Management's Prepared Remarks
Second Quarter Conference Call
August 1, 2019

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. 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 another solid quarter, again demonstrating the strength of our uniquely diversified business model, and our focus on profitable growth.

Before reviewing our second quarter results, I want to update you regarding our view of the U.S. housing industry. On our last call, with mortgage rates moving lower and builders positively reacting to the demand for more affordable housing, we expressed optimism that housing starts would begin climbing higher as the year progressed. Our outlook at that time was further reinforced by a more favorable trend for permits, positive conversations with builders and a healthy economy driving solid wage and job growth.

At this point in time, starts have not accelerated to the degree that we and many others had been anticipating. However, for all the aforementioned reasons, we do expect starts to strengthen further as we move through the year.

Long term, we remain bullish on residential new construction. The fundamentals, such as household formations and limited housing supply, point towards continued growth in new home construction activity. Although the slope of growth may be unpredictable and could be choppy in the near term, we are confident starts will improve and continue towards the 50-year historical average of 1.4 million to 1.5 million per year.

Moving to TopBuild's financial results, we again reported an excellent quarter as we continue to execute well on our strategy, which includes:

- Outpacing lagged housing starts through market share gains and strong operational performance
- Growing market share in the commercial space and,
- Converting our top line growth to the bottom line through a focus on improving operational efficiency and leveraging our existing branch footprint and back office operations.

In the second quarter, total sales were up 8.9% compared to lagged housing starts that were down 8.0%. Our commercial business again performed extremely well and we saw solid residential new construction activity at TruTeam. While John will follow with more specifics, I want to emphasize that we are particularly pleased with the expansion of our adjusted operating and EBITDA margins of 210 basis points and 260 basis points, respectively, which drove adjusted net income to $1.43 per share, an increase of almost 40%. Our internal focus on share gains and operational efficiency continues to pay off.

Turning to capital allocation, in mid-July we completed the acquisition of Viking Insulation. This is a well-established, well-managed and profitable company based in Burbank, California that focuses on fiberglass installation for residential and light commercial projects. For the trailing twelve months ended March 31, 2019, Viking generated approximately $9.0 million of revenue. Our cost-saving synergies will add to the financial performance of this excellent addition to our national footprint.

Looking forward, our seasoned M&A team continues to work a robust pipeline of prospects, primarily core insulation companies, and we expect to close on a number of these opportunities this year.

In addition to acquisitions, our capital allocation strategy includes share repurchases and in the second quarter this included almost 197,000 shares at an average per share price of $75.57.

Before turning the call over to John, I want to emphasize that our national scale gives us a significant competitive advantage, both from a material and a labor standpoint. Just as important, our diversified business model with both installation and distribution into both the residential and commercial markets gives us the ability to perform well in any environment. Our year-to-date results clearly demonstrate the value of this business model.

John Peterson
Chief Financial Officer

In the second quarter consolidated revenue increased 8.9% to $660.1 million, primarily driven by increased selling prices at both TruTeam and Service Partners and one additional month of acquisition revenue from USI. Revenue for the first half of 2019 rose 16.6% to $1,279 million, including $124.9 million of revenue from companies acquired since January 2018.

Gross margin increased 260 basis points in the second quarter to 26.5%, and for the first half of 2019 expanded 250 basis points to 25.8%.

Adjusted operating profit in the second quarter grew 32.2% to $76.4 million, with a corresponding margin improvement of 210 basis points. For the first six months, adjusted operating profit increased 41.2% to $135.5 million with a corresponding margin improvement of 190 basis points. Both gross margin and operating margin improvements were driven by higher selling prices, higher growth of commercial sales, operational efficiencies and synergies from USI, partially offset by higher material costs.

Adjusted EBITDA for the second quarter was $94.0 million, compared to $70.6 million in 2018, a 33.2% increase, and our adjusted EBITDA margin improved 260 basis points to 14.2%. On a same branch basis, adjusted EBITDA was $87.7 million, a 24.3% increase, and our same branch EBITDA margin was 14.0%. In the second quarter, our drop-down to adjusted EBITDA margin was 43.3% in total.

For the first six months of 2019, adjusted EBITDA grew 44.6% to $168.6 million, and adjusted EBITDA margin was 13.2%, a 260-basis point improvement over first half 2018. Our drop-down to adjusted EBITDA margin in the first half was 28.6% in total.

Second quarter SG&A as a percent of revenue was 15.0% compared to 16.7% in the second quarter of 2018 and 16.0% last quarter. The year-over-year decrease was the result of lower acquisition and closure costs related to USI.

Adjusted income for the second quarter was $49.5 million, or $1.43 per diluted share compared to $36.9 million or $1.03 per diluted share. Second quarter and first six-month 2019 adjustments were $393,000 and $2.9 million, respectively, primarily tied to the acquisition and integration of USI.

Our effective tax rate was 22.2% for the second quarter due to some discrete items captured in the quarter. For long term planning purposes, we still guide to a normalized tax rate of approximately 26.5% which is reflected in our adjusted EPS number of $1.43 per diluted share as compared to our reported EPS of $1.51 per diluted share.

For the six months of 2019, adjusted income was $86.1 million, or $2.49 per diluted share, compared to $63.1 million, or $1.76 per diluted share.

Interest expense in the second quarter 2019 increased from $7.3 million to $9.6 million versus prior year, and for the first half increased from $9.6 million to $19.2 million, primarily related to the funding of the USI acquisition in the second quarter last year.

CAPEX for the first six months of the year was $22.0 million, 1.7% of sales, slightly below our targeted long-term range of 2% to 2.5%.

Working capital as a percent of sales for the trailing twelve months was 11.9% versus 11.1% a year ago. This increase was due to a number of factors including the higher mix of installation business from a year ago, strong growth in heavy commercial which has longer receivable terms, and the impact of selling price increases.

We ended the second quarter with net leverage of 1.8 times, using trailing 12 months adjusted EBITDA, which is slightly below our targeted range of 2 to 2.5 times. Total liquidity at June 30, 2019 was $328.9 million, including cash of $141.8 million and accessible revolver of $187.1 million. Operating cash flow was $96.3 million for the six months ended June 30.

Moving to annual guidance, we've lowered our outlook for housing starts for 2019 to a range of 1.23 million to 1.27 million. Our previous outlook was 1.26 to 1.3 million starts. While this reduction is in line with weaker than anticipated starts through the first half of 2019, we expect to see some moderate growth in the second half of this year. As Jerry noted, we remain bullish regarding the long-term health of the residential and commercial markets we serve.

Accordingly, we've lowered the high end of our outlook for total revenue by $30 million to $2,640 million with the low end remaining the same at $2,610 million. At the same time, based upon our strong first half performance, we've increased our adjusted EBITDA outlook, raising the low end of our previous guidance by $15 million to $345 million and the high end by $5 million to $355 million.

Robert Buck
President and Chief Operating Officer
To echo Jerry and John's remarks, TopBuild is performing very well. Our quarterly and six-month results demonstrate our success in driving profitable growth by focusing on market share gains and operational excellence.

Starting with TruTeam, second quarter sales increased 12.5%, driven by selling price increases and one additional month of acquisition revenue from USI. We handily beat lagged housing starts which, as Jerry mentioned, were down 8.0%. TruTeam's adjusted operating margin improved 260 basis points from a year ago to 14.2%. This was driven by great operational efficiencies, USI synergies, residential and commercial sales growth and increased selling prices to offset material cost increases.

Service Partners' sales were up 3.8%, driven by a 5.1% increase in selling prices, and one month of acquisition revenue from USI, partially offset by a volume decline of 2.6%, primarily related to the exit of some low margin business late last year. Adjusted operating margin was 9.9%, up 20 basis points from second quarter 2018.

On the residential new construction side, our crews remain busy. While we recognize a portion of our second quarter growth is attributable to builders playing catch up from the backlog, we also believe we are growing market share.

For the fourth consecutive quarter, we posted extremely strong growth in our commercial business. In the second quarter it was up 22.1% on a same branch basis. Year-to-date, commercial has contributed 22.6% of TopBuild's revenue. As we have consistently mentioned, this is a great business for TopBuild and we expect continued strong growth. The majority of our installation branches do light commercial work and we have 18 branches that just focus on heavy commercial jobs. Most of our distribution branches sell and distribute commercial products as well.

While we are currently working on many large projects across the country, some more notable ones include La Guardia airport, the Comcast building in Philadelphia, the Raider's stadium in Las Vegas, and the World Trade Center Development.

Looking ahead, our backlog remains robust and we are bidding projects well into 2020 and 2021. We have enhanced our leadership team in this area and, with only a 9 to 10% share of this $5 billion plus market, we have plenty of room to grow.

We are seeing excess fiberglass capacity in the market that has found its way into the distribution channel and competition has heated up. We continue to work on a positive mix of business to support our distribution margins.

We were pleased with both Knauf and Johns Manville's announcements that they will be bringing on new loosefill capacity in the next 18-24 months. This speaks to their long-term confidence in the health of the U.S. housing market and we agree with their optimism. As starts continue their march towards the historical annual average of 1.4 million to 1.5 million, we wouldn't be surprised to see additional capacity investments.

As mentioned by both Jerry and John, we do expect housing starts to pick up speed as we move through the remainder of the year. In our conversations with builders they are optimistic 2019 will end up being a solid year for the housing industry. We believe weather may have hampered this acceleration thus far in 2019 but job growth is strong, interest rates are low and a lack of inventory remains an issue.

We do believe our financial results demonstrate the strength of our uniquely diversified business model, consisting of:

- A nationwide footprint that gives us scale and efficiency
- Residential construction business balanced with an accretive and growing Commercial business
- Two ways to reach a fragmented industry…through installation and distribution
- As well as an expertise in all insulation related solutions

In addition to our model, our team manages the business with a constant mindset of driving improvements and achieving operational excellence. We still see opportunities operationally to continue our track record of producing improved financial results. We have the most talented team of operators in the field and a dedicated and experienced group at our branch support center. Our entire team remains focused on delivering strong results and creating shareholder value, in every operating environment.

We are driving improvements throughout the business and executing extremely well at the local level, and this focus on execution will continue.

As always, I thank our entire TopBuild team for their hard work, energy, and unyielding focus on delivering continued great customer service and strong bottom line results while operating safely every day.

Jerry Volas
Chief Executive Officer
Before opening the call up for questions, I want to note that June 30th marked the end of our fourth year as an independent public company.

In just 48 months we have significantly transformed TopBuild, successfully executing on a strategy of profitable growth in all areas of our business. Since the second quarter of 2015, our revenue has increased almost 64% and our adjusted EBITDA margin has improved 840 basis points. Our commercial business has grown from approximately 16% of total revenue to over 22% today. We estimate we touch over 40% of all residential new home starts versus 30% four years ago. Our capital allocation plan has resulted in 11 acquisitions that are contributing almost $510 million of annual revenue and the repurchase of $246 million of our common stock at an average per share price of $54.10.