



**Management's Prepared Remarks
Second Quarter 2023 Conference Call
August 3, 2023**

Tabitha Zane

Vice President, Investor Relations

On the call today are Robert Buck, President and Chief Executive Officer and Rob Kuhns, Chief Financial Officer.

We have posted senior management's formal remarks and a PowerPoint presentation that summarizes our comments on our website at topbuild.com. Many of our remarks will include forward-looking statements which are subject to known and unknown risks and uncertainties, including those set forth in this morning's press release as well as in the Company's filings with the SEC. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

Please note that some of the financial measures to be discussed on this call will be on a non-GAAP basis. The non-GAAP measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. We have provided a reconciliation of these financial measures to the most comparable GAAP measures in a table included in today's press release and in our second quarter presentation which can also be found on our website.

Robert Buck

President and Chief Executive Officer

2023 is shaping up to be a solid year for TopBuild. We continue to operate in a favorable environment and remain focused on driving profitable growth, a cornerstone of our operating model. The volume growth and strong margin expansion we've achieved not only this year but also over the past eight years since becoming a publicly traded company, is a testament to our entire TopBuild team and our continuing emphasis on operational excellence and driving improvements throughout all areas of our business. Also on display is the strength of our diversified model which affords us multiple avenues for growth and gives us the ability to outperform in any environment.

Total sales for the first six months are up almost 6%, our gross margin expanded 140 basis points to 30.7%, and our adjusted EBITDA margin grew 170 basis points to 19.9%. We are increasingly optimistic about how the rest of the year will unfold, based in part on recent positive commentary from our builder customers, single-family starts data over the past two months, and our continued strong commercial performance. This improved outlook is reflected in our full-year guidance for 2023 which Rob will discuss in further detail.

Reviewing our second quarter results, a positive mix of installation business kept our branches busy. While we did see some slowdown in single-family work, we definitely outperformed the single-family market. We also demonstrated the strength of our operating model with outstanding multi-family and commercial execution. Our new Lead App continues to identify commercial opportunities and our installation branch managers are aggressively pursuing these projects. Their focus resulted in a 22.6% increase in commercial revenue this quarter.

On the heavy commercial front, we continue to drive improvements throughout this business, which has enhanced our win rate for many projects across the country. Our Installation crews are working on a wide range of projects, including the Nashville International Airport, the UCI Medical Center in Irvine, California, and the revitalization of Two Penn Plaza in New York. We are agnostic as to the types of projects on which we work and are not over indexed to office or any other type of heavy commercial work. Looking ahead, our commercial backlog remains robust, and we are bidding jobs into late 2024 and early 2025.

Turning to our Specialty Distribution business, overall sales in the second quarter declined 2.3% primarily as a result of our smaller contractor customers continuing to reduce inventory and as more construction activity has shifted to multi-family. We did see a 2.1% increase in sales from our commercial and industrial channels. Coming out of allocation, as residential distribution volumes continue to normalize, our teams are doing a nice job of identifying and building attractive new areas of growth as our overall results clearly demonstrate.

Our Specialty Distribution teams are supporting a number of major industrial manufacturing projects, including two large chemical plants for Chevron. We are also seeing quite a few major projects being planned across several diverse industries, fueling the demand for mechanical insulation. Maintenance and repair work on many commercial and industrial sites is also being scheduled and this recurring revenue stream should serve as a continued stabilizing revenue driver for our Specialty Distribution business. We remain very optimistic about the opportunities for growth in both the commercial and industrial end-markets in the U.S. and Canada.

To touch briefly on labor and materials, labor remains tight. While fiberglass is no longer on allocation, some supply is still constrained, and no new capacity is expected until second quarter of next year.

Our M&A team has also been busy this year. To date, we've closed three residential insulation acquisitions which combined are expected to contribute approximately \$170 million of annual revenue. These are:

- SRI Holdings, which enhances our presence in Georgia, Michigan, Ohio, Florida, Alabama and South Carolina,
- Best Insulation, which serves high growth regions in the Southeast and Southwest, including Florida, Texas and Arizona, and
- Rocky Mountain Spray Foam, operating in Colorado.

We were also excited to announce our planned acquisition of SPI last week. This highly strategic core transaction will:

- Bring together two leading specialty distributors of mechanical insulation,
- Reinforce our position as a leading Specialty Distributor in the highly fragmented \$17.5 billion insulation industry,
- Further differentiate our unique operating model, and
- Reduce the cyclicity of our business by increasing the percentage of recurring revenue driven by maintenance and repair work.



As a reminder, this is an all-cash transaction valued at \$960 million and we expect to achieve between \$35 million and \$40 million of run rate cost synergies by the end of year two, post close.

Looking ahead, acquisitions will continue to be our number one capital allocation priority and a key component of our growth strategy, and our pipeline is filled with outstanding potential partners.

In summary, we had a great second quarter and as you can see from our revised guidance, we are on track to have another strong year. Our team continues to execute well and our diversified model positions TopBuild to outperform in any environment.

Rob Kuhns
Chief Financial Officer

We had a great second quarter on both the top and bottom line reflecting the strength of our unique model. Our teams continue to execute well with a relentless focus on driving operational improvements every day. This passion for constant improvement is core to our strategy and has been a key driver behind our continued success.

Moving to the financials, I will start with an overview of our second quarter results, update you on our balance sheet, and provide the latest on our full year guidance.

Second quarter net sales increased 3.4% to \$1.3 billion, reflecting the success of our teams leveraging our multiple avenues for growth. Gross margin improved 190 basis points to 32.0%, the highest in the company's eight-year history as a public company. This margin expansion reflects, in large part, our success in managing labor and material costs in this favorable operating environment, and our continued focus on driving operational efficiencies and acquisition related synergies.

Second quarter adjusted EBITDA increased 13.7% to \$275.5 million, and our adjusted EBITDA margin was 20.9%, a 190-basis point improvement compared to last year driven by the gross margin expansion described earlier.

Our Installation Segment's second quarter net sales were \$809.1 million, an increase of 8.0%. Our Installation teams did a great job pivoting to multi-family and commercial work, the latter of which increased by 22.6%, as single-family construction slowed slightly. Second quarter adjusted EBITDA margin for our Installation segment was 23.4%, a 260-basis point improvement.

Our Specialty Distribution segment's net sales declined 2.3% to \$574.5 million. This was driven by the residential shift from single-family to multi-family, our contractor customers continuing to right size their inventories, and distribution volumes normalizing post allocation. Adjusted EBITDA for our Specialty Distribution segment was 17.6%, a 40-basis point improvement. Overall, solid results for this segment in the current environment.

Interest expense in the second quarter increased from \$13.4 million to \$18.6 million, primarily as a result of higher interest costs on our variable rate term loan.



Second quarter adjustments to Net Income were \$2.1 million, driven by acquisition related costs. Second quarter adjusted net earnings per diluted share were \$5.25, an increase of 18.5% from prior year.

Moving to our balance sheet and cash flows, our June 30th year-to-date operating cash flow was \$385.8 million, compared to \$217.7 million last year, a 77% increase driven by increased earnings and improvements in our working capital management. Working capital at the end of June improved to 14.9%. Our long-term working capital target remains at 12% to 14% and our goal is to be within this range by year end.

On the capital allocation front, year-to-date CAPEX was \$30.7 million, approximately 1.2% of revenue, and slightly below our long-term guidance. Through the end of the second quarter, we have allocated \$46.0M to M&A. M&A remains our number one capital allocation priority, as evidenced by our recent announcements for Best Insulation and SPI.

There were no significant changes to our debt structure as our outstanding short-term and long-term debt balances remained just under \$1.5 billion with our average cost of debt at 4.77%. We ended the second quarter with net debt leverage of 0.92 times trailing 12 months adjusted EBITDA. This is down from 1.31 times at the end of 2022.

Total liquidity at June 30, 2023 was \$958.8 million, including cash of \$526.3 million and an accessible revolver of \$432.5 million.

Before discussing our outlook for the remainder of 2023, I want to again express our enthusiasm for the acquisition of SPI. We are confident this transaction is a great use of capital and will create significant shareholder value. As a reminder, we plan to fund this \$960 million deal with cash on hand and a \$550 million delayed draw term loan. Following the close of this transaction and inclusive of Best Insulation, our proforma net debt leverage would be 1.8 times as of June 30, 2023. This is well within our targeted leverage range of between one and two times trailing twelve months adjusted EBITDA.

Moving to our annual guidance, based on our first half performance and our outlook for the remainder of the year, we expect 2023 to be another great year for TopBuild.

Despite the slowdown in single-family starts in the first half of the year, we are more optimistic for residential today given the recent improvement in starts and the continuing strength of multi-family. As a result, we are raising our outlook, and now expect residential revenue to be down only low single digits.

Turning to our commercial and industrial business, given our strong results we are also more optimistic and now expect revenue to be up mid-single digits.

This will put our full year sales in the range of \$5.025 billion to \$5.175 billion, a \$325 million increase on the low-end of the range and a \$275 million increase on the high-end. We have also raised our guidance for adjusted EBITDA to be between \$950 million and \$1 billion, a \$130 million increase on the low-end of the range and a \$90 million increase on the high end. Our long-range modeling targets are unchanged from those we published on May 4th. As a reminder, we do not include the impact of any planned acquisitions in our outlook.



Robert Buck

President and Chief Executive Officer

To conclude, our team manages the business with a constant mindset of driving improvements and achieving operational excellence. We are proud of our track record of consistently producing strong financial results and we recognize our success is the result of having the best and most talented operators in the field and a dedicated and experienced group at our branch support center in Daytona Beach. Our goal is to create sustainable shareholder value in every operating environment.

We are also very excited about the planned growth of our Specialty Distribution business through the acquisition of SPI. This is another transformative acquisition for our Company and one that will create long-term value for our shareholders.

As always, I thank the entire TopBuild team for their focus on working safely to deliver value, quality, and service to our customers. Our highly engaged team is the reason TopBuild has been chosen a Best Places to Work company.