



The PWC Stock Report SM

An Annual Subscription Service for Value Investing

Port Wren Capital, LLC

"Finding Value Investments" SM

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STCK: An Undervalued Workout with Long-Term Potential

3/23/16

Thesis:

BMC Stock Holdings, Inc. (Nasdaq:STCK) is a diversified lumber and building materials distributor and solutions provider that sells primarily to new construction and remodeling contractors. It was organized as a LLC on 4/16/09 and has its headquarters in Atlanta, GA. Back around January of 2010, the then Buildings Materials Holdings Corp. existed Chapter 11. The filing occurred after it defaulted on its senior debt on December 31, 2017 and after over a period of time saw its sales decline resulting from the US housing market collapsed. Fast forward to June 3, 2015, BMC and Stock Building Supply the nation's ninth and tenth largest professional building material announced a merge worth about 1.5B. In doing so, it has created the third largest player in this industry. The merger was completed in December of 2015.

Description:

52Wk Range: \$12.14 – \$25.20; Common Shares Outstanding: 65.34M; Dividend & Yield: \$0.00 (0.00%); Institutional Owners: 60.30%; Insiders Owners: 43.12%; EPS (ttm): 0.09.

Opportunities:

STCK is flying under the radar of Wall Street and is a workout situation. It is thus currently undervalued. It should over time benefit from its size, and the continued growth in the housing construction sector in the US, as well as, the ongoing positive job growth trend.

Strengths:

The company's net debt to EBITDA fell to 5.68 last quarters from 6.72 that is a 15.39% reduction. This indicates use of efficient leverage. It has the ability to pay down its net debt with operating cash flow. In the same period its total debt to total capital was reduced from 39.57% to 37.50%. There is very little overlap in the merger. Stock had about 68 facilities in 14 states, based in Raleigh, NC, with Utah, N. Carolina, S. Carolina and Texas being its strongest. BMC had 88 facilities located mostly in the west with operations near Charlotte, NC and VNS Corp. operations in

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Strengths (Continued):

South Georgia that it bought earlier. This gives the new company huge opportunities to serve customers across the US as far as market penetration. The merger combines 8,500 employees, in 42 metro markets, in 17 states with 86 distribution sites, 33 truss and structures operations, several design centers and 53 millwork operations. In 2015, 63% of single-family building permits were issued in states covered by STCK. Also, it has a diverse revenue stream that is beneficial. Estimates of \$20 to \$25M in synergies in the first 12 months and \$30 to \$40M per year within the two years will increase overall operations and financials as it will be more efficient as one company over the long-term. In one month since the merge is secured about \$10M of actual annual cost synergies. Naturally, the ongoing recovery of the US housing market will create demand for building supplies and the other services it brings to the market place. Working capital usage is about 12% of sales with improvement opportunity through the merger. Fourth quarter highlights include: Net Sales up by 63.6% YoY compared to 4Q 2014, Adjusted Net Sales up 15.7% compared to YoY to 4Q 2014, Adjusted Net Income up to \$0.17/Sh compared to \$0.13/Sh 4Q 2014, and Adjusted EBITDA up 32.7% compared to 4Q 2014. 2015 product mix includes: 31% lumber & sheet goods, 28% millwork, doors & windows, 26% other building products and services, and 15% structural components. STCK has many enhanced customer focused solutions that will help differentiate itself from the competition in the market place. They include: logistics solutions, installed solutions, design solutions and their 24x7 eBusiness platform. Their customer mix in 2015 included: 77% single-family homebuilders, 12% repairs & remodel contractors and 11% multi-family & commercial contractors.

Per the below chart, the US single-Family starts are well below the 50 year average, according to the US Census Bureau. Additionally, from a macro stand point, the following items support housing market growth trend: population & employment growth, consumer & builder confidence, credit availability, among others.

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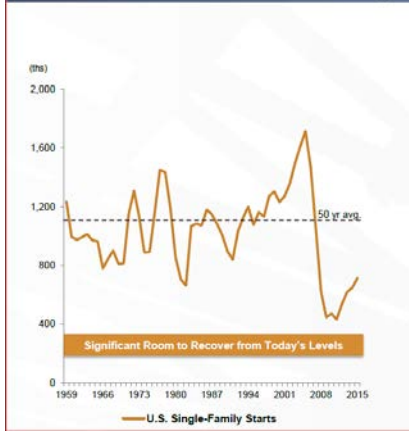
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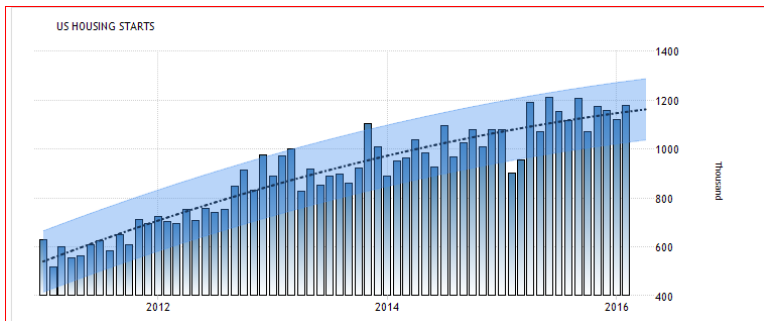
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U.S. S-F Starts Remain Well Below 50 Year Average¹



The chart below shows the 5Yr trend (2011 to 2016) for US housing starts. The chart shows the upward trend. Additionally here are the actual figures as of this writing along with the forecasted figures for 2016 and for 2020. Actual= 1178, 1Q16= 1168, 2Q16= 1180, 3Q16=1188, 4Q16=1197, 2020= 1290. The trend is promising.



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Weaknesses:

Per a 3/23/16 SEC filing, STCK registered an additional 3,800,000 common stock shares pursuant to its 2013 incentive compensation plan with a proposed maximum offering share price of \$15.23. We note that this has both a downside and upside potential. On the downside as these shares are distributed they will increase the overall outstanding number of shares thus diluting their value. On the upside, these additional shares are being made possible to provide incentives to management to perform that are typically a positive for the stockholders seeking an increase in their shares value. Per share revenue is in decline, has increased long-term debt over the past 3Years, P/E is close to a 1Yr high and has an operating income loss.

Threats:

Overall we don't see any major threats, except if the overall Marco economy in regards to job growth, housing starts, credit availability either individually or collective takes a major dip towards the downside.

Valuation:

As we look at the General Building Materials Industry as a whole and three others. We see STCK indicators are mixed. Another reason it is misunderstood.

	Industry Statistics (median)	STCK	NCS	BLD	USCR
Mkt Price \$		15.41	13.16	28.90	61.49
Mkt Cap \$M		1,007	972	1,093	934
EV \$M		1,428	1,327	1,174	1,251
Rev \$M		1,577	1,611	1,617	975
P/E (ttm)	16.52	64.24	41.69	13.13	41.55
P/B (ttm)	1.22	1.63	3.57	1.18	5.55
P/S	0.91	0.40	0.62	0.68	0.98
P/FOF	10.42	75.60	9.60	19.53	8.85
EV/EBIT	12.62	109.57	19.42	14.05	18.76
EV/Rev		0.90	0.82	0.73	1.27

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Yield%		0	0	0	0
Payout		0	0	0	0
ROA%	3.34	-0.77	2.31	5.09	4.40
ROE%	7.45	-1.93	9.2	8.72	21.36
ROIC%		2.4	6.9	9.1	-18.9
Current Ratio	1.65	2.21	1.65	1.47	0.95
Operating Margin %	6.21	0.8	4.19	5.17	7.58
Debt/Rev		0.27	0.27	0.12	0.33
Gross Margin(ttm)%		22.92	24.21	22.15	21.12
Net Profit Margin(ttm)%		-0.31	1.49	4.89	2.62
Pre Tax Margin%		-0.9	2.2	4.6	-0.4
Cash/Debt%	0.61		0.18	0.58	0.01
Equity/Asset%	0.53	0.46	0.27	0.56	0.23
Debt to Equity%		0.69	1.58	0.58	1.94
10Yr Rev Growth%		0	-29.20	0	0
10Yr Erng Growth%		0	0	0	0
5Yr Rev Growth%		0	-20.30	0	0
5Yr Erng Growth%		0	0	0	0
1Yr Rev Growth%		13.10	16.50	6.60	26.20
1Yr Erng Growth%		-82.50	72.00	349.00	-5.10
1Yr EBITDA Growth (ttm)%		-39.50	76.20	65.90	46.40
1Yr EBIT Growth (ttm)%		-68.70	107.50	104.30	46.50
1Yr Free CF Growth (ttm)%		N/A	75.40	-28.40	292.50
1Yr BV Growth (ttm)%		40.60	11.10	-3.90	52.80
Qty Rev Growth (yoy)%		16.20	17.20	7.60	49.40
Qty Erng Growth (yoy)%		-46.30	29.10	160.70	-87.60
	Industry Statistics (median)	STCK	NCS	BLD	USCR

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Comparison Highlights:

1Yr Rev Growth is up to 13% and puts STCK in the top 10 in this industry, 1Yr Book Value Growth is up at 41%, also puts it in the top 10, 1Yr Asset Growth Rate (not show above) is at 162% (this is for Total Assets over a 10 year period), also in the top 10. All are strong signs of good growth for STCK. The Current Ratio is 2.21 that is higher than the industry median of 1.65, P/S is 0.40, lower than industry median of 0.91, Qty Rev Growth (YoY) is 16.20% that shows it is starting to turn toward the upside, the Qty Erng Growth (YoY) is -46.30% that indicates it still has a ways to go before the bottom line turns up, Oper Margin, Pre-Tax Margin and Net Margin indicate that the profitability is yet to come, the ROIC if 2.4% indicates a good sign, the ROA, ROE are both down, the price range for 52 weeks is \$12.14 to \$25.20 and at its current price puts it at 27.92% above its 52 week low, the price has the following trend for these timelines: 4Wks= 8.1%, 12Wks= 0.8%, 24Wks= -12.9%, 52Wks= -6.2%, in comparison the S&P500 price change trends are: 1Wk= 6.3%, 4Wks= 1.7%, 12Wks= 2.26%, 24Wks= -16.9%, 52Wks= -5.2%, thus, STCK for 4Wks is higher than the S&P500, the short of the float is only 13.06% meaning they are not a high level of folks shorting STCK. Some figures from last Qty: EBITDA Margin= 4.22%, Gross Margin = 24%, Oper Margin= 3.0%, Net Profit Margin= 1.68%. STCK is basically a turnaround situation that is starting to show some signs of its potential going forward, yet still have some negative indicators. That is why it is undervalued at this point.

Fair Value Estimates:

- The current financial statements currently don't reflect the potential of this company. However, we estimate the FV is about \$19.00 to \$22.00.

Catalyst:

- Continued growth in new housing construction starts.
- Continued job growth.
- Availability of credit for consumers.
- Fulfillment of the above stated synergies per the merger.

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Recommendation:

Outperform @ \$15.41 or <, Long.

Disclosure/Position:

Port Wren Capital, LLC does have a position in the common stock at this time.

Key:

Curr Ratio: Current Ratio, **CapEx:** Capital Expenditures, **DCF:** Discounted Cash Flow, **Debt/Eq:** Debt over Equity, **EPS:** Earnings Per Share, **EBITDA:** Earnings Before Interest, Taxes, Depreciation and Amortization, **Erng:** Earnings, **EV/EBIT:** Enterprise Value over Earnings Before Interest and Taxes, **EV:** Enterprise Value, **EV/Rev:** Enterprise Value over Revenue, **FCF:** Free Cash Flow, **FTC:** Federal Trade Commission, **FV:** Fair Value, **IPO:** Initial Public Offering, **Mkt Cap:** Market Capitalization, **MOS:** Margin of Safety, **mqr:** Most Recent Quarter, **P:** Price, **P/B:** Price over Book, **P/CFC:** Price over Free Cash Flow, **P/E:** Price over Earnings, **P/S:** Price over Sales, **PWC:** Port Wren Capital, **Qty:** Quarter, **Rev:** Revenue, **R&D:** Research and Development, **ROA:** Return on Assets, **ROC:** Return on Capital, **ROE:** Return on Equity, **ROIC:** Return on Invested Capital, **TP:** Target Price, **ttm:** Trailing Twelve Months, **Yield %:** Dividend annual Interest Rate, **yoy:** Year Over Year.

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