trajectory given BLDR's cash situation.

Projections

Income Statement (\$mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	15,191	14,127	12,939	12,227	11,894	(7.83)%
EBITDA	1,378	1,378	995	950	933	(12.18)%
EBIT	786	786	492	501	523	(12.69)%
NOPAT	709	629	393	401	419	(16.11)%
Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	9.1%	9.8%	7.7%	7.8%	7.8%	8.4%
EBIT Margin	5.2%	5.6%	3.8%	4.1%	4.4%	4.6%
Revenue Growth	-(7.4)%	-(7.0)%	-(8.4)%	-(5.5)%	-(2.7)%	(0.0)%
EBIT Growth	-(50.7)%	0.0%	-37.5%	2.0%	4.4%	-16.4%
Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	7.6x	8.2x	16.9x	18.8x	20.3x	14.4x
EV/Sales	0.9x	0.9x	1.0x	1.1x	1.1x	1.0x
EV/EBITDA	9.7x	9.7x	13.4x	14.0x	14.3x	12.2x
FCF Yield	13.1%	12.1%	5.9%	5.3%	4.9%	4.7%

About \$BLDR

Builder's FirstSource, Inc(\$BLDR), founded in 1998, operates as the largest supplier of building products, prefabricated components, and value-added services to professional home builders across new residential and restoration. The company manufactures and distributes structural and related building products, including factory-built roof and floor trusses, wall panels, stairs, vinyl windows, custom millwork and trim, and engineered wood. It also provides construction-related services such as professional installation, turnkey framing, and shell construction, ranging from large production builders to small custom home builders. The business is organized around several product categories: manufactured products, windows/doors and millwork, specialty building products and services, and lumber & lumber sheet goods. It operates through approximately 565 distribution and manufacturing locations in 43 states, covering 91 of the top 100 core-based statistical areas, giving it local scale and logistics density that smaller regional suppliers often struggle to match. The firm's core strategic goal is to consolidate a highly fragmented building products industry by pairing that distribution footprint with vertically integrated manufacturing and value-added services.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

DCF Analysis (\$mm)											
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/30/2030	12/31/2031
Stub						0.41	1.41	2.41	3.41	4.41	5.41
Discount Period						0.20	0.91	1.91	2.91	3.91	4.91
Revenue	19,894	22,726	17,097	16,401	15,191	14,127	13,266	12,838	12,776	13,062	13,710
Revenue Growth	0%	14%	(24.77)%	(4.08)%	(7.38)%	(7.00)%	(6.09)%	(3.23)%	0%	2%	5%
Manufactured Products	4,404	5,676	4,701	3,986	3,411	3,001	2,701	2,546	2,508	2,577	2,757
Windows, Doors, Millwo	3,401	4,653	4,289	4,238	3,836	3,529	3,282	3,155	3,131	3,206	3,382
Lumber & Specialty	12,089	12,397	8,108	8,177	7,944	7,586	7,283	7,137	7,137	7,280	7,571
EBIT	2,405	3,770	2,176	1,595	786	786	584	632	696	780	891
EBIT Margin	12%	17%	13%	10%	5%	6%	4%	5%	5%	6%	7%
Tax Expense	526	823	444	310	77	157	117	126	139	156	178
Effective Tax Rate	22%	22%	20%	19%	10%	20%	20%	20%	20%	20%	20%
NOPAT	1,878.90	2,947.70	1,732.70	1,285.60	709.10	629.04	466.98	505.82	557.05	624.38	712.93
D&A	547	497	558	562	591	591	517	471	440	421	411
Capex	228	340	476	381	363	363	317	310	312	323	343
Changes in NWC	521	(345)	(264)	(166)	(126)	(126)	110	128	149	174	206
UFCF	1,677	3,449	2,078	1,633	1,064	984	556	539	536	548	576
PV of FCF						967	516	460	421	396	383

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.42
Risk Free Rate	4.69%
Cost of Equity	6.56%
Weighted Average Cost of Debt	6.65%
Tax Rate	20.00%
Cost of Debt	2.10%
Total Equity	\$8,110
Total Debt	\$5,194
Equity/Total Capitalization	60.51%
Debt/Total Capitalization	39.49%
WACC	8.66%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$576
Growth	2.00%
Terminal Value	\$8,647
PV of Terminal Value	\$5,752
PV of Projection Period	\$3,143
PV of Terminal Value	\$5,752
Implied TEV	\$8,895
(-) Debt	\$5,292
(+) Cash	\$98
Implied Equity Value	\$3,702
Basic Shares Outstanding	108
Implied Share Price	\$34.40
Upside/Downside	(54.35)%

Implied Exit BF EV/EBITDA	10.0x
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Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$1,302
EV/EBITDA Exit Multiple	8.5x
Terminal Value	\$11,071
PV of Terminal Value	\$7,365
PV of Projection Period	\$3,143
PV of Terminal Value	\$7,365
Implied TEV	\$10,508
(-) Debt	\$5,292
(+) Cash	\$98
Implied Equity Value	\$5,315
Diluted Shares Outstanding	108
Implied Share Price	\$49.39
Upside/Downside	(34.47)%

Implied PGR	0.8%
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Blended Share Price	
Perpetuity Growth Method	50%
Exit Multiple Method	50%
Blended Share Price	\$41.90
Upside/Downside	(44.41)%

