Management's Prepared Remarks
First Quarter Conference Call
May 8, 2018

Tabitha Zane
Vice President, Investor Relations
Thank you and good morning. 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.

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
We are pleased to report that 2018 is off to a very good start, with the completion of three acquisitions, a $400 million bond offering and strong financial results for the quarter. While John Peterson and Robert Buck will follow with further details, I want to speak to a few of the highlights.

Total sales were up 11.3%, with same branch sales increasing 6.7% driven by price and volume gains in both of our operating segments. This tracks in-line with the housing recovery which continues to strengthen.

Adjusted earnings per share was $0.73 compared to $0.46 cents a year ago, an increase of 58.7%. The adjusted EBITDA margin increased by 170 basis points to 9.4%, and the incremental margin was 24.2%. Material cost inflation was significant but was offset by both higher selling prices as well as improved leverage on all other expenses.

On the acquisition front, 2018 has already been a very busy year. In January, we acquired Santa Rosa Insulation and Fireproofing, an insulation installer with $6 million in annual sales and ADO Products, a distributor of insulation accessories with $27 million in annual sales. And just last week, we closed on USI, a leading provider of insulation installation and distribution services to the residential and commercial markets, which generated pro forma annual revenue of approximately $375 million in 2017. All three of these fine companies fit well into our established acquisition criteria; profitable, well managed, solid customer bases in high growth regions and earnings accretive. Also, these acquisitions demonstrate our confidence in the ongoing residential and commercial construction recovery and the ability of the TopBuild business model and management team to generate profitable growth within that environment.

The USI acquisition is transformative from a size perspective as they were the number three player in the industry. This business combination solidifies our position as the number one player with almost $2.3 billion of annual revenue, close to 300 locations across the country and an employee base of approximately 10,000. Cost synergies of $15 million, which we expect to be fully implemented by the end of year two, result in 2017 pro forma adjusted EBITDA of $259 million.

While transformative relative to size, we view the integration itself as low risk. We recognize the integration will be demanding in terms of time and attention to detail, however, the execution risk is mitigated as we are putting together two similar business models with two experienced and outstanding operating teams with very similar company cultures. Both TopBuild and USI are highly motivated to make this integration work, both from a timing and synergy perspective.

Our capital allocation priorities continue to be acquisitions that fit our criteria and then share buybacks with any additional available cash. For the balance of 2018, we expect to limit further acquisitions to smaller tuck-in companies, giving us the time and bandwidth to integrate USI. While we do not view the current net debt to pro forma EBITDA multiple of 2.8 as excessive, we would prefer to allow EBITDA growth and debt repayment to bring that metric down to between 2.0 and 2.5x.

Before turning the call over to John, I want to emphasize that our strategy and unique business model that has served our shareholders so well remains the same. We leverage TruTeam, the largest insulation installer and Service Partners, the largest insulation distributor to create both scale advantage and coverage across a very fragmented builder and contractor community. We continue to believe that the housing recovery is very much on track and expect lagged housing starts to be up by at least mid-single digits for the year. Furthermore, we expect TopBuild's organic sales to compare favorably to that metric

We will also continue to focus on operational efficiency and cost control across the entire Company and strengthen partnerships with our broad base of suppliers. The 2018 acquisitions, particularly the size transformative USI, serve to make this value proposition even more compelling.

John Peterson
Chief Financial Officer
As Jerry noted, we had another strong quarter and a nice start to 2018. At both TruTeam and Service Partners we saw increased selling prices, organic and acquisition volume growth as well as operating margin expansion as we continue to successfully grow the top line, manage inflationary pressures on our labor and material input costs and leverage our established business platforms.

Consolidated revenue increased 11.3% to $491.4 million, with $20.6 million of revenue earned from companies acquired since January 2017. Gross margin declined 40 basis points, a direct result of higher material costs and some labor inefficiencies due to weather. As we have mentioned on previous calls, there can be some lag between a material price increase and a corresponding selling price increase. However, be assured we are getting price increases at both businesses; 2.3% at TruTeam and 5.6% at Service Partners in the first quarter, with performance improving throughout the quarter. The combination of strong demand and tight labor and material supply creates a great operating environment for TopBuild and while there may be quarterly fluctuations, we remain confident in our ability to push the full impact of inflationary input costs through selling price increases.

Adjusted operating profit grew 33.6% to $38.2 million, with a corresponding margin improvement of 130 basis points. This increase was driven by volume leverage, higher selling prices, and lower G&A spending, partially offset by higher material costs, some labor inefficiencies due to weather and higher amortization expenses. First quarter 2018 adjustments totaled $4.3 million, the majority of which were acquisition related expenses.

First quarter adjusted EBITDA was $46.0 million, compared to $33.9 million, a 35.8% increase, and our adjusted EBITDA margin was 9.4%, a 170-basis point improvement from first quarter 2017. Our overall drop-down to adjusted EBITDA margin was 24.2% and 36.9% on a same branch basis.

Incremental EBITDA margin related to our acquisitions was 6.1%. The M&A pull-through rate was lower than our usual and impacted by business seasonality, lag of selling price increases in response to material cost hikes, and volume timing in some of the acquired branches.

First quarter SG&A was $77.1 million, up $2.0 million from first quarter 2017, exclusive of last year's legal settlement. Again, excluding the legal settlement, SG&A as a percent of revenue declined 130 basis points to 15.7%, primarily due to better absorption of fixed costs, lower bonus expense and lower legal expense partially offset by higher amortization expense and higher acquisition related costs.

Adjusted net income for the quarter was $26.2 million, up $9.3 million, or 54.7% from prior year. As a result, EPS on an adjusted basis came in at $0.73 per diluted share, compared to $0.46 a year ago.

CAPEX in the quarter was $11.3 million, or 2.3% of sales, in line with our long-term guidance. Working capital as a percent of last twelve-month sales was 10.0%, compared to 8.8% a year ago. This 120-basis point increase in working capital was primarily the result of higher accounts receivable due to an increase in our commercial business which comes with longer collection terms as well as a buildup of inventory related to strategic inventory purchases in advance of material price increases.

Operating cash flow was $17.6 million for the quarter and cash on the balance sheet was $37.3 million, down $19.2 million from year-end 2017. During the first quarter, $27.2 million of cash was allocated to acquire two companies.

Our effective tax rate was 16.5% for the quarter. This rate is lower than our guidance of 27% primarily due to benefits related to share-based compensation. For the full year, we still expect our normalized tax rate to be approximately 27%.

Turning to the USI acquisition, we're very pleased to have closed on this transaction last week. As Jerry said, this pivotal transaction significantly enhances our footprint, market share and product offerings.

We partially funded the $475 million acquisition with proceeds from our $400 million 5.625%, eight-year Senior Notes offering, which closed on April 25th. We also accessed a $100 million delayed-draw term loan that was available under our existing secured credit facility.

Preliminary purchase accounting for the USI transaction indicates the fair value of intangibles to be in a range of $198 million to $218 million, resulting in annualized amortized expense of between $14 million and $18 million.

During the first full year, May 1, 2018 to May 1, 2019, as we onboard USI, we expect to realize cost synergies of between $5 million and $10 million, with between $2 million and $4 million to be achieved in 2018. By the end of two years, May 2020, we expect run-rate cost savings of at least $15 million. Synergies fall into three buckets: back office efficiencies, branch consolidations and supply chain efficiencies. We estimate the one-time cost to achieve these synergies is in the range of $10 million to $12 million, with roughly $8 million to $10 million to be spent in 2018.

At the close of the USI transaction, taking our net debt on May 1st which was $713.4 million, and using the last 12 months of adjusted EBITDA for TopBuild as of March 31st, and USI pro forma adjusted EBITDA as of year-end 2017, our leverage multiple is 2.8 times and 2.6 times including the $15 million of cost savings synergies I just discussed. We expect to be below 2.5x within the next 12 months.

Moving to 2018 annual guidance, inclusive of USI, our outlook for total revenue is in the range of $2,338 million to $2,398 million and adjusted EBITDA in the range of $263 million to $284 million. We are now assuming residential new housing starts of between 1.25 million and 1.28 million, increasing the low end by 10,000 starts. We've bifurcated guidance between Topbuild and USI this quarter to provide you with a better understanding of how we see each business performing in 2018.

For TopBuild, we've raised the low end of our revenue guidance by $15 million, and by $4 million for adjusted EBITDA, effectively tightening the range for both metrics. Our outlook for TopBuild revenue for 2018 is now between $2,065 million and $2,115 million and for adjusted EBITDA we are targeting a range of $226 million to $242 million.

For the eight months we will own USI in 2018, we are projecting revenue of between $273 million and $283 million and adjusted EBITDA of $37 million to $42 million. Our outlook assumes cost synergies of between $2 million and $4 million this year.

As a reminder, we provide a bridge from reported net income to adjusted EBITDA in a table attached to the press release. This should assist you in refining your models for 2018.

We've also adjusted a few of our long-term assumptions. We are now assuming that for every 50,000 of new housing starts, we will generate an additional $75 million of revenue, up $15M from previous guidance. We've also reduced our projected annual growth rate for our commercial business from 12% to 10%. This business remains a strong focus for our Company and we continue to see good growth opportunities.

In summary, to echo Jerry's earlier remarks, we have made substantial accomplishments over the past two and a half years and our strong results reflect this. Our platform for profitable growth is creating value for all of our stakeholders and we remain focused on continuing to execute on our strategy.

Robert Buck
President and Chief Operating Officer
We are very pleased with our strong first quarter results. Both TruTeam and Service Partners achieved solid revenue growth and expanded operating margins. Upfront, I thank the entire TopBuild team for a great quarter and a strong start to the year and I welcome our new USI team members.

Service Partners sales were up 10.3% in the quarter driven by same branch volume growth, a 5.6% increase in selling prices and revenue from ADO Products which we acquired in January. As we forecasted, selling prices at Service Partners continue to improve as material costs from manufacturers rise. Adjusted operating margin was 9.5%, up 40 basis points from first quarter 2017.

Looking at TruTeam's financial results, first quarter sales increased 13.2%, with same branch contributing 8.0% of that growth and outpacing lagged housing starts. Quarterly results also benefitted from a 2.3% increase in selling prices. Adjusted operating margin was 9.0%, a 160-basis point improvement from first quarter 2017. Although volume leverage was a key contributor towards this margin expansion, results were also favorably impacted by higher selling prices and continued improvement in G&A expenses.

On the material side, there have been two industry announced price increases from the four fiberglass manufacturers thus far in 2018. While the Johns Manville blowing wool manufacturing plant in Indiana is back on line, loosefill is still on allocation. Looking out to the rest of the year, we expect fiberglass capacity will continue to tighten as housing starts increase and other manufacturers look to perform maintenance on existing lines.

As we have mentioned previously, we have relationships with all the major insulation manufacturers and suppliers in all insulation categories and we are seeing increased demand for alternative insulation materials such as spray foam and cellulose.

This dovetails well with our ongoing focus on building our spray foam business which is yielding positive results. Spray foam sales volume increased 21% at TruTeam and 22% at Service Partners, compared to first quarter 2017.

Expanding on pricing, the quarter got off to a rocky start in January given multiple weather events and extreme temperatures in certain parts of the country. Both labor and sales productivity suffered in January. As the weather improved, we saw productivity and selling prices make gains in all areas. By late February, early March, our performance had strengthened considerably and we ended the quarter with great traction on both selling prices and productivity. Overall, we expect operating margins to expand for the full year in both segments as our teams continue to successfully manage selling price increases, labor productivity, logistics and material cost increases.

Turning to the USI acquisition, we are focused on successfully integrating our Teams to create a seamless transition for all of our employees, customers and suppliers. Our top execution priorities in the short term include systems and supply chain integration. While we've identified $15 million in cost synergies, we are confident additional savings will be achieved. We believe our success and experience from integrating the acquisitions we've made over the past two years will serve us well in the USI integration.

We've set up integration teams with co-leaders from both companies that cover all key functional areas of the business. They have already met and held numerous workshops to better understand business processes, key resources, and branch interactions. The teams are also looking at best practices across both organizations as is our entire leadership group.

Over the next eight months we plan to:

- Move every USI branch onto our supply chain
- Consolidate the St. Paul office, where USI was headquartered, to our Daytona Beach Branch Support Center
- Eliminate redundant corporate positions
- Streamline back office operations
- Start to optimize branch operations and
- Identify cross-selling opportunities

There is much work to be done but as Jerry pointed out, we are putting together two similar business models with two experienced and outstanding operating teams. Culturally we are a good fit and everybody is excited and motivated to successfully integrate our two organizations.

Prior to turning the call back to Jerry, I want to thank our over 10,000 employees across the country for their hard work, dedication and focus on working safely to deliver great value and service to our customers every day.

Jerry Volas
Chief Executive Officer
Thanks Robert. We are very confident as we look to the balance of 2018 and beyond. The housing recovery is on track, our business model is solid and we have demonstrated the execution required to drive profitable growth.