



**Management's Prepared Remarks
Distribution International Acquisition Announcement
September 8, 2021**

**Tabitha Zane
Vice President, Investor Relations**

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

We have posted a PowerPoint presentation on our website at www.topbuild.com that will be discussed in conjunction with management's prepared remarks. These prepared remarks will be posted at the conclusion of today's call.

Turning to our Safe Harbor statement on **slide 2**, 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.

Please turn to **slide 3**.

**Robert Buck
President and Chief Executive Officer**

It is an exciting day for TopBuild and all of our stakeholders.

A few hours ago, we announced that TopBuild has entered into a definitive agreement to acquire Distribution International, or DI as we will refer to the company on today's call, from Advent International in an all cash transaction valued at \$1 billion. This significant acquisition provides us with a direct entry and leadership position into a new adjacency and growth platform, the highly attractive \$5 billion mechanical insulation market.

DI supports our profitable growth strategy and is complementary to our existing business. When this transaction closes, which we expect will be sometime in early fourth quarter of 2021, TopBuild will be the leading supplier of energy saving insulation solutions in all three critical and expanding end markets: residential, commercial and industrial. We anticipate \$35 to \$40 million of run-rate synergies and expect the deal to be accretive to GAAP EPS in the first full year after close.

The transaction, which has been approved by our Board of Directors, is subject to customary closing conditions, including expiration or termination of the waiting period during the regulatory pre-merger review.

As you can see on **slide 4**, DI presents a compelling growth opportunity. In addition to being the specialty distribution leader in the \$5 billion mechanical insulation market, a new adjacency for

TopBuild, DI also enjoys a recurring revenue stream from its Maintenance, Repair and Operations, or MRO business, and distributes specialty insulation and related accessory products to multiple industries that TopBuild doesn't serve today. Part of DI's core competency is its industry leading fabrication capabilities, which I will discuss a little later. We are also excited about the strong M&A opportunities readily apparent in this highly fragmented industry. In fact, over the past six years, DI has successfully completed 11 acquisitions.

Equally as important, the DI management team is experienced and talented and they are excited about bringing their expertise to TopBuild. Having spent a considerable amount of time with Steve Margolius, DI's President and CEO, as well as other members of DI's leadership team over the past few weeks, it is clear that our corporate values and cultures are very similar, with a strong emphasis on people, safety, integrity, and a laser focus on execution.

Moving to **slide 5**, TopBuild has built a strong foundation for growth which has prepared us for this next phase of expansion in our core insulation business and related product adjacencies.

Since the spin-off in June 2015, driving operational excellence and great execution throughout our organization has been and remains one of our most important areas of focus. Labor and sales productivity have been significantly enhanced, we've optimized our supply chain and leveraged best practices throughout the Company. Through a combination of organic growth and acquisitions, looking at the trailing twelve months ended June 30, 2021, compared to the same period of 2015, revenue has almost doubled, adjusted EBITDA has increased 412%, and our adjusted EBITDA margin has expanded from 6.4% to 16.9%.

As you can see on **slide 6**, the acquisition of DI further enhances our growth opportunities within our core business, insulation, and adds a new platform for adjacent growth. Between TruTeam, Service Partners, and DI, we will be participating in three different insulation related end-markets with a total combined market opportunity of over \$15 billion and adding over 13,000 new customers. As this chart shows, we expect to continue to be active on the acquisition front in all areas of our business; residential, commercial and, when DI closes, industrial. All three end-markets are highly fragmented and present great opportunities to put the strong free cash flow that our business generates to work.

John Peterson
Chief Financial Officer

Beginning on **slide 7**, I want to briefly discuss both the economic and financial impact of the transaction. As Robert mentioned earlier, we have agreed to acquire DI in an all-cash transaction valued at \$1 billion on a cash-free, debt-free basis. Using the purchase price of \$1 billion, less approximately \$30 million of tax attributes that come along with the acquisition, the transaction's LTM multiple on a pre-synergy basis is 12.9 times and 8.6 times post full run-rate synergies. We'll talk about synergies in more detail in an upcoming slide. In addition, the acquisition is expected to be accretive to GAAP EPS and cash flow positive in the first full year after closing

We intend to fund this transaction with cash on hand and long-term debt. The current capital raising environment is very attractive and we have multiple options available to us including the issuance of unsecured bonds, secured bank (term) debt and drawings under our existing secured revolving credit facility.

Once the transaction is completed, our net debt to pro-forma adjusted EBITDA as of June 30, 2021, implies a leverage ratio of approximately 2.5 times, within our previously stated comfort

zone. We would expect to de-lever within our historical run rate of one to two times within 12 months.

To give you a little bit more background on DI as detailed on **slide 8**, the company has a 35-year operating history and is headquartered in Houston. They are currently owned by Advent International, a private equity firm. Like TopBuild, DI has strong and longstanding relationships with major insulation manufacturers and, also like TopBuild, is national in scope, with 101 locations, 84 in the U.S. and 17 in Canada, giving us an entry into a new and growing market. Like TopBuild, the company has been acquisitive and brings with it a strong business development team and a robust pipeline of acquisition candidates.

You can see from the financial profile that DI did experience a decline in revenue in 2020 primarily due to the impact of the COVID-19 pandemic. Commercial and industrial construction slowed considerably during this period, in large part due to social distancing protocols enforced on job sites which blunted product demand. In addition, the industrial end-market saw some customers reassess and postpone plant projects and, in some cases, defer some MRO spending as a cautionary step. Since that time, DI has recovered nicely, with both strong revenue growth and EBITDA margin expansion which we expect to continue.

Breaking down DI's revenue mix, 45% is generated from the distribution of core insulation products and an additional 15% from the distribution of custom insulation materials. Insulation related accessories represent another 20% of sales and metal building insulation the remaining 20%.

Slide 9 illustrates the diversity of DI's customer base, 45% of which is industrial and includes power and chemical plants, companies involved in the oil and gas industry and companies involved in the construction and maintenance of vessels in the marine industry, none of which TopBuild currently services.

In addition to acquiring a new customer base, DI, through its MRO business, offers a new recurring revenue stream for TopBuild driven by a mix of new and fabricated products with short replacement cycles. This accounts for about half the company's overall revenue.

Robert Buck

President and Chief Executive Officer

Looking at **slide 10**, distribution is a critical part of the insulation value chain and DI plays a significant role as a specialty distributor in the industrial and commercial end-markets, offering a full solution of products and fabrication capabilities. Its customer profile consists of mechanical, commercial and MBI contractors. Target customers also include designers or installers of systems for large industrial or commercial projects and buildings, either for new construction or for the previously mentioned maintenance and repair operations business. In addition, energy code changes and emission reduction targets, as well as the expanding focus on ESG are providing additional opportunities for growth.

When we undertook our comprehensive due diligence of DI, we closely examined why DI is the leading specialty distributor in the industrial and commercial insulation end-markets. What did it offer that significantly enhanced its value and distinguished its position among its competitors?

It soon became clear that DI is the most successful specialty distributor of mechanical insulation solutions because of its:

- Comprehensive footprint,
- Extensive industry expertise,
- Broad product offering,
- Fabrication capabilities and services,
- Professional and knowledgeable sales team,
- Outstanding customer service, and
- Industry leading e-commerce options.

Moving to **slide 11**, I'll pick up with a few more details of the types of products DI distributes. DI has relationships with all the leading manufacturers of insulation products. About 60% of sales are related to core and custom insulation products applicable to a wide variety of industries. These products range from fiberglass and mineral wool to ceramic fiber, aerogel and foamglass to name just a few. DI also custom fabricates a number of the products which I will discuss in a minute. The remaining 40% of sales is generated equally between metal building insulation and related insulation accessories.

As I just mentioned, DI provides mechanical insulation fabrication services to customers from 28 strategically located sites across the U.S. and Canada. These services primarily involve the cutting, kitting, packaging and shipping of custom products.

Unlike the commercial and residential industries, custom fabrication is essential to the insulation value chain in the industrial and commercial end-markets. Manufacturers rely on DI's fabrication and distribution capabilities to effectively distribute their products to end-users, and installers depend on DI's dependable, high-quality fabrication capabilities to complete their projects on time. DI has established an outstanding reputation in this area and the products it fabricates typically generate higher margins.

The map on **slide 12** will give you a good visual of how our footprint will be enhanced, especially in the markets we've identified as high growth where we have very little geographic overlap. There will be a big focus on leveraging TopBuild's scale, operational improvements and best practices across the supply chain and all back office operations, which are part of the \$35 to \$40 million of run-rate cost savings we expect to achieve. As it stands today, at the close of this transaction, TopBuild will add over 100 branches, including 84 in the U.S. and 17 in Canada, a new geographic expansion for us.

John Peterson
Chief Financial Officer

As outlined in today's press release and on **slide 13**, we expect to achieve synergies of between \$35 and \$40 million within 24 months after the close of this transaction, which should occur sometime early in the fourth quarter of this year. Breaking this out further, by the end of the first full year, we expect run-rate cost savings of between \$17 and \$20 million. The synergies will be from a combination of supply chain savings and back-office and field efficiencies as well as the leveraging of technologies and best practices across the entire organization.

Also, we anticipate updating both our annual guidance and long-term modeling assumptions with the addition of DI on our 3rd quarter earnings call in early November.

I want to reiterate how strongly we believe this transaction provides significant value for our shareholders and is a great use of capital for TopBuild. We're acquiring a well-run company, complementary to TopBuild's business, and entering a new insulation end market, industrial, which we believe presents an attractive platform for growth. And, as you've seen from our strong Service Partners results, we understand specialty distribution and are effective at leveraging our core capabilities to deliver strong returns on invested capital.

DI is expected to be accretive to GAAP EPS in the 12-month period after close, enhances our scale, and allows for further efficiencies in our supply chain. Finally, financing the transaction as currently planned, will take leverage to a very manageable level that we'd expect to de-lever from over time. We're very excited to execute this transaction and deliver strong returns to our shareholders.

Robert Buck
President and Chief Executive Officer

Moving to **slide 14**, those who know the TopBuild story recognize that M&A has been and remains our number one capital allocation priority. Since August 2016, we've completed 26 acquisitions which are contributing over \$820 million of annual revenue.

We have developed a disciplined approach to our acquisition strategy and put together a dedicated team to source and integrate deals. We are very confident in stating that acquisitions, and specifically the integration of acquisitions onto our systems and platforms, is a core competency at TopBuild.

We've also been very clear regarding the types of acquisitions we seek:

- We look for leading companies operating in our core business of insulation or related adjacencies.
- They must be strategic in their business approach and provide value accretive growth opportunities.
- A solid customer base is important as is an engaged, talented management team.
- And finally, especially in the case of larger acquisitions, a corporate culture complementary to ours is key.

DI checks all of these boxes and will clearly be a great addition to TopBuild.

Slide 15 illustrates an additional benefit of this transaction. It is another important step for TopBuild as a leader in supplying energy saving insulation solutions. Insulation is critical for the reduction of a company's carbon footprint and we will be expanding our energy efficiency solutions to a third and extremely important end-market. We also believe energy codes will continue to strengthen, providing additional growth opportunities for all areas of TopBuild's business.

Looking within our own organization, be assured that TopBuild is committed to expanding its initiatives, particularly in the ESG targeted areas of environmental sustainability and human capital. We are committed to operating in a manner which conserves our natural resources for future generations. We also recognize that our people are the foundation of our success and we strive to foster a diverse and inclusive culture, one of collaboration, support and innovation where every voice is welcome, heard and respected.

As **slide 16** lays out, the compelling acquisition of DI

- Provides entry into a high-value mechanical insulation market, a \$5B expansion opportunity;
- Expands our footprint and increases our penetration and capabilities within key markets, including recurring revenue from the MRO business;
- Adds industry leading fabrication capabilities;
- Positions TopBuild as the leading supplier of energy saving insulation solutions in three critical and expanding end-markets: residential, commercial and industrial;
- Is accretive to GAAP EPS and cash flow positive in the first full year after close;
- Enhances our already robust M&A pipeline with new roll-up opportunities in the fragmented industrial insulation market;
- Aligns with our strategy and our TopBuild culture;
- And brings strong talent on board who will help us to drive future growth and create value.

While we have much to do from an integration standpoint, we are already in the planning stages so that when the deal closes we can hit the ground running. I assure you the leadership teams at both companies are committed to helping ensure a smooth transition and we are confident we can achieve the synergies we've published within the timeframe outlined. We will leverage our track record of strong execution to make this combination a great success.

In summary, with this strategic acquisition, TopBuild will have a leadership position in three key insulation end markets with an expanded platform for growth. We see this acquisition as a winning combination that will drive value for our stakeholders and our successful track record supports this confidence.