



**Management's Prepared Remarks  
Third Quarter Conference Call  
November 6, 2018**

**Tabitha Zane  
Vice President, Investor Relations**

On the call today are Jerry Volas, Chief Executive Officer, Robert Buck, President and Chief Operating Officer, and John Peterson, Chief Financial Officer. Please note, we have posted senior management's formal remarks on the Investor Relations section of our website at [topbuild.com](http://topbuild.com).

Many of our remarks will include forward-looking statements concerning the company's operations and financial condition. These forward-looking statements include known and unknown risks, 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.

In addition, we will also discuss non-GAAP financial measures which can be reconciled to the most comparable GAAP measures in a table included in today's press release.

**Jerry Volas  
Chief Executive Officer**

Before discussing our third quarter results, I'd like to make a few comments regarding our view of the U.S. housing industry, both short and longer term. We recognize that higher interest rates and builder cost pressures are driving consumer affordability issues leading some to believe that the current housing recovery is over.

Without a doubt, the current consumer affordability issues are real. However, there are a number of mitigating factors that would strongly suggest that this is a short-term issue causing only a pause in what we believe will continue to be a very strong environment for new home construction in the U.S. While interest rates have increased and may do the same in 2019, they are still far below historical levels that for many years lived in double digits. Builders are acutely aware of the shortage of lower price point housing and the opportunity that presents. The general economy remains strong and wages are rising, all of which will help more consumers deal with the cost of housing. And then finally, it is essential to consider the long-term supply and demand fundamentals; robust household formations, relatively low new home inventory and a current housing starts level still below historical standards even as we approach year nine of this recovery. All of these factors support several more years of increasing levels of new construction.

Recognizing that TopBuild's work on a job site lags starts by two to three months, recent starts data, while below expectations, were still mid-single digits higher than a year ago, pointing to continued growth for TopBuild and the industry. We've always said that in this slow trajectory of housing's recovery, there could be some temporary pauses, and it appears as though we are seeing one. But, long term, we remain extremely bullish.

Families in this country want to be homeowners and builders in this country are smart business people. We firmly believe builders will pivot to meet this pent-up demand and build the homes these families want and can afford. We also are highly confident those buyers waiting on the sidelines will eventually adjust their mindset to a higher interest rate environment.

We recognize we can't control the macro environment. What we can control is how we operate within it and our focus remains on growing market share, improving operational efficiency and expanding margins. You can be assured we will continue this focus and leverage our national scale, which we firmly believe gives us a significant competitive advantage, both from a material and a labor standpoint. Our unique and diversified business model that includes installation and distribution in both the residential and commercial markets offers multiple avenues for growth, giving us the ability to perform well in any environment.

With that said, we are pleased to report another strong quarter. While John and Robert will follow with further details, I will speak to a few of the highlights. Third quarter sales were up 32.4%, with same branch sales, driven by price and volume gains, contributing 10.2% of this growth. For the first nine months of the year, total sales increased 24.2%, 9.2% on a same branch basis, outpacing lagged housing starts of approximately 5%.

Adjusted earnings per share for the third quarter was \$1.23 compared to \$0.83 a year ago. Adjusted EBITDA margin improved 120 basis points to 13.0% and the overall incremental EBITDA margin was 16.9%, 21.4% for same branch. We again saw higher material costs in the quarter with a third fiberglass cost increase going into effect in late August. The good news is we achieved higher selling prices in the quarter, allowing us to pass through a sizable portion of these increased costs, contributing to a 30-basis point improvement in gross margin.

In each of our markets we continue to work towards striking the optimal balance and timing between price and volume. In addition to the important cost/price relationship, this enables the strong leveraging of fixed costs, an important lever in our overall margin improvement.

The USI integration is right on track, both from the standpoint of projected cost synergies as well as the blending of the outstanding USI operations team into the TopBuild organization. I could not be more pleased with the first-rate effort coming from the multi-functional team that is driving the integration of this transformational acquisition. We are further strengthening our best-in-class organization and no other installer or distributor can match our size, scale and capabilities, giving us a significant competitive advantage.

While acquisitions remain our number one choice for capital allocation, we were pleased to announce a \$50 million accelerated share repurchase which we anticipate executing within the next several days. This program reflects management's and our Board's confidence in the long-term potential of TopBuild and our strong future cash flow position.

**John Peterson**  
**Chief Financial Officer**

TopBuild continues to perform at a high level and our financials clearly reflect our focus on profitable growth. Revenue, saw a 32.4% increase in the quarter to \$647.3 million, driven by increased sales volume and selling price growth of 6.2% at combined TruTeam and Service Partners, and \$108.5 million of revenue from companies acquired since January 2018. Revenue for the first nine months of 2018 rose 24.2% to \$1,745 million, including \$211.0 million from acquisitions



Gross margin expanded 30 basis points in the third quarter to 25.0%, a direct result of increased selling prices and USI acquisition synergies which more than offset the negative impact of higher material costs.

Adjusted operating profit grew 38.2% to \$69.5 million, with a corresponding margin improvement of 40 basis points. Operating margin improvement was driven by increased selling prices, USI acquisition synergies, volume growth and strong SG&A cost control, partially offset by higher material costs as well as higher amortization expenses tied to acquisitions.

Third quarter 2018 adjustments totaled \$3.2 million, including \$1.6 million related to acquisition expenses and \$1.6 million of rationalization charges, the majority of which were tied to the acquisition of USI.

Adjusted EBITDA for the third quarter was \$84.3 million, compared to \$57.6 million in 2017, a 46.4% increase, and our EBITDA margin improved 120 basis points to 13.0%. On a same branch basis, adjusted EBITDA increased 18.5% to \$68.2 million, and our same branch EBITDA margin was 12.7%. This expansion continues to highlight the attractiveness and scalability of our financial model as well as the strong execution by our operators in the field and our team in the branch support center. Despite considerable inflationary headwinds, the business continues to deliver strong margin expansion.

In the third quarter, our drop-down to adjusted EBITDA margin was 16.9% in total and 21.4% on a same branch basis.

For the first nine months of 2018, adjusted EBITDA grew 43.8% to \$200.8 million, and adjusted EBITDA margin was 11.5%, a 160-basis point improvement from the first nine months of 2017. Our drop-down to adjusted EBITDA margin in the first nine months was 18.0% in total and 25.8% on a same branch basis.

Third quarter SG&A as a percent of revenue was 14.8% compared to 14.6% in the third quarter of 2017, slightly higher due to non-recurring expenses related to the USI acquisition.

Adjusted net income for the third quarter was \$44.0 million, or \$1.23 per diluted share compared to \$29.7 million or \$0.83 per diluted share. For the nine months of 2018, adjusted net income was \$107.1 million, or \$2.99 per diluted share, compared to \$71.6 million, or \$1.94 per diluted share.

Working capital as a percent of sales for the trailing twelve months was 11.3% versus 10.0% a year ago. This increase was primarily due to factors driven by the acquisition of USI as well as higher inventory levels at Service Partners. In the case of USI, there are two factors impacting working capital. First, USI's accounts payable terms were notably less favorable than TopBuild's. We continue to transition USI suppliers to TopBuild's terms and payment practices, and expect completion of that in the fourth quarter. Second, the higher mix of installation versus distribution in USI's model carries higher working capital requirements consistent with TopBuild's base installation business. Accordingly, we have a year-end target for TopBuild working capital as a percent of last twelve months pro-forma sales in the range of 10% to 10.5%.



CAPEX for the quarter was \$14.9M and for the first nine months of the year was \$42.4 million, both within our targeted long-term range of 2% to 2.5% of sales.

We finished the quarter with total liquidity of \$284.2 million, including cash of \$93.5 million and accessible revolver of \$190.7 million. Operating cash flow was \$54.6 million for the quarter. Our proforma net leverage multiple at the end of the third quarter was a conservative 2.31 times. By year end, we fully expect to be at the low end of our net leverage target of 2 to 2.5 times, inclusive of the \$50M ASR.

Our effective tax rate was 25.2% for the third quarter, below our long-term guidance of 27%, primarily due to the impact of a benefit relating to share-based compensation treated as a discreet item in the quarter.

While Robert will talk about where we are in the USI integration process, from a financial standpoint we continue to be pleased with USI's results. Of the \$108.5 million of acquisition revenue this quarter, USI contributed \$100.3 million. In addition, EBITDA margin from acquisitions was a strong 14.8%, of which USI was the largest contributor.

We remain very confident we will realize at least \$15 million in cost-saving synergies and continue to estimate the one-time cost to achieve these synergies as being in the range of \$10 million to \$12 million.

Moving to 2018 annual guidance, we've narrowed and raised our revenue and adjusted EBITDA outlook, raising the low end of revenue and adjusted EBITDA by \$25 million and \$9 million, respectively and the high end of revenue and adjusted EBITDA by \$5 million and \$2 million, respectively.

**Robert Buck**  
**President and Chief Operating Officer**

To echo Jerry and John's remarks, TopBuild is performing very well. Our quarterly and nine-month results demonstrate our success in driving profitable growth and focusing on operational excellence.

Looking at TruTeam's results, third quarter sales increased 39.4% with a big boost from USI's installation branches. Same branch sales were up 11.4%, driven by strong volume growth of 6.5% and a 4.9% increase in selling prices.

Despite increases in material costs and amortization expense, TruTeam's adjusted operating margin improved 90 basis points from a year ago to 13.2%. Volume leverage was a key contributor towards this margin expansion and results were also favorably impacted by higher selling prices. Our exceptional volume performance and improved operating margin are a testament to great operational execution by our folks in the field.

At Service Partners, sales were up 17.6%, primarily driven by a 7.6% increase in selling prices, mainly on fiberglass, and revenue from USI's and ADO's distribution branches. Adjusted operating margin was 9.1%, down 100 basis points from third quarter 2017, primarily as a result of a significant increase in the cost of gutter coil due to recent tariffs and higher freight costs. As



we have stated in the past, realization of selling price increases can lag up to a quarter. We are confident we will fully offset the higher cost of gutter coil and freight costs with higher selling prices over the next few months.

Fiberglass capacity and pricing remains a fluid situation. We've seen three cost increases this year, though it doesn't appear the third increase, which took effect in late August, early September, was as successful as the earlier two. In addition, some manufacturers are performing line maintenance as we end the year, so material availability will continue to be a watch point for the industry. The quality and reliability of our supply chain is a strong competitive advantage for TopBuild.

One silver lining to these fiberglass cost increases is that the gap between fiberglass and spray foam continues to narrow. We've seen very strong growth in our spray foam business at both TruTeam and Service Partners, 39% and 33.6% year-to-date, respectively. On a same branch basis, spray foam is up 18.6% year-to-date at TruTeam and 22.7% at Service Partners. We expect spray foam's growth to remain strong and this is an area of expansion for both TopBuild businesses.

Our commercial business also reported solid growth in the quarter, up 35.6% in total, and up 16.6% on a same branch basis. Year-to-date, on a same branch basis, commercial revenue is up close to 9%. As a reminder, this business is an important component of our growth strategy and accounts for slightly more than 20% of our total revenue. We have a solid backlog of projects and our dedicated commercial group continues to forge relationships with large general contractors across the country.

Turning to the USI acquisition, we continue to exceed our integration milestones and the business is performing ahead of our expectations.

All 33 core USI locations are now on our TopBuild business systems. Back office and corporate functions have been consolidated, including Finance HR, IT, and Risk. We've welcomed over 12,000 new customers, added over 1,000 installers and integrated more than 800 trucks into our network. Our supply chain is integrated, we are efficiently sharing labor and materials and we are approaching our 2019 budgeting process as one team and company.

This quarter we will begin our branch optimization efforts which should be completed by the end of 2019. We remain confident we will exceed the \$15 million of cost-savings synergies within two years of close. Our ability to execute very well on our acquisition strategy, including the integration of the transformative USI acquisition, is unparalleled in the industry.

I do want to take a minute to build upon Jerry's comments regarding the current business environment. I am constantly in the field working directly with customers and suppliers. Our customers, both builders and contractors, are very bullish regarding 2019 volume and backlogs. Their outlook for new communities and new starts in 2019 is positive and upbeat.

While this optimistic outlook bodes well for TopBuild, it is important to note that even if there is a short pause in housing starts, our business model in both installation and distribution will perform well. Our team manages the business with a constant mindset of driving improvements and achieving operational excellence. We still see plenty of opportunities operationally to continue our track record of producing improved financial results. We have the best and most talented



operators in the field and a dedicated and experienced group at our branch support center. Our entire team remains focused on continuing to deliver strong results and creating shareholder value, in every operating environment.

In summary, we are focused and consistently delivering on our strategy of achieving profitable growth through a balance of volume and price. We are driving operational improvements and executing extremely well at the local level, and this focus on execution will continue.

As always, I thank our entire TopBuild team for their hard work, energy, and unyielding focus on delivering continued great customer service, strong bottom line results while operating safely every day.

**Jerry Volas**  
**Chief Executive Officer**

As our results indicate, we continue to execute well and generate excellent top and bottom line performance despite the headwinds resulting from an unprecedented number of material cost increases this year. Robert and his team have done an outstanding job managing these rising material costs and achieving selling price increases. Every branch manager and sales rep throughout our organization is focused on profitable growth and they understand the important balance between price and volume. Evidence of that this quarter is the 30-basis point gross margin improvement and same store incremental EBITDA margin of 21.4%.

We are also successfully executing on our capital allocation strategy. Since August 2016, we have completed 10 acquisitions, deploying almost \$600 million of capital, and these companies have been successfully integrated and are performing very well. Since 2016, we've also repurchased over \$170 million of our common stock. With a strong balance sheet, and moderate leverage, acquisitions remain an important part of our growth strategy.

And finally, looking at the macro environment, while the housing recovery is currently showing some signs of growing pains, we believe that the fundamental supply and demand factors will drive healthy levels of new construction for several years. The further good news is that our unique diversified business model and our seasoned, cycle tested management team will continue to perform well in any environment.