



**Management's Prepared Remarks
Third Quarter 2021 Conference Call
November, 2021**

**Tabitha Zane
Vice President, Investor Relations**

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

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 third quarter presentation which can also be found on our website.

**Robert Buck
President and Chief Executive Officer**

We are pleased to report another quarter of solid performance for TopBuild. Our team continues to successfully manage material cost increases with selling price adjustments and to navigate material and labor constraints. Driving profitable growth remains a cornerstone of our operating model, and the strong margin expansion we've achieved throughout this year is a testament to the significance of our scale, size, and continuing focus on operational excellence.

Taking a step back and looking at our industry as a whole, homebuilders, general contractors, and building product companies continue to be impacted by supply chain disruptions and labor shortages. These challenges are delaying the completion of projects and elongating the build cycles of both residential and commercial construction projects. While we had initially hoped these industry-wide supply chain bottlenecks would be resolved by year-end, we now believe that a more realistic scenario falls well into 2022.

On a more positive note, demand for residential housing remains strong, interest rates are low and inventory remains tight. In addition, with a longer build cycle, our backlog continues to grow and it is reasonable to assume we should not experience the traditional seasonal slowdown in the fourth quarter of this year or the first quarter of next year, barring any unusually harsh winter weather.

Looking at our third quarter results, revenue grew 21.3%, and 10.6% on a same branch basis, driven by strong pricing in the quarter at both TruTeam and Service Partners. Gross margin expanded 120 basis points, adjusted operating profit grew 35.2% and adjusted EBITDA increased 32.8%. In addition, adjusted operating margin expanded 170 basis points and adjusted EBITDA margin expanded 160 basis points to 18.7%, the highest in the Company's six-year history as an independent public company.

Turning to material, fiberglass and spray foam remain on allocation. Given the supply scenario, three of the four fiberglass manufacturers have announced a 10% price increase effective December or January. On the capacity side, we were pleased with Knauf's announcement that they plan to build a new facility in Texas that should be on-line later in 2023. This new facility should add about 180 million pounds of insulation, or approximately 3%-4% additional capacity. In addition, Knauf and JM's new blowing wool lines should be up and running sometime later this quarter or early first quarter next year, adding an additional 3% to industry capacity.

Spray Foam, which represents about 18% of our insulation sales, continues to face supply chain challenges and prices have significantly increased over the last 12 to 18 months. Supply was initially impacted by MDI shortages, the "A" side chemical component. Then, the major freeze in the South-Central states and significant bad weather along the Gulf Coast, caused additional production disruptions and delays. Further compounding these issues are delays at US ports affecting delivery of key chemical components.

Based on what we are seeing and hearing, we believe TopBuild is faring better than most on both the material and labor fronts. Over the past year, we have partnered with key suppliers to get our fair share of fiberglass and spray foam. In addition, our company-wide ERP system gives us the ability to efficiently manage material and labor throughout our branch network to successfully support our customers.

Let me give you one recent example. A few weeks ago, a large production builder asked if we could leverage our resources to help them complete almost 600 homes in one of their key regions by the end of October. Teamwork across our operations leadership and our shared ERP system enabled us to quickly move material and crews from across our network and complete this work within the condensed timeframe. I don't believe any other service provider in the U.S. could have accomplished this. Hats off to our TruTeam branches for making this happen and driving immense value for our customer.

On the capital allocation front, year-to-date, we've completed eight acquisitions which are expected to generate almost \$1 billion of revenue on a pro-forma full year basis. Since our last call in August, we completed three of these acquisitions: Valley Gutter Supply, California Building Products and Distribution International.

Valley Gutter, acquired in mid-August, is a fabricator and distributor of gutter products and specialty metals to contractors in the Los Angeles area. Approximately 70% of Valley Gutter's customers serve the residential market with the remainder focused on light commercial. Currently, the distribution and installation of gutters comprises approximately 6% of TopBuild's total revenue.

California Building Products, which we acquired in early October, is a residential and light commercial installation company serving Northern California. The company brings a solid customer base and strengthens our operations in this high growth region.

And finally, we announced in October that Distribution International had successfully gone through HSR regulatory review and had joined the TopBuild team. We are now the leading North American specialty distributor in the \$5 billion mechanical insulation market and the leading supplier of energy saving insulation solutions in three critical and expanding end-markets: residential, commercial, and industrial. We added 101 branches to our specialty distribution network, including 17 in Canada, increased our customer base by close to 13,000 and welcomed 1,300 DI associates to TopBuild. Our teams are working closely to ensure a smooth transition as we integrate DI into our systems and supply chain over the next 12 months. As noted previously, we anticipate \$35 to \$40 million of run-rate cost synergies over the next 24 months.

Looking ahead, our M&A prospect pipeline remains robust for residential and commercial installation companies and for mechanical insulation specialty distributors, and we expect to remain very active on all three fronts going forward.

We also used our capital in the third quarter to repurchase 60,000 shares and year-to-date we've repurchased just over 183,000 shares at an average price of \$194.15 per share.

Before turning the call over to John and Rob to discuss our financial results in further detail, I want to emphasize once again that our strong operating performance quarter after quarter is the direct result of our uniquely diversified model and the ability of our experienced and cycle-tested leadership team to manage our businesses well in any environment.

John Peterson
Chief Financial Officer

As Robert noted, we had a solid quarter despite the industry wide supply chain shortages and labor constraints tempering top-line growth. Our team once again demonstrated their ability to successfully manage and optimize input costs and pricing and drive operational efficiencies throughout the business.

Moving to our results, in the third quarter, net sales increased 21.3% to \$845.8 million primarily driven by a 10.8% increase in price and \$74.5 million of revenue from seven acquisitions: Garland, LCR, Ozark, ABS, Creative Conservation, RJ Insulation and Valley Gutter Supply. For the first nine months of 2021, net sales also increased 21.3%, primarily driven by increased selling prices, sales volume and \$172.2 million of revenue from acquisitions.

Gross margin improved 120 basis points in the third quarter and 100 basis points in the first nine months of 2021 to 29.6% and 28.5%, respectively, driven by higher selling prices, and lower insurance costs, partially offset by material inflation.

Adjusted operating profit in the third quarter grew 35.2% to \$137.4 million, with a corresponding margin improvement of 170 basis points to 16.3%, driven by the same positive factors I just mentioned that led to gross margin improvement, but partially offset by increased travel and entertainment activity and the initial absorption of fixed costs of new acquisitions. For the first nine months, adjusted operating profit increased 42.7% to \$364.5 million with a corresponding margin improvement of 220 basis points to 15%.

Adjusted EBITDA for the third quarter was \$158.2 million, compared to \$119.2 million in the third quarter of 2020, a 32.8% increase, and adjusted EBITDA margin expanded 160-basis points to 18.7%.

For the first nine months of 2021, adjusted EBITDA grew 34.4% to \$423.9 million, and adjusted EBITDA margin was 17.5%, a 170-basis point improvement over the first nine months of 2020.

Third quarter SG&A as a percent of sales was 13.8% compared to 13.9% in the third quarter of 2020. The year-over-year decrease as a percentage of sales was primarily the result of higher sales partially offset by increased travel and entertainment and the initial absorption of fixed costs of acquisitions.

Adjusted income for the third quarter was \$97.7 million, or \$2.95 per diluted share, compared to \$69.6 million, or \$2.10 per diluted share. For the first nine months of 2021, adjusted income was \$256.4 million, or \$7.73 per diluted share, compared to \$171.2 million, or \$5.14 per diluted share.

Third quarter adjustments to net income were \$3.6 million, all related to acquisition expenses. Adjustments to net income in the first nine months of 2021 were \$20.4 million, primarily tied to \$13.9 million of debt refinancing costs and the remainder related to acquisition expenses and the COVID-19 Leave Plan initiated March of 2020. As of July 1st, 2021, that plan is no longer active.

Our effective tax rate for the quarter was 25.7% and 24.7% for the first nine months of the year. Interest expense in the third quarter of 2021 was \$5.5 million compared to \$7.7 million in the prior year, primarily driven by lower interest rates on our Senior Notes issued in March 2021, and borrowings under the Amended Credit Agreement.

During the fourth quarter, we successfully closed on a \$500 million senior notes offering priced at 4.125% and maturing in 2032. In early October, we amended our credit agreement, increasing the revolving credit facility from \$450 million to \$500 million and adding a new \$300 million delayed draw term loan. This was used, along with the proceeds from our senior notes offering and cash on hand, to fund the purchase of Distribution International, which officially joined the TopBuild team two weeks ago.

CAPEX through September 30th was \$42.3 million, or 1.7% of sales, slightly below our long-term guidance of 2% of sales.

Working capital as a percent of trailing twelve-month sales was 10.3% versus 10.1% a year ago. This slight increase was due to higher inventory on hand which is being driven by inflation, M&A, and the timing of inventory receipts.

We ended the third quarter with net leverage of 0.7 times, using trailing 12 months adjusted EBITDA of \$545.3 million. Total liquidity at September 30, 2021, was \$709.8 million, including cash of \$327.9 million and accessible revolver of \$381.9 million. Operating cash flow was \$309.5 million for the nine months ended September 30. Assuming the inclusion of DI and associated debt acquired to finance the transaction, September 30 net debt would have been 2.2 times on a pro-forma basis, pre-synergies.

I'm now going to turn the call over to Rob Kuhns, our Vice President and Controller, to discuss our segment results. As announced last month, I will be retiring from my position as CFO at the end of March and Rob will be assuming this role. Rob and I have worked closely together for over three years and this succession plan has been in place since he joined the Company. He's built a great team and is involved with all aspects of the Company's operations and we couldn't have selected a better replacement.

Rob Kuhns
Vice President and Controller

Starting with TruTeam, sales increased 24.5% in the third quarter to \$612.9 million. On a same branch basis, revenue grew 10.3% driven by an 8.4% increase in price and a 1.9% increase in volume. Residential and commercial markets saw healthy demand in the quarter, but the industry wide material shortages and labor constraints tempered growth.

We are pleased with TruTeam's third quarter adjusted operating margin of 17.2%, a 20-basis point improvement from third quarter 2020 even given the significant contribution from M&A. Our teams did a great job managing both price and cost in this environment and our backlog remains strong.

Looking at Service Partners' third quarter, sales grew 13.2% to \$276.4 million, driven by a 16.5% increase in price, partially offset by a 5.2% decline in volume. Service Partners' top line was challenged by material constraints in both fiberglass and spray foam. In addition, last year Service Partners' third quarter volume increased a robust 12.2%, so this quarter was a difficult comp. A high note was Service Partners' third quarter adjusted operating margin of 17.1%, a 370-basis point improvement from third quarter 2020. Our Service Partners team continues to do an outstanding job managing cost increases, customer pricing, and operating costs.

John Peterson
Chief Financial Officer

Moving to 2021 annual guidance; a number of factors were taken into consideration as we put together our outlook for the remainder of the year. The most relevant being the industry wide supply chain shortages and labor constraints which are impacting everyone's ability to meet the continued strong demand for new residential housing and commercial projects.

As a result, looking at legacy TopBuild, which excludes financial results from DI, we are reducing the mid-point of our 2021 sales forecast by \$55 million to a range of \$3,255 million and \$3,295 million. For adjusted EBITDA, as a result of improved operational efficiencies and strong input cost management, we are maintaining the midpoint of our previous guidance of \$577 million but are narrowing the range and now expect adjusted EBITDA to be between \$570 million to \$585 million.

We expect DI to contribute revenue between \$170 million and \$180 million and adjusted EBITDA between \$15 million and \$20 million. As a reminder, this acquisition closed on October 15, so the guidance provided is for approximately 2 ½ months.

In total, we are projecting sales to be between \$3,425 million and \$3,475 million, and adjusted EBITDA to be between \$585 million and \$605 million.

We are not providing a projection of housing starts for the remainder of the year as there is a weak correlation between starts and our performance, due to the continuing extension of the build cycle tied to the constraints previously mentioned. That said, we remain very bullish on the demand profile of all three end markets we serve.

Looking ahead, we will provide our 2022 outlook when we report our fourth quarter and year end results in mid-February.

Robert Buck
President and Chief Executive Officer

Before opening the call up for questions, I wanted to mention that in September, we hosted our annual strategy session with our Board and key members of our leadership and operating teams. During this two-day meeting, we took a deep dive into all aspects of our Strategic Plan, including our ongoing ESG efforts, this was a great planning session with the goal to continue to create great value for all of our stakeholders.

I also want to let you know that we plan to host a TopBuild Investor Day in New York City on Tuesday, March 15. This will be a great opportunity to meet the leaders of our business.

Looking ahead, we anticipate the industry will continue to be impacted by supply chain disruptions and labor constraints into next year. From TopBuild's perspective, we believe we are faring better than most in terms of both material and labor, due to our size, scale, strong relationships with our suppliers and our engaging recruiting methods and productivity improvement initiatives. Our company-wide ERP system also facilitates the sharing of these limited resources, enabling us to best serve our customers. Our teams throughout TopBuild continue to do a great job successfully navigating the current environment as demonstrated by our solid third quarter results.

We are also extremely excited about our entry into the mechanical insulation specialty distribution space through our acquisition of Distribution International and their leadership position distributing and fabricating products for the industrial and commercial end-markets. This acquisition also solidifies TopBuild as the leader in supplying energy saving insulation solutions to a broad range of businesses and industries across North America.

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 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.