

BUILDERS FIRSTSOURCE: WAS THE PROBUILD BUYOUT EXPECTED AND ALREADY PRICED IN?

April 15, 2015

RESEARCH SUMMARY

- It was discovered by [Reuters](#) on March 27th that Builders FirstSource (BLDR) was in talks to acquire ProBuild for approximately \$1.5B.
- On that news, the stock only moved about 10% from the low \$6s to the high \$6s.
- It's possible that major holders didn't value the merger very highly, otherwise, they'd have bid the stock up higher before the merger happened.
- On April 13th, BLDR announced the buyout of ProBuild, for \$1.63B, and the stock has almost doubled in two days.
- Could it be that the runup is overdone on expected news, or did the market think the buyout wasn't going to happen?

Builders FirstSource (BLDR), manufactures and supplies construction products for residential home building. On April 13th, it [announced](#) that it's acquiring ProBuild, a building products distributor. It's clear there will be some big synergies from the merger, but there will also be lots of negatives that come from any acquisition.

What's interesting is that the stock didn't move up on the merger news until it was headline news. Major holders and those "in the know" likely knew this merger was coming. On March 27th, there was [an article in Reuters](#) saying the companies were in merger talks. Granted, it was a rumor, but BLDR had already made numerous acquisitions in 2014 so there was reason to believe the rumor was true. Yet the stock never rose over \$7 per

share as shown below:



This might be concerning for today's shareholders as the stock has almost doubled since the merger announcement. The vast majority of the buyers today are uninformed investors who are just buying for the "story" and headline news. These types of investors have weak hands. Whether BLDR is overvalued or not will become apparent during and after the company's upcoming \$100M equity financing, which may be priced at far below today's price.

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