Management's Prepared Remarks
Fourth Quarter 2023 Conference Call
February 28, 2024

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

Robert Buck
President and Chief Executive Officer
I'd like to begin by thanking all of our TopBuild, Installation, and Specialty Distribution teams for their hard work and unrelenting focus on working safely, servicing our customers and continuing to push for operational excellence every day. We accomplished a lot this past year for our stakeholders, and I am proud to be part of this talented and very results driven team.

Before reviewing our fourth quarter and year-end results I want to update you on our SPI transaction. As a reminder, SPI is a specialty distributor and custom fabricator of mechanical insulation and a specialty distributor of building insulation to the three end markets we serve: mechanical, commercial building and residential.

We are in the process of responding to a second request for information from the Antitrust Division of the Department of Justice. In today's environment, these requests have become more common, resulting in a lengthier process. We are complying with their information requests and addressing their questions.

Now, turning to our financial results, we finished 2023 with a strong fourth quarter, completing another outstanding year for TopBuild. For the full year, gross and adjusted EBITDA margins expanded 120 basis points and 140 basis points, respectively to 30.9% and 20.2%. Our diversified business model and focus on driving operational efficiencies led to the successful execution of our overall strategy. We once again delivered on our objectives of achieving profitable growth and outperforming in any operating environment.

2023 was markedly better than we had originally anticipated. When we first issued guidance 12 months ago, we were facing declining single family starts, steady interest rate hikes and the possibility of a slowing economy. Despite these headwinds, TopBuild showed positive growth from the outset, exceeding the high end of our initial sales and adjusted EBITDA guidance.

There were many factors driving these outstanding results. I'm extremely proud of our Installation segment's leadership who targeted multiple avenues for growth, successfully expanding our multi-family and commercial business to offset the decline in single family construction. For the full year and on a same branch basis, we grew our multi-family business by over 50% and our commercial business by over 11%. This strong growth more than offset the low single digit decline of our single-family sales.

At our Specialty Distribution segment, we saw commercial and industrial sales grow 6.3% in the fourth quarter and 4.6% for the year. This revenue includes maintenance and repair work on many commercial and industrial sites, driving ongoing stable revenue. Today, maintenance and repair work accounts for approximately 25% of Specialty Distribution's revenue.

In both business segments our proprietary Lead App tool is providing qualified leads to help our local businesses drive commercial and industrial organic growth. This is a great example of our innovative approach to enhancing the sales process.

In 2023, we continued to spearhead initiatives to increase labor productivity. Even small improvements leveraged across our installer base of over 8,000 will deliver significant savings to our bottom line. Our common ERP system enables us to easily track productivity and identify future opportunities to drive operational efficiencies. This continuous focus on improved labor productivity is a distinct advantage for TopBuild as labor constraints persist across the construction industry.

Another initiative contributing to our profitable growth last year was the expansion of our special operations team, comprised of seasoned leaders whose sole mission is to drive operational efficiencies and to share best practices throughout TopBuild. They are also tasked with focusing on the bottom quartile of our installation and specialty distribution branches. Their goal is to understand why these branches are underperforming and to put into place the necessary changes to improve their growth and profitability. This team helped drive some great and sustainable improvements last year, that positively impacted our top and bottom lines. Looking ahead, they have already identified multiple opportunities that will enhance our operating performance and organic growth in 2024 and beyond.

We were also successful on the capital allocation front, completing four residential installation acquisitions that are expected to contribute approximately $173 million of annual revenue. This included SRI Holdings and Best Insulation which, to date, are our third and fourth largest residential installation acquisitions. The other two acquisitions completed last year were Rocky Mountain Insulation and Panhandle Insulation, the latter of which closed in October. These four companies complement our growth strategy and bring experienced installers, great management teams, and strong customer relationships to TopBuild. As always, when we evaluate acquisition opportunities, we look for deals that are accretive to our existing footprint and current operations, meet our strategic growth initiatives, leverage our scale advantages in a meaningful way, and are a good cultural fit with our organization.

Now let's turn to 2024 and how we see the year unfolding. While Rob will provide more details and clarity on our outlook, you can see we expect another strong year of profitable growth for TopBuild, led by outstanding execution, a continuous focus on driving operational improvements, and an eye towards innovation throughout the company.

As we have said on previous calls, we are bullish on the long-term fundamentals of residential new construction. There remains a shortage of housing inventory and strong pent-up demand. In the near term, we are encouraged by the improvement over the past few months of single family starts and the outlook for interest rates. As a result, we are optimistic single family residential new construction could have more upside as the year progresses and we believe this will be an important source of organic growth. There is also a strong backlog of multi-family work that should keep us busy throughout the year.

On the commercial and industrial front, at both Installation and Specialty Distribution, we expect another year of growth based on our bidding activity and strong backlog. Our TruTeam branches have worked hard to build relationships with general contractors in their respective markets and they are fostering these relationships to ensure we continue to win more than our fair share of light and heavy commercial work. We also expect solid performance this year for mechanical insulation including new projects and maintenance and repair work.

As I mentioned last quarter, we are in the second phase of our growth strategy and operational improvement initiatives relating to our Specialty Distribution model. We have identified many cross-selling opportunities and see this as another important driver of organic growth.

Looking at material and assuming single family starts maintain their current trajectory, fiberglass will be tight. We are seeing good price realization from the December/January material cost increase. With upcoming maintenance on a number of production lines we don't see any significant material capacity improvement this year, even with the addition of the Knauf plant which is expected to be operational sometime mid-2024.

Moving to capital allocation, two months into the quarter, we've already inked three deals: Pest Control Insulation, a specialty distributor generating approximately $24 million of annual revenue, and two residential installers, Brabble Insulation and Morris Black & Sons, which combined are expected to generate approximately $9 million of annual revenue.

Looking ahead, our prospect pipeline is robust, and we intend to stay active on the acquisition front. As always, we will remain focused on acquiring high quality residential and commercial installation and specialty distribution companies. All three of our end markets are highly fragmented and present great opportunities to reinvest our strong free cash flow to drive shareholder value.

Operationally, our team is focused on driving organic growth and exceeding customer expectations. We will also continue to implement initiatives and maintain an innovative approach to drive operational efficiencies and improve labor and sales productivity. Energy codes should continue to strengthen, serving as a tailwind for all areas of our business.

Rob Kuhns
Chief Financial Officer
We are pleased with our strong 2023 performance and I want to congratulate and thank the entire TopBuild team for a job well done. Your hard work to serve our customers and drive operational efficiencies led to another strong year of financial results. Since becoming a public company in 2015, we've grown sales and adjusted EBITDA for eight consecutive years at compounded annual rates of 16% and 33%, respectively. This consistent track record of growth is something we can all be proud of and build upon in 2024 and beyond.

Looking at 2023 compared to 2022, we delivered $5.2 billion in revenue, representing growth of 3.7%, we improved gross margin by 120 basis points to 30.9%, and our adjusted EBITDA margin was 20.2%, a 140-basis point improvement. And, for the first time in our history, we delivered more than $1 billion dollars in adjusted EBITDA.

Turning to the fourth quarter, net sales grew 1.7% to $1.3 billion.

On a segment basis, Installation's net sales grew 3.8% to $790.4 million, as lower single-family volume was more than offset by acquisitions, stronger multifamily and commercial volume, and slightly higher price.

Specialty Distribution's net sales totaled $564.5 million in the fourth quarter, up 0.2%. Lower residential volumes were more than offset by stronger commercial and industrial volumes and pricing.

Gross margin for the fourth quarter was 30.4%, representing a 70-basis point improvement compared to prior year.

Fourth quarter adjusted EBITDA totaled $251.6 million, and adjusted EBITDA margin was 19.6%, an 80-basis point improvement versus the fourth quarter of 2022.

Fourth quarter adjusted EBITDA margin for our Installation segment was 21.4%, an improvement of 60-basis points year-over-year.

Specialty Distribution's adjusted EBITDA margin in the fourth quarter was 17.5%, an improvement of 80-basis points versus last year.

Other Income and Expense totaled $10.5 million in the fourth quarter, a decrease of $4.7 million versus the prior year. For the full year, Other Income and Expense was $53.3 million, down from $55.0 million in 2022. Higher interest income on deposits more than offset higher interest expense on our variable rate term loan in both the fourth quarter and full year.

In the fourth quarter, adjustments to Net Income totaled $7.4 million, and for the full year they were $21.6 million, which were largely acquisition related. Fourth quarter adjusted earnings per diluted share of $4.69 represents growth of 6.6% versus the prior year. For the full year, adjusted earnings per diluted share were $19.73, or growth of 15.3% versus 2022.

Moving to our balance sheet and cash flows, we are pleased with our 2023 operating cash flow which increased 71% to $849.4 million, compared to $495.8 million in 2022. Higher profitability and significant progress in working capital drove our cash flow improvement versus last year. Working capital was 13.2% of sales versus 15.7% last year. Our teams in the field did a great job reducing our inventory days on hand by eight days from last year.

2023 CAPEX totaled $64 million, or about 1.2% of revenue, slightly below our long-term guidance of 1.5% to 2%.

Total outstanding debt at year end was approximately $1.4 billion, and we finished the year with leverage of 0.56 times our trailing 12 months adjusted EBITDA, which compares to 1.31 times at the end of 2022.

Total liquidity was $1.28 billion, including cash of $848.6 million and availability under our revolver of $436.2 million.

Turning to our outlook for 2024, which does not include acquisitions that have not yet closed, revenue is expected to be between $5.36 billion to $5.56 billion, and we anticipate Adjusted EBITDA of $1.04 billion to $1.13 billion.

Breaking down our revenue outlook:

> Total Residential sales are expected to grow mid-single digits. The midpoint of our outlook assumes that single family starts remain near current levels for the year. Our multifamily backlog is strong, and we anticipate it will support our sales throughout 2024.
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> On the Commercial/Industrial side, we continue to see healthy bidding activity and we have a strong backlog. We also anticipate strong sales from recurring revenue on repair and replacement projects. As a result, we are projecting sales for Commercial and Industrial to grow mid-single digits. Keep in mind that the project nature of this business can cause lumpiness from quarter to quarter.

While we did start the year off a bit slow in January due to weather, we've seen a solid rebound in February.

With that, I'll close by expressing my optimism and confidence in our outlook.

Robert Buck
President and Chief Executive Officer
I echo Rob's confidence in 2024. We are excited about the year ahead and expect both segments, Installation and Specialty Distribution, to perform well. Our diversified model and multiple avenues for growth enable us to adapt to any operating environment and our team manages the business with a constant mindset of driving improvements and achieving operational excellence.

Before opening it up for questions I wanted to let you know this is Tabitha's last call as she retires at the end of March. While Tabitha will be missed, we are very excited to introduce PI Aquino, our new vice president of investor relations. PI has over 20 years of IR experience and she is looking forward to getting to know all of you.