

Builders FirstSource

Investment Thesis 2026 02 19

Builders FirstSource Inc (BLDR) provides manufacturing, supply, and installation of a full range of structural and related building products. Their manufactured products include factory-built roof and floor trusses, wall panels, vinyl windows, custom millwork and trim, as well as engineered wood that they design, cut, and assemble specifically for each home. BLDR also assembles interior and exterior doors into pre-hung units and supplies customers with a broad offering of professional grade building products from other manufacturers. BLDR's construction-related services include professional installation, turn-key framing, and shell construction. BLDR also produces a broad range of manufactured and semi-custom modular homes, built in a temperature-controlled facility under their Pine Grove Homes and Pleasant Valley Homes brand names. Their Paradigm subsidiary offers software solutions and services for the building products industry. The Company operates approximately 585 locations in 43 states.

One pillar of their growth strategy is to acquire smaller regional competitors. During 2024 the company acquired 13 regional truss, mill work, and/or lumber businesses for \$345.4 million. In 2025, BLDR completed a number of acquisitions for a combined \$1.1 billion purchase price. Among these purchases were Pleasant Valley Homes (a modular home builder) and Premium Building Components, which provides truss and wall panel products in the eastern New York market.

BLDR's competitive advantages are its scale, its extensive manufacturing capabilities and footprint, and its ability to beat the prices of its competitors.

I am worried about the company's debt levels, which increase when the company acquires other businesses. Interest expense in fiscal 2025 was \$273,894 million, a 32% increase over 2024 and ~23% of the cash provided from operations in 2025. Short term debt at the end of 2025 was only \$14 million. It was \$941 million at the end of 2024. However, long term debt increased \$726 million over fiscal 2024. So, it looks like they simply refinanced and moved debt out a few years. Eventually, the company will have to pay the piper. The only way it will be able to do that is if the housing market turns.

The residential building market is in a recession, despite the fact that there is an acute shortage of residential homes. There are a number of issues influencing both the recession for builders and the shortage. One of the key issues is high interest rates. Rates should, one would hope, come down over the next couple years. The other key issue is affordability. The affordability issue, unfortunately, involves not just the price of homes, but also the overall cost of living. Until this issue is solved and until there is a lot more first-home inventory built, the headwinds for homeownership and for the home builders will persist. I'm holding our position in BLDR because it (1) is very well positioned to capitalize on major trends in single and multi-family home building, including builders' increasing use of preconstructed materials and professional installation services, (2) continues to expand its footprint and to invest in the future of its business, and (3) is committed to keeping costs down for its customers. I see number (2) above as a growth strategy that could backfire if debt levels get much higher and the housing market does not improve soon.

Prospects over the next 9 to 12 months

The average 12-month price target for Builders FirstSource, Inc. (NYSE: BLDR) is approximately around \$130 – \$140 per share, with a high of \$150 and a low of \$95. I have further reduced my current fair value for BLDR to \$60.00. This reduction resulted from the decrease in current EPS to \$4.00. I still used a growth rate of 10%, and a PE of 15. The 10% growth rate is lower than BLDR's historical growth rate but likely higher than the company will have before the housing market picks up again. I am willing to remain patient with this holding, but not for much longer. If mortgage rates and the housing market don't improve, I can see BLDR's stock price falling to \$75 or lower before 2026 is over. I'm not going to follow it down that low.

