



**Management's Prepared Remarks
First Quarter 2020 Conference Call
May 5, 2020**

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. We have posted senior management's formal remarks on the Investor Relations section of our website at 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.

Please note that, other than as otherwise specifically stated, 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.

Jerry Volas

Chief Executive Officer

What a difference since we last spoke with you just a few months ago. COVID-19 has produced an unprecedented chapter for our country and the world. First and foremost, we extend condolences and get well wishes to those whose health and safety has been directly affected by this virus. Speaking on behalf of our leadership team and our 10,000 employees, TopBuild will prioritize whatever is necessary as a responsible citizen to manage through this pandemic.

From a business standpoint, TopBuild is fortunate as our installation and distribution services are considered essential in all but a few states. With strict safety protocols in place, our TruTeam crews are on job sites and our Service Partners co-workers are filling and delivering orders. In addition, our traditionally conservative approach to managing our balance sheet provides us with ample liquidity to weather this storm.

For those who have been following our company for many years, you know we are significantly stronger financially and leaner operationally than we were a decade ago. Many of the decisions made during the 2009 housing correction are benefitting us today as we face what will likely be a slowdown in housing starts. Our leadership team is proactively managing every aspect of our operations to minimize the impact of the pandemic on our Company.

Robert will talk in detail about what we've done from an operations standpoint to weather this period, and what we are doing moving forward to ensure we capitalize on housing's projected recovery. Be assured we put the health and safety of our employees, their families our customers and our supplier partners first.

While we can't determine the trajectory of housing starts, in our opinion, the medium and longer-term outlook for housing remains favorable. The last housing downturn was accelerated by an oversupply of housing from both overbuilding and foreclosures. Neither of those factors are in the mix today. The good news, from our point of view, is that both new home inventory and mortgage rates are very low and are expected to remain so. We look for consumer confidence to drive builder activity as the economy recovers.

Turning to our financial results, we had a solid first quarter, with only minimal impact from the COVID-19 pandemic. Revenue increased 5.5% and adjusted EBITDA margin expanded 150 basis points to 13.5%. The conversion of our top line to the bottom line was outstanding and produced adjusted EPS of \$1.37 for the quarter, a 29.2% increase. All of the other earnings-related metrics were very good, and John will provide more detail on those.

We completed two acquisitions in the first quarter, Cooper Glass and Hunter Insulation, both of which we announced on our fourth quarter call in February. Given the current level of uncertainty, we have intentionally hit the pause button on further acquisitions. Looking ahead, we are fortunate to have a strong balance sheet with plenty of dry powder and expect to eventually resume our acquisition program, which remains our number one capital allocation priority.

The \$50 million ASR we announced last October was completed in the first quarter at an average price of \$107.31 per share. Year-to-date, through April 30, we have acquired 415,787 shares at an average price of \$74.23 per share. Due to the uncertainty of the full impact of COVID-19, we have put our share repurchase program on hold.

Robert Buck
President and Chief Operating Officer

Rather than follow my traditional comments where I review quarterly results for our two business segments, my remarks today will focus on how we are responding to the COVID-19-related challenges, the actions we are taking to navigate this pandemic, and why we believe we are very well positioned to manage through this environment and prevail stronger.

First and foremost, the safety of our employees is our number one priority. Shortly after the COVID-19 outbreak occurred, we created a Field Operations support team to implement specific measures to safeguard our employees' health and well-being while ensuring the Company's ability to maintain key operations and service our customers. Where appropriate, we have instituted a work-from-home policy at certain operating facilities, including our Daytona Beach Branch Support Center. Our already extensive safety procedures were enhanced to include cleaning and sanitizing our facilities and vehicles and having employees practice social distancing.

We are also monitoring, on a daily basis, where we are permitted to provide our installation and distribution services. In most states, construction has been deemed essential and in those locations our Company continues to operate. In some larger metropolitan areas, we have seen a number of large commercial projects delayed due to the density of construction crews on site. In the four states where construction initially was not considered essential, Washington and Pennsylvania are currently reopening residential and commercial construction, and we hope to see the same in New York and Michigan very soon.

Our supply chain across both business segments remains strong and our supply chain partners have been very supportive as they continue to do their part to ensure service levels are maintained, enabling us to provide timely service to our customers across the country.

With safety protocols in place and our supply chain assured, we turned our attention to flexing our business model to adapt to the current environment.

To provide you with a little bit of history, most of our senior leadership team went through the great recession and the associated housing downturn in the late 2000's. John and I arrived here in late 2009 and 2010 when the Company was part of Masco and known as Masco Contractor Services. Although the COVID-19 pandemic is very different, we have not forgotten what we learned and the leadership required to manage through such times. When the last recession hit, we had over 330 branches which installed, in addition to insulation, over 40 non-core building products.

Since the last housing downturn we have:

- Optimized our footprint, shutting down over 130 redundant branches,
- Moved all of our branches to a common ERP system,
- Simplified our business processes,
- Exited non-core products, renewing our focus on our core business lines,
- Significantly cut redundant fixed overhead,
- Removed waste out of the business,
- Brought talent back into the business in our field operations, and
- Appropriately leveraged our supply chain scale.

These strategic and deliberate actions over the last several years have not just honed our current strategy as TopBuild, but have created a very focused cadence by which we run the Company on a daily basis.

So, we are a very different company today than we were just five years ago at the time of the spin from Masco. Our decade-long focus on operational efficiency, sales and labor productivity and strong balance sheet management is serving us well as we manage our business to best serve our customers, care for our employees, and position our company to gain share and grow as housing recovers.

Our playbook, honed over the years, has multiple levers we can pull to take costs out of the business. Obviously, one of the easiest targets is discretionary spending and we have already identified and eliminated the majority of those expenses. Capital expenditures have also been pared back considerably and we have taken appropriate actions to reduce overhead.

Our two largest cost buckets are labor and material. Starting with material, we have no long-term commitments with any of our manufacturers and are working closely with our supplier partners to align our supply of material with demand, keeping our price/cost model in synch.

Turning to labor, as most of you know labor has been extremely tight in the construction industry. Currently, with most states allowing construction services to continue and a good backlog of housing starts, we are keeping the majority of our crews busy and, in some instances, bringing on new team members. However, in states where construction work was deemed non-essential and, in those branches where work has slowed, we have flexed our labor force on the downside. To help mitigate this impact, we have implemented a COVID-19 Leave Plan that continues to pay our team members for a period of time to help provide assistance to them and their families. We believe this is the right investment in our team to create goodwill and improve the probability we can rehire them when conditions improve. As we have stated previously, we believe we are the

employer of choice in our industry and our COVID-19 Leave Plan demonstrates our commitment to our employees and the strength of our company today and for the future.

From an ongoing labor management perspective, having all of our branches on a common ERP system gives us a distinct competitive advantage...it is another unique strength of TopBuild. For example, in Florida, our Jacksonville, Orlando and Tampa branches can pull resources (labor, trucks and material) from each location as needed, enabling us to meet customer demands efficiently and keep labor productivity high. The integrated ERP system also gives us real time information across all our branches that allows us to respond quickly in this dynamic environment.

At this point, we have not closed or consolidated any branches. However, our playbook incorporates various scenarios and this is another lever we can pull to take costs out of the business. This is a normal cadence of our monthly branch operations review.

As we look at our business as a whole, we see a clear opportunity to differentiate our company from most of our competitors and play offense. We can service and support our existing customers while gaining new customers and growing market share. Our national network, ability to retain labor and financial stability, give us the flexibility to meet changing customers' demands, something many smaller companies may not be able to do over the next few months. For example, in a few major markets we have already picked up new business as some of our competitors have struggled to provide consistent service.

In closing, we recognize that the situation remains fluid. Our leadership team continues to monitor our operations on a daily basis and we will calibrate the business as needed.

I am extremely proud of the way our entire team has stepped up to meet this challenge. Our Operations Leadership Team headed up by Steve Raia, Jeff Franklin, David Cushen, Jeff Benson, all of our teams in the field and of course our Branch Support Center Team. You do not make it through these times and come out on the other side stronger without an aligned leadership team with a sense of urgency...and that is what we have in spades at TopBuild. We know how to quickly adapt to changing market conditions to ensure we are on the best and safest course possible for our employees and our company.

John Peterson
Chief Financial Officer

We are very pleased with our strong first quarter performance which, as Jerry already mentioned, was not significantly impacted by Covid-19.

I will start with a brief review of our first quarter results, then put some color around a few of the initiatives Robert just discussed as we flex our business model to adapt to this environment.

In the first quarter, net sales increased 5.5% to \$653.2 million, driven by price and volume increases at both business segments; partially offset by a negative mix due to continued growth in multi-family, a continued move to a smaller footprint and some marginal impact due to Covid-19. We believe Covid-19 negatively impacted sales about \$10 to \$11 million, most of which was the result of the four states, Washington, Michigan, Pennsylvania and New York, that had identified construction services as non-essential. Gross margin expanded 120 basis points to 26.3%, compared to the same period a year ago, benefitting from pricing, volume growth and continued operational efficiencies; partially offset by higher material prices.

Adjusted operating profit grew 18.9% to \$70.3 million, with a corresponding margin improvement of 130 basis points. Both gross margin and operating margin improvements were driven by higher selling prices, residential and commercial sales volume and improved labor and sales productivity, partially offset by higher amortization expenses, higher stock-based compensation costs and higher material costs. First quarter 2020 adjustments totaled approximately \$272,000, primarily tied to acquisitions.

First quarter adjusted EBITDA was \$88.4 million, compared to \$74.5 million in 2019, and our adjusted EBITDA margin was 13.5%, a 150-basis point improvement from first quarter 2019.

Our drop-down to adjusted EBITDA margin was 40.8%. Same branch drop down came in at 43.8% and the drop down for our three acquisitions came in at 22.5%, a testament to our strong operational performance and our ability to successfully target, acquire and integrate acquisitions.

Adjusted net income was \$45.9 million, or \$1.37 per diluted share, compared to \$36.6 million, or \$1.06 per diluted share, in the first quarter of 2019.

First quarter interest expense declined from \$9.6 million to \$8.7 million, driven by an 82-basis point decline in our interest rate on our term loan, on average, compared to the first quarter of 2019.

CAPEX was \$15.9 million, approximately 2.4% of revenue. Capex was slightly higher than our historical levels due to an investment to upgrade our branch IT infrastructure. Working capital as a percent of proforma trailing twelve-month sales was 10.5%, 160 basis points lower than prior year, driven by lower inventory levels at both segments and improved collections, primarily at TruTeam. Operating cash flow was \$72.9 million for the quarter.

We ended the first quarter with very moderate net leverage of 1.46x trailing 12 months adjusted EBITDA. Total liquidity at March 31, 2020 was \$576 million, inclusive of the available balance on our \$450 million revolver of \$389 million and cash of \$187 million. Our total liquidity at the end of April was approximately the same as the March ending balance. As a reminder, on March 23rd, we announced an amend and extend of our senior credit facility, extending the maturity date three years to 2025, increasing our revolver from \$250 million to \$450 million and increasing the headroom on our financial covenants.

As you can see, we are well-positioned with strong cash flow, a solid capital structure and ample liquidity. We have no near-term debt maturities. Our recently upsized credit facility matures in 2025 and our 5.625% bonds mature in 2026. We have ample room under our debt covenants, and, understanding that the preservation of cash is a high priority, we have suspended our share repurchase program and M&A activities and significantly reduced capital spending.

Turning to our COVID-19 cost savings initiatives, we've talked with many of you in the past about the flexibility of our business model. 70% of our costs are variable, 20% are fixed and 10% are a mix of the two. This model enables us to expand margins in periods of growth and adapt to downturns to mitigate the impact on our operations and financial results. As Robert noted, labor and material are our largest expenditures and both can be dialed back relatively quickly as demand falls.

Right now, it's not possible to know the full impact that COVID-19 will have on the housing industry and on our business, which is why we withdrew our 2020 revenue and adjusted EBITDA guidance last month. However, we will share that in April, COVID-19 negatively impacted same branch

sales by approximately 9% versus prior year. This was primarily driven by the four states where construction was deemed non-essential as well as commercial construction where, as Robert mentioned, a number of projects were delayed. We do anticipate further declines in the second quarter as we work through our backlog. Be assured, we'll continue to adjust our cost structure as required.

To date, our cost savings initiatives include:

- Elimination of most travel, entertainment and in-person meetings
- Postponement of other discretionary spending
- Significant reduction of capital expenditures, and
- The reduction of our work-force in both the field and at our Branch Support Center

As Robert noted, we also have the option to close or mothball branches but we'll be appropriately cautious before taking this step. We don't believe this downturn in housing will be as deep or as long as the last one and we want to ensure we'll be able to properly service our customers and play offense as we enter the recovery. As we've often discussed with many of you on the call today, all of TopBuild's branches roll up to a common ERP system. This provides us many advantages as we can track daily activity in every branch, giving us the ability to react quickly to business changes real time.

While we can't predict how long the economic impact of the pandemic will last, we are confident in our long-term strategy and our ability to adjust to changing market conditions.

Jerry Volas

Chief Executive Officer

I am extremely proud of Robert, John and their teams for the work they have done and continue to do every day to manage our Company through these difficult times. We are laser focused on controlling costs and ensuring we can continue to serve our customers where we are safely permitted to do so.

As I said in my opening remarks, we remain bullish on residential and commercial construction for the medium and long term. In the near term, our experienced management team and strong balance sheet will guide us through the current environment. And while we can't predict the timing of the recovery, we are confident TopBuild will be well positioned when it does arrive.