



**Management's Prepared Remarks  
Fourth Quarter 2020 Conference Call  
February 23, 2021**

**Tabitha Zane  
Vice President, Investor Relations**

On the call today are Robert Buck, President and Chief Executive Officer, and John Peterson, Chief Financial Officer.

We have posted senior management's formal remarks and a PowerPoint presentation that summarizes our comments on the Investor Relations section of our website at [topbuild.com](http://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 the presentation accompanying this call.

**Robert Buck  
President and Chief Executive Officer**

We are pleased to report a strong fourth quarter with volume growth and margin expansion at both business segments. This caps a year of opportunities and challenges for our company and our industry, framed by a national pandemic and unprecedented demand for residential new construction.

I want to start by thanking our entire TopBuild team for their dedication, enthusiasm, and hard work. Our team quickly adapted to a changing world, working from home in some cases and adhering to strict safety standards at all of our facilities and on job sites. At the same time, the team continued to provide our customers with the level of service and support they expect from our TopBuild companies.

While John will discuss our financial results in detail, I want to highlight our full year 2020 results. Revenue increased 3.6%, adjusted operating profit grew 22.8% and adjusted EBITDA increased 21.6%. Adjusted operating and EBITDA margins expanded 200 basis points and 240 basis points respectively, and adjusted net income increased 32.6% to \$7.28 per diluted share. These solid results are a testament to the strength and resiliency of our TopBuild team during the pandemic and especially given that four states where we have significant operations deemed construction nonessential for an extended period of time.

In 2020, we completed three acquisitions, Hunter Insulation, Garland Insulating and Cooper Glass which, combined, are expected to contribute almost \$80 million of annual revenue. We likely would have welcomed additional companies to our team during the year but made the decision to pause our acquisition program in late first quarter and through the summer in response to the many uncertainties related to the pandemic.

Turning to our outlook for 2021, from a macro viewpoint, our industry hasn't been this strong since before the Great Recession. The combination of significant pent-up demand, low levels of new and resale home inventory, historically low interest rates and a COVID-enhanced consumer appetite to relocate from densely populated urban communities to suburban/rural locations are all contributing to our extremely favorable outlook for the long-term growth and health of our industry and our company.

TopBuild is in an excellent position to capitalize on this housing growth with a national footprint, supply chain focus, and a flexible labor force that can be shared across multiple branch locations. However, we also recognize that there will be some constraints throughout the entire housing industry, primarily from labor and material, that will impact how quickly orders convert into permits, permits into starts, and ultimately into work for TopBuild. These constraints will likely lead to a longer build cycle, extending the housing recovery.

Regarding material availability, all trades are experiencing constrained capacity. While fiberglass is on allocation and spray foam raw material is in short supply, we will see additional fiberglass capacity come online later this year and spray foam availability should improve by the end of the second quarter. Owens Corning is adding fiberglass capacity in Kansas City in the second quarter and Knauf and Johns Manville are each bringing on a blowing wool capacity in the third and fourth quarters of this year.

As far as material pricing, we saw an increase last September as well as this January, and a number of manufacturers have announced price increases effective this April. We feel very confident in our ability to manage these cost increases as evidenced by our track record in 2018 when we saw significant material inflation. This is a testament to our strong operations leadership and local branch managers as well as the quality of our partnerships with our suppliers and customers.

Labor constraints remain top of mind within the industry as well. As it relates to labor at TopBuild, our Friends and Family recruiting program, which I discussed last quarter, is yielding great results. We have added several hundred new installers through this program and continue to receive referrals daily. We are also focusing on improving the productivity of our current labor force, including getting them to job sites faster using route optimization tools.

In addition, having all of our branch locations on the same ERP system gives us a distinct advantage in servicing our customers. We move crews, equipment, and material among our branches every day to ensure we meet our builder customers' project timelines. No other installer has this capability. This is yet another reason, in addition to achieving supply chain efficiencies, we quickly move acquisitions onto our operating platform.

Our commercial business, which slowed last year due to pandemic related project delays, is showing solid signs of improvement. On a same branch basis, revenue was flat compared to a year ago in the quarter, bidding activity remains very strong and our backlog is growing. Our long-term outlook for our commercial business remains bullish and we expect to see meaningful improvement as we move through this year.

Acquisitions remain an important component of our growth strategy and our continued number one capital allocation priority. In January, we announced the acquisition of LCR Contractors, a fireproofing and insulation company generating approximately \$58 million in annual revenue and servicing the Texas markets of Dallas, Austin and Amarillo and the Tennessee markets of Knoxville and Nashville. This is a great addition to TruTeam as it significantly enhances our heavy commercial presence in these high growth regions. Since 2016, we have acquired 15 companies which, combined, are contributing almost \$650 million of annual revenue.

Our focus remains on acquiring installation and distribution companies in core insulation. Our scope is wide and includes companies installing many different types of insulation products, beyond just fiberglass and spray foam. With a robust pipeline of prospects, we expect to stay very busy on this front in 2021.

Before handing the call over to John, I want to highlight our annual leadership meeting which we held in mid-January...virtually of course. Everyone is extremely optimistic and excited about what they see as robust growth in our business. We took the opportunity to set forth our goals for the year with a continued focus on driving improvements throughout the business.

Towards that end our team is focused on:

- Driving organic growth
- Successfully integrating new acquisitions into our family of companies
- Expanding our efforts to think differently in order to:
  - Simplify processes
  - Leverage fixed overhead
  - Manage expenses and
  - Improve productivity
  
- Developing and building the talent and diversity of our team, and
- Striving for ZERO safety incidents

We are looking forward to a great 2021.

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

As Robert noted, we finished 2020 with a strong fourth quarter and enter 2021 well-positioned to capitalize on the robust growth in the end markets we serve. We'll begin with a review of our 2020 results, then provide our outlook for 2021.

Starting with our fourth quarter results, net sales increased 8.9% to \$721.5 million, primarily driven by increased same branch sales volume, revenue from acquisitions, and a more favorable mix of single-family versus multi-family homes; partially offset by a slight decline in price. The price decline was driven almost entirely by lower spray foam and gutter costs and the resulting impact on selling price. Sales for full-year 2020 increased 3.6% to \$2,718 million, principally driven by an increase in sales on a same branch basis, sales from acquisitions and higher selling prices.

Fourth quarter adjusted gross margin expanded 160 basis points to 27.5%, driven by increased volume, lower spray foam and gutter material costs, lower insurance expenses, and continued gains in operational efficiencies; partially offset by a slight decline in selling prices. For all of 2020, gross margin expanded 150 basis points to 27.5%.

Adjusted operating profit in the quarter grew 35.7% to \$104.0 million, with a corresponding margin improvement of 280 basis points. On a full year basis, adjusted operating profit improved 22.8% to \$359.4 million, with a corresponding margin improvement of 200 basis points.

Fourth quarter adjusted EBITDA was \$121.5 million, compared to \$92.5 million, a 31.2% increase, and our adjusted EBITDA margin was 16.8%, a 280-basis point improvement. Both adjusted operating and EBITDA margin improvements were driven by the previously mentioned factors impacting gross margin, as well as cost reductions initiated in the second quarter and lower travel and entertainment expenses.

For full-year 2020, adjusted EBITDA grew 21.6% to \$436.7 million, and our adjusted EBITDA margin improved 240 basis points to 16.1%.

Our fourth quarter drop-down to adjusted EBITDA margin was 48.9%, driven by higher sales volume, strong cost controls, and continued leveraging of our platform; partially offset by higher material costs. On a full year basis, the drop down to adjusted EBITDA margin was 82.7%.

Adjusted income for the fourth quarter was \$71.3 million, or \$2.15 per diluted share, compared to prior year fourth quarter of \$50.0 million, or \$1.48 per diluted share. Fourth quarter 2020 adjustments were nominal at just under \$900,000, primarily tied to acquisition related expenses and the COVID-19 Leave Plan put in place last March. This Plan provides assistance to our employees directly impacted by the virus.

Adjusted net income for full year 2020 was \$242.5 million, or \$7.28 per diluted share, compared to \$188.9 million, or \$5.49 per diluted share for full year 2019. Full-year 2020 adjustments totaled \$4.6 million, primarily related to restructuring charges taken in the second quarter, acquisition related expenses, and our COVID-19 Leave Plan.

Interest expense in 2020 decreased from \$37.8 million to \$32.5 million, primarily driven by lower LIBOR rates and a lower balance due on our term loan.

CAPEX for full year 2020 was \$40.9 million, approximately 1.5% of revenue and lower than our targeted long-term range of 2%. As we have noted on previous calls, at the start of the pandemic we pared back our planned 2020 CAPEX spend. In 2021, however, we do expect CAPEX to return closer to our guidance of approximately 2% of sales.

Working capital as a percent of trailing twelve-month sales was 9.3%, 100 basis points lower than prior year. This decrease is primarily due to improvements in our accounts receivable aging and a richer segment mix of our Service Partners business which carries lower working capital requirements.

Our effective tax rate decreased from 24.7% in 2019 to 23.5% in 2020. The higher rate in 2019 was primarily related to a revaluation of deferred tax assets and liabilities as a result of state filing position changes.

We ended the year with net leverage of .88 times trailing twelve months adjusted EBITDA. Total liquidity at year end was \$719.6 million, inclusive of the available balance on the revolver of \$389.6 million, and cash of \$330.0 million. Operating cash flow was \$357.9 million for 2020.

Now let's turn to our segment results.

TruTeam's sales increased 6.9% in the fourth quarter and 1.9% for the year. The increase in sales in the fourth quarter was driven by same branch volume growth, revenue from acquisitions and a richer mix of single family homes; partially offset by a decline in our same branch commercial business and a slight decline in price. TruTeam's same branch commercial revenue was down 4.9% on a year-over-year basis, an improvement from the third quarter when same branch commercial revenue declined 10.7% from third quarter 2019.

Fourth quarter adjusted operating margin for TruTeam was 16.1%, a strong 270 basis point improvement. For full year 2020, TruTeam's adjusted operating margin improved 200 basis points to 15.3%.

Service Partners' fourth quarter sales were up a strong 12.7% to \$251.5 million, driven by a 13.3% increase in volume and partially offset by a slight decline in price. For the full year, Service Partners revenue grew 7.4% to \$926.2 million.

Fourth quarter adjusted operating margin for Service Partners was 13.4%, a 210-basis point improvement from the prior year. For full year 2020, Service Partners adjusted operating margin increased 200 basis points to 12.5%.

Moving to 2021 annual guidance, based on builder orders and our expectations that interest rates will remain low, we are optimistic this will be a very good year for TopBuild. However, it's important to note that our guidance assumes some level of industry wide material and labor constraints, which has already led to an extended build cycle and higher than normal backlog.

We are projecting total sales to be between \$3,050 million and \$3,150 million and adjusted EBITDA to be between \$505 million and \$535 million. This assumes a range of residential new housing starts of between 1,425 thousand and 1,475 thousand. It also includes revenue from LCR Contractors, which we acquired in January, but does not include any additional acquisitions we expect to make this year.

We've also provided our long-range modeling targets for a number of metrics. The range for working capital is now 9.5% to 10.5% of trailing twelve-month sales, compared to 10% to 11% when we last gave guidance a year ago. The range for same branch incremental EBITDA is 22% to 27% and 11% to 16% for acquisitions, unchanged from prior year. We are now projecting \$90 million of revenue for every 50,000 increase in residential housing starts. We're also projecting Commercial sales growth to average between 7.5% and 10% annually, partially impacted by the project delays discussed earlier. Our normalized tax rate is unchanged at 26%. Finally, we project CapEx at 2% of sales, also unchanged from previous guidance.

**Robert Buck**  
**President and Chief Executive Officer**

We are very confident 2021 will be a strong year for TopBuild. The external environment points to solid growth in residential and commercial construction and our diversified business model enables us to capitalize on this strong demand. Our team is executing exceptionally well, and we expect to close on additional M&A opportunities which will further add long-term value for our company.