



**CHOICE EQUITIES**  
CAPITAL MANAGEMENT

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INVESTOR PRESENTATION | OCTOBER 2021

FOR FURTHER INFORMATION CONTACT:  
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## CHOICE EQUITIES CAPITAL MANAGEMENT, LLC (CECM) IS A FUNDAMENTAL, VALUE-FOCUSED INVESTMENT MANAGER WITH A FOCUS ON LONG TERM CAPITAL APPRECIATION

### OBJECTIVE

- Choice Equities Fund's (CEF) primary objective is to **outperform the Russell 2000 and S&P 500 over a multiyear time horizon** and grow investor capital at the highest and safest after-tax rates of return achievable in pursuit of methods consistent with our value investing discipline
- CEF's secondary objective is to minimize the risk of a permanent impairment of capital
  - CEF has compounded capital at **~29% net since independent operations began in 2017** versus R2000 at ~12% and S&P 500 at ~17%

### STRATEGY

- The manager will run a **stock picker's portfolio** typically consisting of 10 – 15 longs, frequently of the **small cap** variety, with opportunistic short positions when targeting absolute profits only
  - The manager will pursue a long-bias structure with no leverage targeting net exposures of 20% – 100% with a central tendency towards 65% – 90% net exposure

### TEAM

- Mitchell Scott, Managing Partner of Choice Equities Capital Management (CECM), serves as Portfolio Manager for CEF
- Ihrie Wood serves as Sr. Vice President of Finance and Administration for CECM
- Analyst TBD Winter 2021/2022

**STARTED AS ONE-MAN BAND WITH \$1.1M IN AUM IN 2017 AFTER EIGHT YEARS AS A BUYSIDE ANALYST**

## CECM INVESTS IN PUBLIC EQUITIES WITH THE MINDSET OF AN OPPORTUNISTIC BUSINESSPERSON

### VALUE INVESTING WORKS

- We believe buying businesses for less than they are worth lowers risk and enhances return

### COMPOUNDING CREATES WEALTH

- We believe compounding presents asymmetrical risks and rewards
  - Long term investors should focus on compounding's positive exponential payoffs and limiting permanent capital loss

### RISK OF PERMANENT LOSS OF CAPITAL SHOULD BE MINIMIZED

- We believe risk is the likelihood of permanent loss of capital, not an asset's price fluctuations over short time intervals
  - Leverage amplifies the negative impacts of portfolio drawdowns and should be avoided

### PATIENCE, DISCIPLINE AND CONVICTION REWARD THE OPPORTUNISTIC INVESTOR

- We believe investors should approach investing like a businessperson and exercise patience, discipline and conviction
  - Exhaustive fundamental primary research can permit investors to hold positions in their best ideas at meaningful sizes – i.e. **slugging percentage**

“Investment is most intelligent when it is most businesslike.” **Ben Graham - 1973**

## CEF TARGETS A CONCENTRATED PORTFOLIO TO CAPTURE RETURN OF ONLY OUR BEST IDEAS

### PORTFOLIO

#### CEF will employ a concentrated, long-bias portfolio

- CEF targets **10 – 15 longs** and opportunistic shorts to generate absolute profits only
- Central tendency to **65% – 90% net exposure levels** with flexibility to 20% - 100%
- CEF will use hedges to mitigate the risk and severity of portfolio drawdowns

### LONGS/SHORTS

#### CEF will hold 10 – 15 longs at a time

- Target 10 – 15 “core longs” and 0 – 5 “special situations”
- Position sizes targeted to be 5% – 15% at cost
- Sub \$500M market cap exposures typically targeted at less than 50% of portfolio

#### CEF will target opportunistic shorts for absolute profits only

- Starter positions typically sized at 1-3%
- Short gross exposure levels typically to be in the 0% – 20% range

### HEDGES

#### CEF will use hedges for capital preservation purposes

- CECM believes asymmetrical position hedges and tail risk market hedges can help guard against drawdowns
- Market and industry specific shorts together will typically comprise 0% - 20% weighting

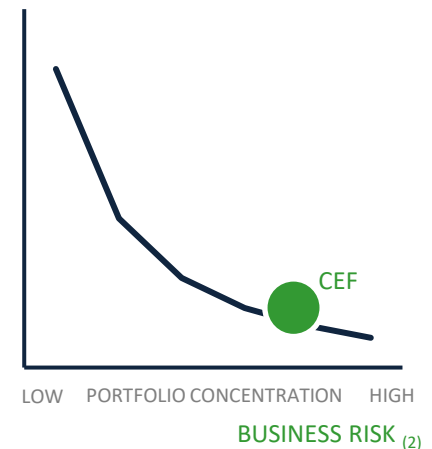
**CECM:** Our concentrated portfolio favors an acceptance of business risk, which we mitigate through understanding with fundamental primary research.

#### 10 – 15 equities provide optimal portfolio concentration levels

- CEF seeks to accept market risk as a means to accept business risk
- Business risk can be mitigated with understanding and due diligence
- Market risk can be mitigated through portfolio concentration, cash and hedges

**Warren Buffett** “Wide diversification is only required when investors do not understand what they are doing.” <sup>(2)</sup>

#### MARKET RISK



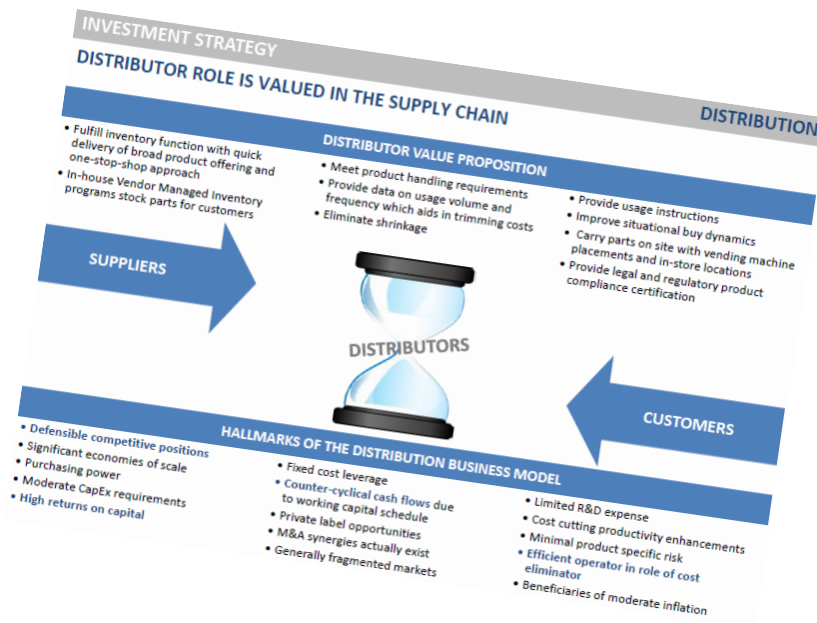
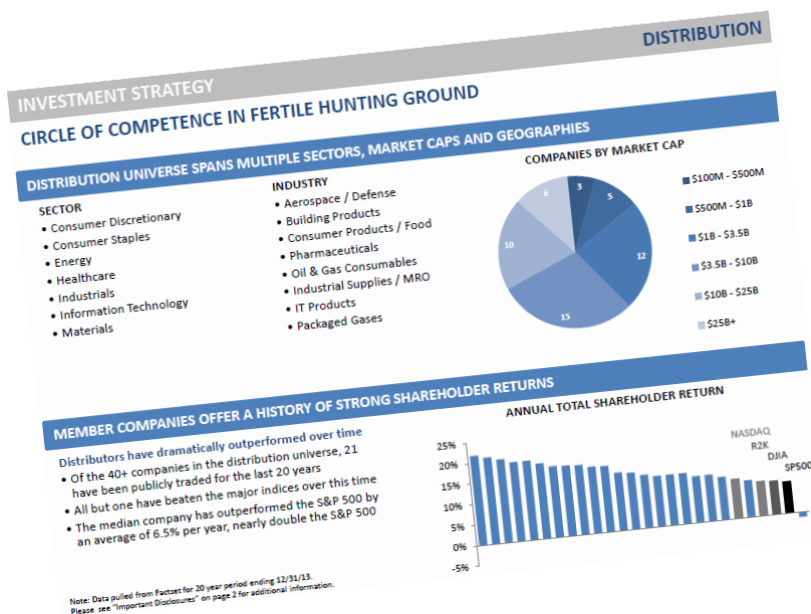
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GYPSUM MANAGEMENT & SUPPLY INC.

# GYPSUM MANAGEMENT & SUPPLY, INC.

## WHY STUDY DISTRIBUTORS?



### Common Attributes of Building Products Distributors

- Single digit core organic revenue growth
- Modest capex needs
- High returns on capital
- Growth through accretive acquisitions
- Economies of scale
- Strong barriers to entry
- Strong shareholder returns

### TOTAL ANNUALIZED SHAREHOLDER RETURN @ 9/2021

	5 years	10 years	15 years	20 years
S&P 500	15.2%	13.6%	8.0%	7.1%
Russell 2000	12.7%	12.2%	7.4%	8.5%
Watsco, Inc	17.6%	20.4%	15.9%	20.1%
PoolCorp.	37.9%	32.9%	19.2%	22.4%
SiteOne	42.3%	--	--	--
IBP	25.7%	--	--	--
TopBuild	44.8%	--	--	--
GMS, Inc.	15.4%	--	--	--

# GYPSUM MANAGEMENT & SUPPLY, INC.

## A LEADING SPECIALTY DISTRIBUTOR OF INTERIOR CONSTRUCTION PRODUCTS

Leading North American specialty distributor of interior construction products:

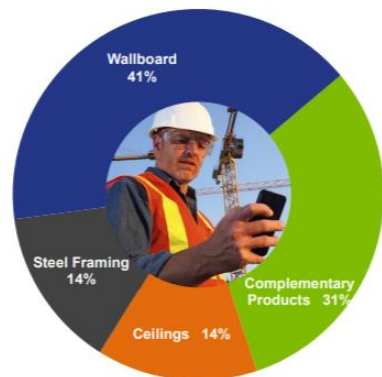
- One-stop-shop for the interior contractor with 20,000 SKUs
- Critical link between suppliers and a highly fragmented customer base
- \$4B scale combined with local expertise
- Headquartered in Tucker, GA

GMS is the largest specialty distributor of wallboard and ceilings products

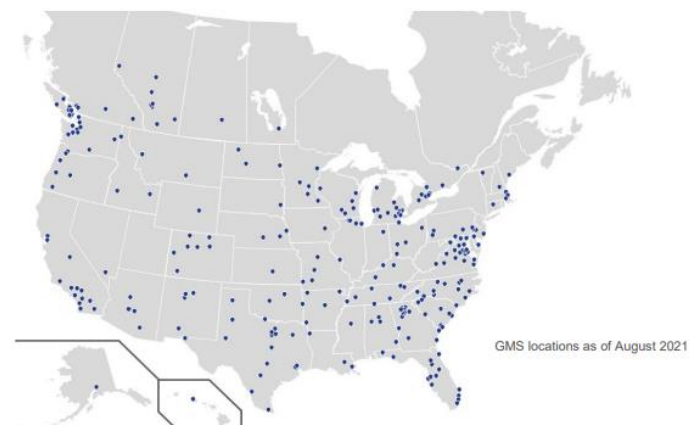
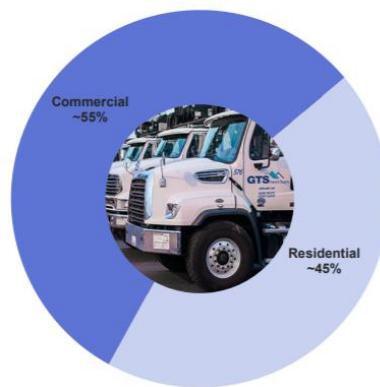
- ~15%+ market share
- Typically #1 or #2 in local markets marked by regional oligopoly-like dynamics
- Founded with single branch in 1971; now 280 branches across US & Canada
- Entrepreneurial culture with ESOP plan and long-tenured employee base

GMS VALUATION (\$MM except per share values)	
Price @ 10/15/2021	\$46.39
Fully Diluted CSO	44.2
Market Cap	\$2,001.7
Net Debt	\$1,019
Cash	\$44.0
TEV	\$3,068.0
PE (NTM)	8.5x
EV / EBITDA (LTM)	9.0x
ND / EBITDA (LTM)	2.7x

Net Sales Breakdown (Fiscal 2021)



Net Sales Breakdown Fiscal 2021



# GYP SUM MANAGEMENT & SUPPLY, INC.

## SHARE PRICE PERFORMANCE SINCE IPO

### UNDERPERFORMANCE VS. BUILDING PRODUCT DISTRIBUTOR PEERS

- TSR of ~15%, in line with market
- Valuation contracted since 5/2016 IPO at \$21
  - From 14x PE at IPO to 8x today; NTM EBITDA from ~9x to 7x today
  - Peers have enjoyed multiple expansion
  - Despite 6Y EPS CAGR of ~25% since IPO with no down sales or EBITDA years
- @ 5/18 GMS acquired WSB Titan @ 9x EBITDA
- Inconsistent wallboard pricing





# GYPSUM MANAGEMENT & SUPPLY, INC.

## INDUSTRY STRUCTURE



Historically inconsistent gypsum pricing dynamics may improve with supplier consolidation

- Early 2020 CertainTeed purchase of Continental Building Products takes gypsum manufacturers from 7 to 6
- The top 3 now have ~70%+ share, with top 5 comprising 95% capacity
- Top 3 ceiling manufacturers have ~95% share

Specialty distribution channel continues its long-lasting consolidation

- GMS has ~15% share
- Early 2021 FBM purchase of Interior Products makes them now a close #2
  - FBM levered ~6x post deal
- The top 3 now have ~50% market share with ~400 comprising the rest of the industry

Diverse customer base consists of more than 34,500 contractors as well as homebuilders

- Largest customer is 2.3% of sales
- Top 10 comprise ~9% of sales
- Customers of small size have lower relative bargaining power and value easy delivery of bulky items

## CONSOLIDATING SUPPLIERS AND DISTRIBUTION CHANNELS

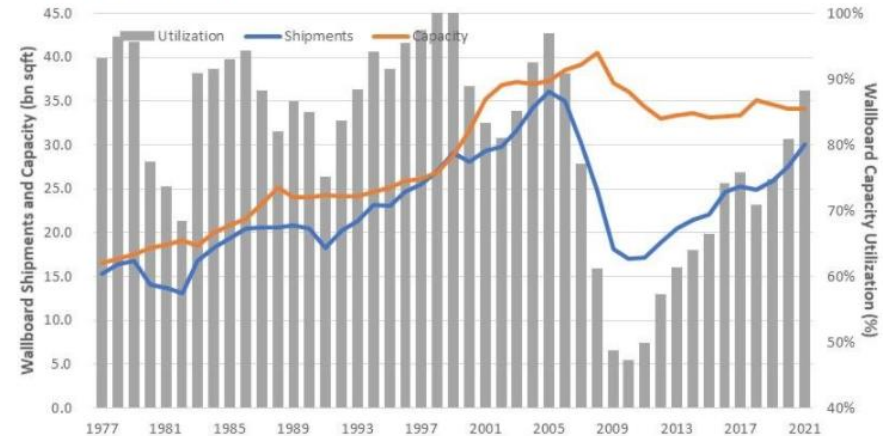
# GYPSUM MANAGEMENT & SUPPLY, INC.

## DEEP DIVE: WALLBOARD PRICING DYNAMICS

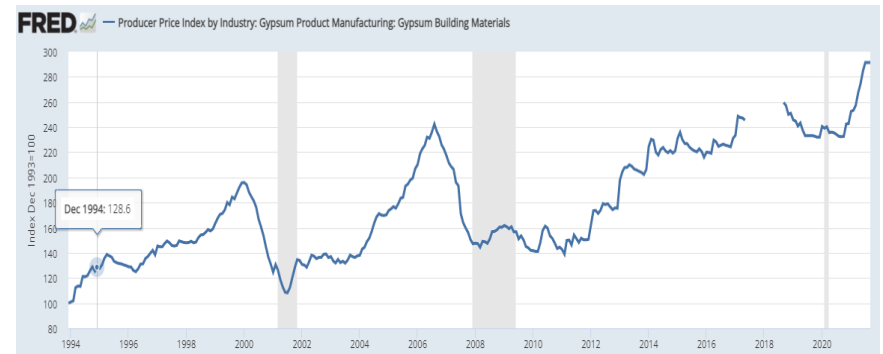
### HAS ANYTHING CHANGED?

- Post-GFC pricing hangover behind us
  - Industry never recovered to pre-GFC levels during last cycle
  - Capacity utilization currently at highest since 2007
  - Further support from recovery in commercial activity
- New capacity build?
  - Plant lead times typically in excess of 24 months
  - Only new US plant currently committed is Georgia Pacific's Nolan County, TX facility (~2% of industry capacity)
  - Nolan County facility coming online in late 2022 at earliest
- Eastern half of the industry relies on synthetic gypsum
  - Structural decline in coal-fired power plant capacity constraints access to this critical raw material for wallboard
  - Manufacturers forced to buy natural gypsum, driving structural higher demand for this input
- Seems likely distributors and manufacturers will try to keep pricing gains
  - Manufacturing base has consolidated
  - Highly levered #1 distributor needs to service debt load

Wallboard Capacity Utilization



Source: Gypsum Association



**SIGNS POINT TO A BETTER ORGANIZED INDUSTRY AND MORE CONSISTENT PRICING GOING FORWARD**

# GYPSUM MANAGEMENT & SUPPLY, INC.

## FINANCIALS AND VALUATION

FINANCIAL METRICS (FYE April)									
Year	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	\$1,858.2	\$2,319.1	\$2,511.5	\$3,116.0	\$3,241.3	\$3,298.8	\$4,045.0	\$4,158.0	\$4,245.0
<i>growth</i>	18.3%	24.8%	8.3%	24.1%	4.0%	1.8%	22.6%	2.8%	2.1%
Gross Profit	\$594.2	\$758.6	\$818.6	\$1,004.1	\$1,063.2	\$1,062.7	\$1,311.0	\$1,330.0	\$1,394.0
<i>margin</i>	32.0%	32.7%	32.6%	32.2%	32.8%	32.2%	32.4%	32.1%	32.8%
EBITDA (adj)	\$150.2	\$188.2	\$199.3	\$295.7	\$299.8	\$319.4	\$440.0	\$447.0	\$450.0
<i>margin</i>	8.1%	8.1%	7.9%	9.5%	9.2%	9.7%	10.9%	10.8%	10.6%
EPS	\$1.40	\$1.71	\$1.90	\$2.79	\$2.97	\$3.54	\$5.45	\$5.74	\$5.98
<i>growth</i>		18.9%	18.2%	39.3%	6.1%	19.2%	54.0%	5.4%	4.1%

### Base Case: >\$6+ of EPS in FY23E

- 2% volume gains
- Flattish pricing
- Low double-digit incremental margin gains

### Upside Case: A Credible Path to \$8 of EPS in FY24

- 2% volume gains
- 1% pricing gains
- Self-help productivity drives mid-teens incremental margin gains and EBITDA margins to 11%
- ~8% annual additions to topline from acquisitions

COMPARABLE COMPANIES							
	Mkt Cap	EV/EBITDA	PE FY1	EBITDA %	L5Y TSR	L5Y Sales	L5Y EPS
Watsco, Inc	\$11,050.8	19.5x	27.9x	10.0%	17.6%	7.8%	14.7%
PoolCorp.	\$18,174.5	31.2x	32.5x	15.8%	37.9%	14.6%	32.1%
SiteOne	\$9,234.0	30.3x	47.5x	10.9%	42.3%	15.3%	34.0%
IBP	\$3,308.7	13.3x	19.3x	15.3%	25.7%	17.9%	30.3%
BLD	\$7,271.4	15.6x	20.4x	17.5%	44.8%	14.0%	40.7%
GMS	\$2,001.7	9.0x	8.5x	10.9%	15.4%	11.8%	26.2%

Note: EBITDA stats are LTM. PE FY1 denotes 2021 FYE. Sales and EPS stats are 5 year CAGRs.

**VALUATION DISCONNECT PROVIDES A FREE CALL OPTION ON  
M&A ACTIVITY IN A CYCLICAL COMPOUNDER**



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