



**Management's Prepared Remarks
Second Quarter Conference Call
August 7, 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 another strong quarter. While John Peterson and Robert Buck will follow with further details, I will speak to a few of the highlights. Second quarter sales were up 27.7%, with same branch sales, driven by price and volume gains, contributing 10.5% of this growth. For the first half of the year, total sales increased 19.8%, 8.6% on a same branch basis, outpacing lagged housing starts.

Adjusted earnings per share for the second quarter was \$1.03 compared to \$0.67 a year ago. Adjusted EBITDA margin improved 140 basis points to 11.6% and the overall incremental EBITDA margin was 17%, 23.6% for same branch. We again saw higher material costs in the quarter with a second fiberglass cost increase going into effect in April. The good news is we achieved higher selling prices in the quarter, allowing us to pass through a sizable portion of these increased costs. Our continued focus on operational efficiency enabled us to offset the remainder of these higher costs and more, leading to a 60-basis point improvement in our operating margin.

Going forward, we are confident that we will fully offset material cost inflation with higher selling prices. We have, over time, clearly demonstrated our ability to pass cost increases through with selling price adjustments. It is a process of striking the optimal balance and timing, market by market, between price and volume. This enables the strong leveraging of fixed costs, an important lever in our overall margin improvement. John and Robert will both add some additional context in their remarks.

June 30 marked our third year as an independent public company and I couldn't be prouder of what our team has accomplished in just 36 months. Today, compared to three years ago, Topbuild is a much more efficient and profitable operation. Our labor and sales forces are significantly more productive, we've rationalized our back-office operations, we've closed



unprofitable branches, streamlined most of our processes and procedures and enhanced our management team. This focus on operational efficiency is one of the key factors in the expansion of our adjusted operating margins. Comparing second quarter 2015 to second quarter 2018, TruTeam's adjusted operating margin has grown from 5.1% to 11.6%, and Service Partners adjusted operating margin expanded from 7.7% to 9.7%.

We also successfully implemented a capital allocation program, driving value for our shareholders. We completed ten acquisitions that are expected to contribute almost \$500 million of annual revenue and repurchased almost \$162 million of our common stock.

In summary, our top-line strength and strong margin expansion over the past three years demonstrate our continuing focus on profitable growth.

Our latest transformation, just three months ago, was the acquisition of the number three player in our industry, USI, creating a best-in-class organization with a strong platform for growth and continued profitability. The USI integration is right on track, both from the standpoint of projected cost savings synergies as well as the blending of the outstanding USI team into the TopBuild organization. We now estimate that between TruTeam and Service Partners, we have a 40%+ market share. No other installer or distributor can match our size and scale, giving us a significant competitive advantage.

Acquisitions remain our number one choice for capital allocation and we continue to seek companies that

- Enhance our customer value proposition
- Are profitable, well managed businesses
- Have solid customer bases
- Augment our product mix and
- Provide experienced leaders and qualified labor.

We remain bullish on new housing construction, believing it will expand for several more years. Job growth remains solid, housing inventory is extremely tight, interest rates are still relatively low and household formations are increasing. No surprise that there has always been a close correlation between household formations and eventual housing starts. Census Bureau data on household formations has been very strong for the last couple of quarters, including the most recent June report. Given limited resale inventory, new homes represent the only choice in town for many consumers looking to buy a house. This external environment shapes up as a big positive for TopBuild.



John Peterson
Chief Financial Officer

Consolidated revenue increased 27.7% to \$606.0 million, driven by increased sales volume and selling price growth at both TruTeam and Service Partners, and \$81.9 million of revenue from companies acquired since April 2017. Revenue for the first half of 2018 rose 19.8% to \$1,097 million, including \$102.5 million of revenue from companies acquired since January 2017.

Adjusted gross margin declined 60 basis points in the second quarter to 24.0%, and for the first half of 2018 declined 50 basis points to 23.3%, a direct result of higher material costs as well as higher insurance expenses, partially offset by volume leverage and improved selling prices. We realized selling price increases of 3.3% at TruTeam and 7.7% at Service Partners, an improvement from first quarter where price increases were 2.3% and 5.6%, respectively. The second quarter gross profit compression was largely the result of a delayed full recovery of second quarter material cost increases. That said, we're confident we more than covered the first quarter material increases and expect full recovery of second quarter material cost increases sometime in the third quarter.

As I explained last quarter, while at times there can be a lag between a material cost increase and a corresponding selling price increase, we remain confident in our ability to push the full impact of inflationary input costs through selling price increases.

Adjusted operating profit grew 37.0% to \$57.8 million, with a corresponding margin improvement of 60 basis points. Operating margin improvements were driven by volume leverage, higher selling prices and strong SG&A cost control; partially offset by higher material and insurance costs as well as higher amortization costs driven primarily from the USI acquisition. With the acquisition of USI on May 1, our amortized intangible assets have increased by \$165.9 million, resulting in additional annualized amortized expense of approximately \$15.0 million. Second quarter 2018 adjustments totaled \$14.1 million, including \$9.8 million related to acquisition expenses and \$4.3 million of rationalization charges, the majority of which were related to the USI transaction.

Adjusted EBITDA for the second quarter was \$70.6 million, compared to \$48.2 million in 2017, a 46.4% increase, and our EBITDA margin improved 140 basis points to 11.6%. On a same branch basis, adjusted EBITDA was \$59.9 million compared to \$45.6 million a year ago, a 31.4% increase, and our same branch EBITDA margin was 11.4%, versus 10.1% second quarter 2017.

In the second quarter, our drop-down to adjusted EBITDA margin was 17.0% in total and 23.6% on a same branch basis.

For the first six months of 2018, adjusted EBITDA grew 42.0% to \$116.6 million, and adjusted EBITDA margin was 10.6%, a 160-basis point improvement over first half 2017. Our drop-down to adjusted EBITDA margin in the first half was 19.0% in total and 28.6% on a same branch basis.

Second quarter SG&A as a percent of revenue was 16.7% compared to 16.0% in the second quarter of 2017 and 15.7% last quarter. The year-over-year increase is the result of higher acquisition related costs, higher amortization expense and transition costs related to the USI acquisition, partially offset by lower legal expense and lower bad debt expense. Stripping out rationalization and M&A costs from both years, SG&A as a percent of revenue would have been 14.4% in 2Q '18 versus 15.7% 2Q 2017.



Adjusted income for the second quarter was \$36.9 million, or \$1.03 per diluted share compared to \$25.0 million or \$0.67 per diluted share. For the six months of 2018, adjusted income was \$63.1 million, or \$1.76 per diluted share, compared to \$42.0 million, or \$1.12 per diluted share.

Working capital as a percent of sales for the trailing twelve months was 11.1% versus 8.8% a year ago. This increase was primarily due to the acquisition of USI, whose accounts payable terms are notably less favorable than TopBuild's as well as to a strategic buildup of inventory at Service Partners. Our team is working with suppliers to align USI's terms with ours, and as these terms are adjusted, working capital as a percent of revenue is expected to decline.

CAPEX for the first six months of the year was \$27.5 million, 2.5% of sales, within our targeted long-term range. As a reminder, we are now purchasing versus leasing our vehicles.

We finished the quarter with total liquidity of \$256.4 million, including cash of \$65.7 million and accessible revolver of \$190.7 million. Operating cash flow was \$41.4 million for the quarter.

Our effective tax rate was 25.5% for the second quarter. This rate is lower than our guidance of 27% primarily due to some small discrete items captured in the quarter. For long term planning purposes, we still guide to a normalized tax rate of approximately 27%.

Moving to slide 11, while Robert will talk about where we are in the integration process, from a financial standpoint we are extremely pleased with USI's initial results. Of the \$81.9 million of acquisition revenue this quarter, USI contributed \$68.7 million. In addition, incremental EBITDA margin from acquisitions was a strong 13.0%, of which USI was the largest contributor.

We remain very confident we will realize at least \$15 million in cost-saving synergies, including \$2 million to \$4 million this year. Synergies fall into three buckets: back office efficiencies, branch optimization 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. Through the second quarter we have recorded approximately \$5 million of these one-time costs.

We funded the \$475M acquisition of USI with proceeds from our \$400 million 5.625%, eight-year Senior Notes offering and from a \$100 million delayed-draw term loan that was available under our existing secured credit facility. As a result, our proforma net leverage multiple at the end of the second quarter was a conservative 2.55 times and, if you include the \$15 million of cost savings synergies I just discussed, our leverage multiple would be 2.4 times, within our targeted net leverage multiple range of 2.0 to 2.5 times.

Moving to 2018 annual guidance and inclusive of USI, we've raised the low end of our outlook for total revenue by \$20 million to \$2,358 million with the high end remaining the same at \$2,398 million. The low end of the range for adjusted EBITDA has been raised by \$6 million to \$269 million with the high end remaining the same at \$284 million. We are now assuming residential new housing starts of between 1.26 million and 1.28 million, increasing the low end by 10,000 starts. Our outlook assumes USI cost saving synergies of between \$2 million and \$4 million this year.



Robert Buck
President and Chief Operating Officer

We are very pleased with our second quarter results. TruTeam and Service Partners achieved solid revenue growth and both businesses did a good job managing rising material costs and achieving selling price increases. Profitable growth continues to be our primary focus and our teams in the field are doing a great job of keeping this goal in mind as our results clearly demonstrate.

Looking at TruTeam's financial results, second quarter sales increased 33.8% with a big boost from USI's installation branches. Same branch sales are up 11.6%, driven by strong volume growth of 8.3%, which outpaced lagged housing starts. Quarterly results also benefitted from a 3.3% increase in selling prices.

Despite increases in material costs and amortization expense, adjusted TruTeam operating margin improved to 11.6%, a 60-basis point improvement from second quarter 2017. Volume leverage was a key contributor towards this margin expansion and results were also favorably impacted by higher selling prices and great operational execution.

At Service Partners, sales were up 17.5% in the quarter, primarily driven by a 7.7% increase in selling prices, two months of revenue from USI's distribution branches and revenue from ADO Products acquired this past January. As expected, selling prices at Service Partners continue to improve as material costs from manufacturers rise. The local Service Partners teams have done a really good job of managing the fiberglass material allocation while still providing great customer service. Adjusted operating margin was 9.7%, flat from second quarter 2017, but up sequentially from Q1.

Across the country our teams in both segments have done a nice job recovering the Q1 material cost increases and we currently have great traction recovering the Q2 material cost increases. On our first quarter call we noted that by late February, early March we had begun gaining traction on selling prices. The second cost increase took effect in April and, similar to the first quarter, by late May, early June we again gained good traction passing along these cost increases. A clear indication of this success is the sequential improvement in price by both businesses.

In June, the fiberglass manufacturers announced their third cost increase of 2018 due to take effect late August/early September. The material increase is a function of both tight supply and increasing freight costs. Again, we are confident in our continued and proven execution to recover any material cost increases.

As mentioned on prior calls, we are agnostic in terms of which insulation our customers select. In some cases, the rising cost of fiberglass has made cellulose and spray foam a good option for our customers. We continue to see spray foam gain share and our volumes have increased at both businesses this year...up 34% year to date at TruTeam and up 29.7% year to date at Service Partners.



Labor continues to be top of mind in the industry. Labor remains tight, but at TopBuild we continue to improve productivity and find new ways to recruit qualified installers. We gained an additional 1,200 installers through the acquisition of USI and we are able to share labor, trucks and inventory across our branches, a significant benefit for our customers.

Turning to the USI acquisition the results of the business and integration process are proceeding better than expected and our teams are very aligned. With similar corporate cultures and a very strong bias by the entire team to make this transition as smooth as possible, we are hitting our milestones and executing very well. The first wave of USI branch locations to integrate onto our Oracle system went live in June and subsequent waves are happening every month through October. We are also rapidly transferring responsibilities from St. Paul, USI's former corporate headquarters, to our Daytona Beach Branch Support Center including the areas of Finance, HR, IT and Supply Chain.

We have also started to evaluate and identify cross selling opportunities and believe there is good potential for incremental revenue. This includes USI's glass and window business which generates approximately \$90 million of annual revenue with healthy operating margins.

And finally, to reiterate what I outlined on our last call in early May, by year-end 2018 we will have:

- Moved all core branches onto our operating systems
- Closed the St. Paul office and moved all corporate functions to our Daytona Beach Branch Support Center
- Eliminated redundant corporate functions
- Streamlined back office operations
- Started to optimize branch operations and
- Started leveraging our supply chain

As John mentioned, we expect to realize \$2 million to \$4 million of synergies this year and we are confident we will exceed the \$15 million of cost-savings synergies within two years of close.

In summary, our team is focused on profitable growth through a balance of volume and price. We are driving operational improvements, executing extremely well at the local level and providing outstanding customer service.

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

Jerry Volas
Chief Executive Officer

As you can see from our results, we continue to execute well and generate excellent top and bottom line performance. We leverage TruTeam, the largest insulation installer, and Service Partners, the largest insulation distributor, to create both scale advantage and coverage across a fragmented builder and contractor community. Our business model is now even stronger with the addition of USI to the TopBuild organization. We expect the housing market to remain healthy and TopBuild to continue performing well within that environment.