



**Management's Prepared Remarks
First Quarter Conference Call
May 7, 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**

Our first quarter results have TopBuild off to a very good start in 2019 with solid growth in both sales and earnings. Before discussing our financial results, I'd like to comment on our view of the current state of the U.S. housing industry.

Affordability continues to be an issue, although it has been improving over the past few months. With the Fed hitting the brakes on further rate increases, mortgage rates have decreased significantly from late 2018 when they were approaching 5%. Mortgage rates at that level were one factor pricing potential buyers out of the market. Fortunately, most of that increase has been reversed and 4% is again in sight.

This reduction in rates does a couple of things. First, it contributes to pushing mortgage payments as a percentage of income back down to just below the historical average. Second, the optics signal to those on the sidelines that now is a good time to buy their first house or trade up to a bigger one. This is likely a key reason for new home sales in March increasing 3% year-over-year and 2% on a trailing three-month basis.

Builders are also getting a bit of a break as the price of lumber, a major cost component, is considerably lower than previous levels. That certainly helps them in their quest to control pricing and footprint size, build more homes that consumers can afford, and still make money doing it.



So, while housing starts have been disappointing over the last several months, we believe they will climb higher as the year progresses for a couple of reasons:

- A strong economy with solid job and wage growth, and improved affordability are driving new home sales
- Builders are increasingly focused on building entry level homes, where inventory is extremely tight and,
- The recent trend for permits, which provide a forecast for starts, has been strong

In summary, supply and demand fundamentals continue to suggest a healthy construction environment in 2019 and for at least the next several years.

Moving to TopBuild's results, the strength and diversity of our operating model was very much on display this quarter as we reported record first quarter results. Total sales were up 26%, with same branch sales increasing 7.1%. Both residential and commercial performed extremely well. Because our footprint spans the entire U.S., the unusually wet weather in parts of the country did impact a few of our branches, but most reported very healthy results.

The conversion of that top line to the bottom line was again outstanding and produced adjusted EPS of \$1.06 for the quarter. All of the earnings-related metrics were very good, and John will follow me with more detail on those. Driving all this positive news is a continued focus on improving the fundamentals of our business. The diversity of our business model offers numerous levers to manage top line growth and our relentless pursuit of operational efficiency drives conversion to the bottom line. Robert will have more to say about that in his comments.

Acquisitions have proven to be an excellent use of capital and we have developed an effective core competency around selection, execution and integration. Since 2016, we have acquired ten companies generating over \$500 million of annual revenue. USI, the largest and most recent of these, continues to perform very well due in large part to cost related synergies well north of the \$15 million we identified a year ago. I want to congratulate our dedicated team of seasoned and talented professionals, from both the TopBuild and previous USI organizations, for turning this significant investment into a financial win for TopBuild and its shareholders.

Last spring, we intentionally hit the pause button on acquisitions to give our full attention to USI. Today, we have a robust pipeline of prospects that we have identified and are moving through our disciplined process. We expect to close on a number of these opportunities this year.

Although we see considerable further runway with our current product offerings, we are always considering adjacent product categories that could add to our already substantial growth trajectory. Our approach is disciplined and boxes to check include margin potential, scalability and ease of execution. We have learned a few things from our long history in this business, and



will always find a good balance between adjacent opportunities and ongoing focus on our current core products that serve us and our customers so well.

Our second capital allocation priority after acquisitions is share repurchases. The \$50 million ASR we announced last November was completed in the first quarter at an average price of \$51.37 per share, and we acquired an additional 72,791 shares through March 31, 2019 at an average price of \$63.49 per share. We will continue to make use of our current \$200 million share buyback authorization as the year progresses.

John Peterson
Chief Financial Officer

Our team continues to execute at a high level, generating strong results in the quarter. At both TruTeam and Service Partners, we saw solid selling price increases and operating margin expansion as we continue to manage inflationary pressures on our input costs and leverage our established business platforms.

In the first quarter, consolidated revenue increased 26.0% to \$619.3 million, driven by \$93.2 million of revenue from acquisitions, primarily USI, as well as price increases at both business segments and sales volume growth at TruTeam. On a same branch basis, revenue increased 7.1% compared to first quarter 2018.

Gross margin expanded 250 basis points to 25.1%, compared to the same period a year ago, benefitting from pricing, commercial volume growth and continued operational efficiencies.

Adjusted operating profit grew 54.8% to \$59.1 million, with a corresponding margin improvement of 170 basis points. Both gross margin and operating margin improvements were driven by higher selling prices, residential and commercial sales, improved labor and sales productivity, and USI performance and synergies; partially offset by higher amortization expenses and higher stock-based compensation costs. First quarter 2019 adjustments totaled approximately \$2.5 million, primarily tied to the integration of USI.

First quarter adjusted EBITDA was \$74.5 million, compared to \$46.0 million in 2018, and our adjusted EBITDA margin was 12.0%, a 260-basis point improvement from first quarter 2018.

Our drop-down to adjusted EBITDA margin was 22.3%. On a same branch basis, adjusted EBITDA was \$57.2 million and our drop-down to adjusted EBITDA was 32.2%. Incremental EBITDA related to our three acquisitions was 18.6%.

Adjusted net income for the first quarter of 2019 was \$36.6 million, or \$1.06 per diluted share compared to \$26.2 million, or \$0.73 per diluted share in the first quarter of 2018. Adjusted EPS benefited \$0.01 due to a modification of our normalized tax rate. With more clarifications now available on the 2017 Tax Cuts and Jobs Act, the effect of acquisitions and some legal entity restructurings, we are lowering our normalized effective tax rate from 27.0% to 26.5%.



Interest expense in first quarter 2019 increased from \$2.3 million to \$9.6 million, primarily related to the funding of the USI acquisition in the second quarter of 2018 which included the issuance of \$400 million Senior Notes and our borrowing of the \$100 million delayed draw term loan.

CAPEX for the quarter was \$10.2 million, approximately 1.6% of revenue. Working capital as a percent of proforma trailing twelve-month sales was 12.1%, 210 basis points higher than prior year. 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 significant selling price increases. The latter temporarily impacts the working capital percentage to sales calculation by immediately increasing the numerator in the quarter but the impact on the denominator is delayed because it includes prior period sales which didn't benefit from the selling price increases to the same extent.

Operating cash flow was \$23.5 million for the quarter. We ended the first quarter with net leverage of 2.05 times using pro-forma trailing twelve months EBITDA, well within our comfort zone of 2 to 2.5 times. Total liquidity at March 31, 2019 was \$281.0 million, inclusive of the available balance on the revolver of \$182.7 million and cash of \$98.3 million.

In January, we adopted the new accounting guidance required by ASC 842 on leases, which requires leases to come on to the balance sheet as a right of use asset and corresponding lease liability. This change will have no impact on our cash flow or income statement.

We've updated our 2019 annual guidance based on our first quarter results and our updated forecast. Our assumptions regarding new housing starts remain unchanged with a range between 1.26 million and 1.3 million for the full year. We are now projecting total revenue to be between \$2,610 million and \$2,670 million, up \$40 million on the low end and \$35 million on the high end, and adjusted EBITDA to be between \$330 million and \$350 million, up \$20 million on both the low and high end of our range. These changes are primarily driven by both actual and projected improvements in our 2019 commercial volumes as well as continued strong operational execution in both segments. As a reminder, our guidance does not include any acquisitions we may make this year.

Robert Buck
President and Chief Operating Officer

To echo Jerry and John, we are extremely pleased with our first quarter financial results. Our consistently strong performance quarter after quarter is a direct result of:

- our team's hard work
- our focus on operational efficiency and excellence
- our diversified model
- our strong partnerships with our suppliers and customers, and
- our strategic approach to acquisitions and their integration onto our platform.

Our operating model cadence and our focus on continuous improvements in all parts of the business enable us to maximize opportunities at every point in the cycle.



Looking at TruTeam's results, first quarter sales increased 36.4%, with USI contributing close to 26% of that growth. The USI acquisition continues to perform exceptionally well and the integration was completed ahead of schedule. On a same branch basis, TruTeam sales were up 10.5% in the quarter, driven by a 6.1% increase in selling prices and 4.4% volume growth.

TruTeam's adjusted operating margin expanded 250 basis points to 11.5%. This was driven by increased selling prices, residential and commercial sales, operational efficiencies and lower fixed costs as a percentage of sales due to higher sales volume, partially offset by higher material costs and higher amortization expense. Once again, great operational execution by TruTeam's leadership and everyone in the field.

Service Partners, first quarter sales grew 8.9%, led by selling price increases of 6.8% and contributions from acquisitions, most notably USI; partially offset by a volume decrease of 2.4%, an improvement from fourth quarter's volume decline. As we discussed, last quarter we made deliberate price volume decisions and exited some low margin business. While those decisions are never easy, they were the right ones for our company as evidenced by the 60-basis point adjusted operating margin expansion compared to a year ago. We are gaining new customers and we expect continued solid performance in the Service Partners business as we drive profitable growth.

Our overall commercial business performed exceedingly well, with same branch sales surpassing our long-term target of 10% growth, yet another demonstration of the strength and importance of our diverse operating model.

Our backlog for commercial work is very robust and we are already bidding projects for 2020 and early 2021. This is a \$5 billion industry that is extremely fragmented and we believe, with only a high single digit market share, we are the industry's largest player, giving us many opportunities for growth. We like this business because it has:

- High barriers to entry,
- A different cycle than residential, and
- Accretive operating margins.

Our growth strategy is to provide general contractors with a strong value proposition that includes expertise in a broad array of products, adherence to strict safety standards and excellent quality control, all from an established and financially stable company.

Both TruTeam and Service Partners are also doing a nice job growing their spray foam businesses and we continue to see this product gaining momentum in the residential and commercial spaces.

Turning to fiberglass, most of you know there was an industry cost increase in January for both batts and loose fill which did have some traction. While a second cost increase is likely this year, the percentage increase and its stickiness will be highly dependent on industry demand and housing starts. While supply remains tight, it is not as tight as it was a year ago. Be assured, we have very high confidence in the strength, stability and cost effectiveness of our supply chain.



We buy from all four manufacturers and having strong partnerships with all of our suppliers is an important competitive advantage.

Finally, I want discuss the cadence by which we run our business every day. Today, we are often asked how much more efficiency we can achieve. Simply put, more opportunities exist.

Since becoming a public company almost four years ago, improving our operating efficiency as well as our labor and sales productivity have been key areas of focus, all of which have led to significant margin improvement. With all of our different branches on a common ERP system, we can compare and rank performance for each business on an apples-to-apples basis. With these systems, our senior leadership team focuses on the bottom quartile and determines what steps can be undertaken to move them up the ladder, whether it be a change in management, labor or product mix. In some cases, it might even make sense to close that branch. Regardless, there will always be a bottom quartile presenting numerous opportunities for operational improvement. We are relentless in this focus on continuous improvement and our entire team is involved.

Our decision at Service Partners last quarter to walk away from some lower margin business is a good example of our discipline with this process.

Yet, having systems and processes in place won't produce the desired results without the right team in place and we know we have the best people in our industry working at TopBuild. We have brought back talent to the business, acquired new talent and are continually developing future leaders. Our entire team is committed to being best in class from everything we do from branch management and safety to supply chain, to finance and accounting to acquisitions. Our local empowerment culture drives operational excellence and profitable growth. This is what TopBuild stands for and what we strive for every single day.

Looking ahead to the remainder of 2019, it should be another strong year for TopBuild. Builder sentiment is improving and we expect starts to increase as we move through the year.

In closing, I thank our entire TopBuild team for their hard work, safety lifestyle and dedication to creating value for our stakeholders. I am proud to be part of this outstanding team.

Jerry Volas
Chief Executive Officer

Before opening it up for Q & A, I want to re-emphasize two points. First, we anticipate an improving housing market as we move through 2019 and for several years beyond. This will provide an excellent external growth environment for TopBuild.

Second, our Company is diversified across a number of key dimensions, including:

- A business model offering both installation and distribution services
- Multiple end markets reaching both residential and commercial
- Product offerings, including all types of insulation and adjacent categories, and
- Geography, with our national footprint



We are leveraging this uniquely differentiated business model with a consistent strategy and focus on operational excellence and execution to produce outstanding financial results. The first quarter of 2019 was yet another good example. We look forward to delivering more of the same.