2022 ANNUAL REPORT

COMPANY PROFILE

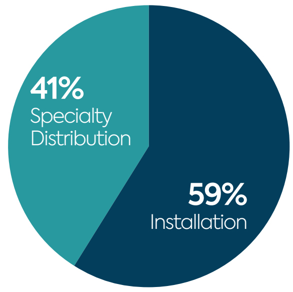
TopBuild (NYSE:BLD), a Fortune 1000 company headquartered in Daytona Beach, Florida, is a leading installer and specialty distributor of insulation and related building material products to the construction industry in the United States and Canada.

2022 FINANCIAL HIGHLIGHTS

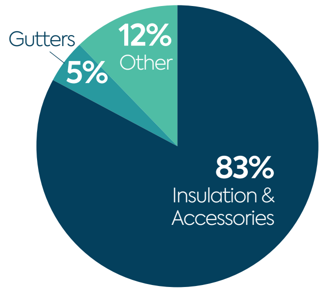
- 43.7% sales growth to $5.0 billion
- 180 basis point gross margin expansion to 29.7%
- 67.3% increase in operating profit to $797.2 million
- 220 basis point operating margin improvement to 15.9%
- 55.2% increase in adjusted EBITDA to $940.6 million
- 140 basis point adjusted EBITDA margin improvement to 18.8%
- 75.3% increase in net income per diluted share to $17.14

SEGMENT

* Net of Eliminations



PRODUCT MIX



Our business includes two operating segments: Installation and Specialty Distribution.

INSTALLATION

TruTeam

- Install insulation in residential and commercial construction projects
- Demonstrated expertise in all types of insulation solutions
- Manage all stages of installation process
- Install selected adjacent products

TopBuild Home Services

- Work directly with builders to design more energy-efficient and comfortable homes
- Pre-construction plan reviews, home energy analysis software and diagnostic testing
- 18x ENERGY STAR® award recipient

SPECIALTY DISTRIBUTION

SERVICE PARTNERS

- Leading U.S. specialty distributor of insulation and insulation accessories nationally serving residential and commercial end-markets
- One-stop shop for contractors of all sizes
- Innovative service solutions

DISTRIBUTION INTERNATIONAL

- Leading North American specialty distributor of mechanical insulation, specialty products and related accessories for industrial and commercial end-markets
- Industry-leading fabrication capabilities
- Reoccurring revenue stream through MRO business

FORWARD LOOKING STATEMENTS

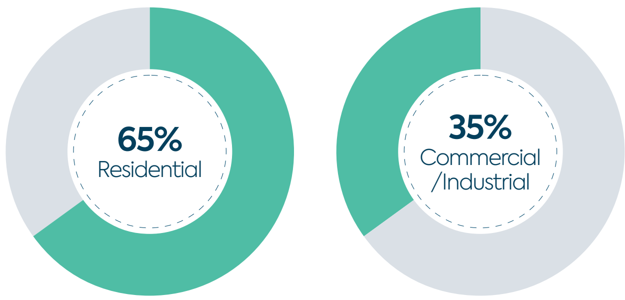
Statements contained herein reflect our views about future periods, including our future plans and performance, constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "will," "would," "anticipate," "expect," "believe," "designed," "plan," or "intend," the negative of these terms, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against unduly relying on any of these forward-looking statements. Our future performance may be affected by a number of risks including but not limited to the material risks under the caption entitled "Risk Factors" in our most recent Annual Report, as filed with the SEC, as well as under the caption entitled "Risk Factors" in subsequent reports that we file with the SEC. Our forward-looking statements in this report speak only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update any forward-looking statements as a result of new information, future events, or otherwise. The Company believes that the non-GAAP performance measures and ratios that are contained herein, which management uses to manage our business, provide additional meaningful comparisons between current results and results in our prior periods. Non-GAAP performance measures and ratios should be viewed in addition, and not as an alternative, to the Company's reported results under United States GAAP. Additional information about the Company is contained in the Company's filings with the SEC and is available on TopBuild's website at www.topbuild.com.

Dear Fellow Shareholders:

2022 was an outstanding year for TopBuild and a testament to the incredibly hard work of our team and our ongoing focus on operational excellence throughout our organization.

Looking back over the past seven plus years since becoming a public company, it is clear the foundation we have built on the cornerstones of safety, integrity, innovation, and empowerment, has enabled us to successfully execute our plan and create value for our stakeholders. Our financial discipline, investment in innovation, M&A expertise and ongoing development of our team sets us apart from our peers, giving us strong competitive advantages in the three insulation end-markets we serve: residential insulation, commercial building insulation and commercial/industrial mechanical insulation.

We remain focused on our core business of insulation, which accounts for over 80% of our revenue. Our expertise, scale and national footprint are unrivaled, and our capital light business model generates robust free cash flow. We have reduced our dependence on the residential home construction industry, and it now accounts for just 65% of our revenue versus 80% four years ago, with our Commercial/Industrial business contributing the remaining 35%.



SALES BY END-MARKET

While our unique business model offers multiple avenues for growth and gives us the ability to outperform in any environment, our people are the key to our success. They serve our customers, manage our supply chain, and drive innovation. Their "drive to improve" mindset is what ensures our prosperity, now and in the future.

2022 HIGHLIGHTS

Our 2022 financial results reflect the strength of our operating model and the focus of our team on successfully managing inflation and ongoing supply chain and labor constraints, to service our customers most effectively. Total revenue increased a robust 43.7% to $5.0 billion, 18.8% on a same branch basis, and our gross margin expanded 180 basis points to 29.7%.

Our **Installation** segment profited from strong demand for its residential new construction services and our ability to meet our customers' needs in a material and labor constrained environment. Same branch revenue grew 21.5% to $2.9 billion, and adjusted EBITDA margin expanded 190 basis points to 20.6%.

Our **Specialty Distribution** segment benefited from growing demand for the reliable and on-time delivery of our fabricated and bundled product solutions and our ability to realize synergies and drive operational efficiencies. This resulted in same branch revenue increasing 15.2% to $1.5 billion, and same branch adjusted EBITDA margin expanding 210 basis points to 18.1%.

In addition to reporting a record year of financial growth and profitability, our team realized several other significant accomplishments in 2022. Specifically:

- We reported our best year ever with regards to our safety and personal injury rate. Safety is ingrained in our culture. We continually invest in safety training and management to improve incident tracking and to better assist us in predicting future incidents and developing additional prevention programs.

- We continued to improve labor and sales productivity and drive operational improvements as part of our ongoing commitment to grow our business. Our technology tools have enhanced our installers' efficiency and improved the sales process, and our back-office technology initiatives have resulted in cost savings across the organization.
- We successfully integrated Distribution International ("DI") into our Specialty Distribution segment, cementing our position as the largest distributor of mechanical insulation in the U.S. and Canada. We also expect to achieve the high end of the $35 million to $40 million of synergies originally forecasted.
- We completed five strategic residential acquisitions that enhanced our market presence in key regions across the country.
- We returned capital to our shareholders, acquiring 1.4 million shares for approximately $250 million.
- We enhanced our disclosures related to ESG, including publishing Scope 1 emissions data, and added human capital management statistics including more detailed workforce demographic data, and enhanced safety performance information.

COMPETITIVE ADVANTAGES

We enter 2023 financially strong and well-prepared to outperform in any environment with several key competitive advantages that position us well for today and for the future.

01 First and foremost is our experienced and cycle-tested leadership team. They understand what it takes to execute our business plan successfully and are 100% focused on growing our Company, driving improvements, and creating value for our shareholders.

02 A second key advantage is having all our branches roll up to a single, sophisticated ERP system. This allows us to track activity in every branch daily, enabling us to proactively address business changes through real time data-driven decisions.

03 A third is the command we have of our business coupled with our strong track record of successfully navigating a wide range of challenges, as evidenced by our outperformance during the COVID-19 pandemic, the current inflationary environment, and ongoing supply and labor constraints.

04 A fourth competitive advantage is our core competency around identifying, evaluating, and integrating acquisitions that continue to drive shareholder value. While we have market-leading scale, we see lots of white space for growth in all three end-markets we serve.

MULTIPLE AVENUES FOR GROWTH

We serve three distinct end-markets through our Installation and Commercial/Industrial businesses:

Residential Insulation

Commercial Building Insulation

Commercial/Industrial Mechanical Insulation

Combined, they represent more than a $16 billion total addressable market opportunity where we currently only have just over a 20% market share, providing significant opportunities for growth.

RESIDENTIAL INSULATION

The residential end-market remains fragmented with a total addressable market size of approximately $5.5 billion. Between our Installation and Specialty Distribution businesses we estimate our share to be around 40%, with Installation accounting for approximately 30% of this share.

We serve builders and contractors of all sizes through our nationwide branch network and have demonstrated expertise in all types of insulation solutions. We manage every stage of the installation process and help builders design more energy-efficient homes through our TopBuild Home Services Group. Our builder customers recognize the supply and labor constraints under which our industry is operating, and they value the quality and service we provide.

Soon after the start of the pandemic, we saw demand for residential new construction soar. Builders were forced to limit sales as they raced to obtain permits and start new homes while facing significant supply and labor constraints. We quickly reached a situation where demand far exceeded supply, made worse by years of underbuilding. Predictably, new and existing home prices rose significantly, creating affordability issues for many consumers which were then further exacerbated by rising mortgage rates as the Federal Reserve sought to tame inflation. As a result, since May of 2022, we have seen single-family housing starts decline as consumers wait on the sidelines hoping home prices and/or mortgage rates will eventually fall. The demand for multi-family housing, however, has proven to be more resilient.

As we look at 2023, there is still a strong backlog of single and multi-family homes that need to be insulated. Longer term, we believe the fundamentals of the residential housing market are strong. Household formations are robust, and inventory is extremely tight. When mortgage rates ultimately stabilize, we believe consumers will step forward once again and turn their dream of owning a home into a reality.

In the short term, regardless of whether housing starts slow further or remain at current levels, given our strong track record of execution, we see many opportunities to grow organically and through acquisitions.

COMMERCIAL BUILDING INSULATION

The commercial building insulation end-market, a $5.5 billion industry, is very fragmented geographically. As the largest operator in this space with an estimated 11% share, we see multiple avenues for expansion, including heavy and light installation projects and product distribution.

Most of our residential branches also perform light commercial installations that generally follow residential expansion as new home communities require businesses to support them including retail, restaurants, and healthcare facilities. We are aggressively pursuing this work and view this as an important revenue generator which compensates, in part, for slowing housing starts. Our proprietary lead application tool has been a strong source for project leads.

For heavy commercial installation, we are looking at a solid backlog and strong bidding activity. We have approximately 20 branches focused on this business, and the projects on which we work run the gamut from distribution centers, warehouses, and hospitals, to airports, arenas, and hotels, providing significant diversity in end-market exposure.

A key to our success in this area is our development of relationships with general contractors throughout the country. Unlike many of our competitors who are generally small and offer limited commercial installation capabilities, we present general contractors with a strong value proposition that includes expertise in a broad array of products, strict safety standards and excellent quality control from an established and financially stable company.

Our commercial business at both segments, Installation and Specialty Distribution, began to strengthen in the second half of 2022, and we are optimistic this business will continue to demonstrate positive growth, organically and with targeted acquisitions. Our outlook is based not only on our own bidding activity and backlog, but also on non-residential construction data which points to a strengthening in demand. Our proprietary lead generation application, which provides market intelligence into new project leads, also gives us a clear competitive edge in this space. While signs are pointing in the right direction, we recognize that there is still uncertainty with labor and supply chain constraints continuing to hamper industry growth and higher interest rates possibly putting some projects on the back burner.

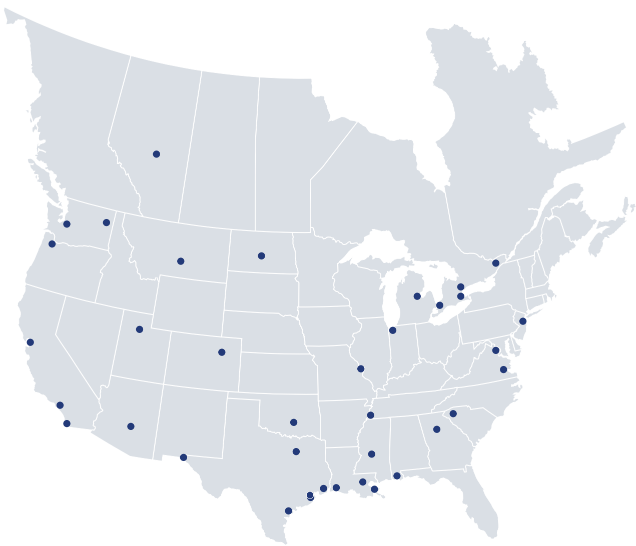
COMMERCIAL/INDUSTRIAL MECHANICAL INSULATION

Mechanical insulation and specialty products encompass a wide variety of materials used to insulate pipes, ducts, tanks, and other equipment in commercial and industrial environments. It is a more than $5 billion industry, and we believe we are the leading distributor of these products with an approximate 10% share. Our customers include designers or installers of systems for large industrial or commercial projects and buildings, either for new construction or for maintenance and repair operations.

We are extremely pleased with the financial performance of our mechanical insulation distribution business last year. In part, this was due to many large-scale commercial and industrial construction and maintenance projects no longer being delayed due to the pandemic. Commercial projects include healthcare facilities, data centers, retail complexes and large-scale warehouses. Industrial facilities served include food and beverage plants, liquid natural gas facilities, chemical refineries, and manufacturing plants.

We also worked hard throughout the year to identify areas where we could streamline processes and procedures, enhancing operational efficiencies throughout the organization.

FABRICATION FACILITIES



One of our key competitive advantages is our 37 fabrication facilities strategically located throughout our branch network. Unlike the commercial and residential industries, custom fabrication of mechanical insulation is essential to the value chain serving the industrial and commercial end-markets. Manufacturers rely on our fabrication and distribution capabilities to effectively customize and distribute their products to end-users while installers depend on our efficient delivery system and high-quality fabrication capabilities to complete their projects on time.

Looking ahead, we are very optimistic for the long-term growth opportunities of this business, both organically and through acquisitions.

CAPITAL ALLOCATION

ACQUISITIONS

We are disciplined in how we invest for the future and are steadfast in our belief that acquisitions are important additions to the overall momentum of our business and drive, by far, the greatest returns for our shareholders. After internal investments in technology, innovation, and equipment, acquiring high quality residential and commercial installation contractors and specialty distribution companies is our number one capital allocation priority. We have developed a core competency around identifying, evaluating, and integrating acquisitions and the proven ability to realize meaningful synergies from these transactions.

Since 2018, we have acquired and successfully integrated 24 companies that are contributing over $1.6 billion of annual revenue.

As I write this letter, our pipeline of prospects is strong. We remain focused on our core of insulation and are targeting companies that will enhance our scale, expand our customer base, and generate strong returns for our shareholders.

SHARE REPURCHASES

We will continue to evaluate returning cash to shareholders through share repurchases. Our share repurchase program reflects management's and our Directors' confidence in the long-term potential of TopBuild, our strong cash flow position, and our firm commitment to optimizing the efficiency of our capital structure. Since 2018 we have allocated $510 million to share repurchases, acquiring approximately 4.5 million shares at an average share price of $112.67.

ESG FORWARD

There has been increasing focus by stakeholders on ESG, which in part seeks to calculate a company's impact on the environment. We are very proud that our business itself is inherently environmentally friendly. Every day our professionally trained installation and distribution teams optimize and support the thermal qualities of homes, buildings, and industrial sites. We help to lower energy costs and reduce greenhouse gas emissions (GHG) in built environments, all while improving comfort, indoor air quality, and health outcomes in the spaces where people live, work and play.

From a human capital management standpoint, we continue to focus on diversifying the makeup of new hires, managers, and leaders, including our Board of Directors. We recognize that a diverse team helps us to better serve our customers and stakeholders.

We have an established ESG sustainability program that is directly overseen by our Board of Directors. The program is managed by an ESG committee comprised of the Company's executive officers, including me, and a senior director of ESG.

COMMITTED TO SUSTAINABILITY
TopBuild® ESG
ENVIRONMENTAL · SOCIAL · GOVERNANCE

Our team is working to embed ESG into all facets of our operating model as we focus on driving measurable growth. We remain committed to ensuring the safety and well-being of our employees, operating in an environmentally sustainable manner, and fostering a culture that is diverse and inclusive.

We are proud to have a positive impact on our communities by delivering the energy efficiency benefits of insulation through best-in-class installation and distribution services at thousands of job sites every day across the country.

We expect to publish our fifth annual ESG report on our website in the second quarter of this year.

OUTLOOK

2023 is going to be a year of potential challenges and a year of opportunities. While we firmly believe the long-term fundamentals of our industry are strong, we recognize the uncertainty around the economy and many macroeconomic factors beyond our control currently influencing the environment in which we operate.

We believe our business model in both installation and specialty distribution can outperform in any environment. Our team manages the business with a constant mindset of driving improvements and achieving operational excellence. We have the best and most talented operators in the field and a dedicated and experienced group at our branch support center.

We have substantial liquidity and expect to continue to generate strong free cash flow, enabling us to continue to invest in the growth of our company.

I am immensely proud of what we accomplished in 2022 and am confident about what lies ahead. Our successful track record points to a compelling future. We are focused on growth. We are committed to continuing to build the type of company that treats all stakeholders...customers, shareholders, employees, supplier partners and communities...with honor and respect. We value diversity and inclusion in our workforce, and we insist on excellence and quality in all that we do every single day.

In closing, I would like to express my deep gratitude, appreciation, and respect for the 13,000+ TopBuild employees who work hard every day to create value for all of our stakeholders. I also want to thank our Board of Directors for their continued support.

As always, we appreciate the trust you put in our team as stewards of your capital.

Regards,

Robert Buck
President and Chief
Executive Officer

March 21, 2023

RECONCILIATION OF SELECTED GAAP MEASURES TO NON-GAAP MEASURES (UNAUDITED)

(in thousands, except shares and per share data)

	YEAR ENDED DECEMBER 31,				
	2022	2021	2020	2019	2018
ADJUSTED OPERATING MARGIN RECONCILIATION					
Net sales	**$ 5,008,744**	**$ 3,486,207**	**$ 2,718,038**	**$ 2,624,121**	**$ 2,384,249**
Operating profit, as reported	**$ 797,164**	**$ 476,419**	**$ 355,046**	**$ 289,523**	**$ 208,953**
Rationalization charges	(172)	16	2,097	1,992	7,736
Acquisition related costs	7,974	22,107	855	1,200	15,925
Acquisition purchase accounting (inventory step-up)	–	15,853	–	–	–
Refinancing costs	–	188	57	–	–
COVID-19 pay	–	659	1,368	–	–
Operating profit, as adjusted	**$ 804,966**	**$ 515,242**	**$ 359,423**	**$ 292,715**	**$ 232,614**
Operating margin, as reported	15.9%	13.7%	13.1%	11.0%	8.8%
Operating margin, as adjusted	16.1%	14.8%	13.2%	11.2%	9.8%
INCOME PER COMMON SHARE RECONCILIATION					
Income before income taxes, as reported	**$ 742,135**	**$ 433,443**	**$ 323,090**	**$ 253,778**	**$ 180,824**
Rationalization charges	(172)	16	2,097	1,992	7,736
Acquisition related costs	7,974	22,107	855	1,200	15,925
Acquisition purchase accounting (inventory step-up)	–	15,853	–	–	–
Refinancing costs and loss on extinguishment of debt	–	14,025	290	–	–
COVID-19 pay	–	659	1,368	–	–
Income before income taxes, as adjusted	**$ 749,937**	**$ 486,103**	**$ 327,700**	**$ 256,970**	**$ 204,485**
Tax rate at 26.0% for 2022, 2021 and 2020, 26.5% for 2019, and 27.0% for 2018	(194,984)	(126,387)	(85,202)	(68,097)	(55,211)
Income from continuing operations, as adjusted	**$ 554,953**	**$ 359,716**	**$ 242,498**	**$ 188,873**	**$ 149,274**
Income per common share, as adjusted	**$ 17.11**	**$ 10.85**	**$ 7.28**	**$ 5.49**	**$ 4.19**
Weighted average diluted common shares outstanding	32,440,405	33,146,171	33,299,286	34,376,555	35,613,319
ADJUSTED EBITDA RECONCILIATION					
Operating profit, as adjusted	**$ 804,966**	**$ 515,242**	**$ 359,423**	**$ 292,715**	**$ 232,614**
Share-based compensation ‡	12,310	11,316	14,910	13,658	11,317
Depreciation and amortization	123,335	79,390	62,410	52,700	39,419
EBITDA, as adjusted	**$ 940,611**	**$ 605,948**	**$ 436,743**	**$ 359,073**	**$ 283,350**
EBITDA margin, as adjusted	18.8%	17.4%	16.1%	13.7%	11.9 %

‡ Includes adjustment of $0.2 million of shared-based compensation for the year ended December 31, 2020 which is reflected in the line item "Rationalization charges"

SEGMENT ADJUSTED EBITDA RECONCILIATION (UNAUDITED)

(in thousands)

	YEAR ENDED DECEMBER 31,	
	2022	2021
INSTALLATION		
Sales	**$ 2,969,978**	**$ 2,378,401**
Operating profit, as reported	$ 548,795	$ 383,722
Operating margin, as reported	*18.5%*	*16.1%*
Rationalization charges	(174)	—
Acquisition related costs	135	1,642
COVID-19 pay	—	605
Operating profit, as adjusted	$ 548,756	$ 385,969
Operating margin, as adjusted	*18.5%*	*16.2%*
Share-based compensation	1,296	1,157
Depreciation and amortization	62,483	57,815
EBITDA, as adjusted	**$ 612,535**	**$ 444,941**
EBITDA margin, as adjusted	*20.6%*	*18.7%*
SPECIALTY DISTRIBUTION		
Sales	**$ 2,278,261**	**$ 1,287,176**
Operating profit, as reported	$ 326,226	$ 169,368
Operating margin, as reported	*14.3%*	*13.2%*
Acquisition related costs	1,502	530
Acquisition purchase accounting (inventory step-up)	—	15,853
COVID-19 pay	—	54
Operating profit, as adjusted	$ 327,728	$ 185,805
Operating margin, as adjusted	*14.4%*	*14.4%*
Share-based compensation	1,041	1,032
Depreciation and amortization	56,881	18,743
EBITDA, as adjusted	**$ 385,650**	**$ 205,580**
EBITDA margin, as adjusted	*16.9%*	*16.0%*

SAME BRANCH NET SALES RECONCILIATION (UNAUDITED)

(in thousands)

	YEAR ENDED DECEMBER 31,	
	2022	2021
NET SALES		
Same branch:		
Installation	$ 2,889,145	$ 2,378,401
Specialty Distribution	1,483,155	1,287,176
Eliminations	(231,788)	(179,370)
Total same branch	4,140,512	3,486,207
Acquisitions (a):		
Installation	$ 80,833	$ —
Specialty Distribution	795,106	—
Eliminations	(7,707)	—
Total acquisitions	868,232	—
Total	$ 5,008,744	$ 3,486,207

(a) Represents current year impact of acquisitions in their first twelve months

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______ to _______

Commission file number: 001-36870

TopBuild Corp.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**47-3096382** (I.R.S. Employer Identification No.)
475 North Williamson Boulevard **Daytona Beach, Florida** (Address of Principal Executive Offices)	**32114** (Zip Code)

(386) 304-2200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	BLD	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐Yes ☒ No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based on the closing price of $167.16 per share as reported on the New York Stock Exchange on June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $5.4 billion.

Number of shares of common stock outstanding as of February 16, 2023: 31,669,260

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2022 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2022, are incorporated by reference into Part III of this Form 10-K.

TOPBUILD CORP.
TABLE OF CONTENTS

GLOSSARY

We use acronyms, abbreviations, and other defined terms throughout this Annual Report on Form 10-K, as defined in the glossary below:

Term	Definition
3.625% Senior Notes	TopBuild's 3.625% senior unsecured notes issued March 15, 2021 and due March 15, 2029
4.125% Senior Notes	TopBuild's 4.125% senior unsecured notes issued October 14, 2021 and due February 15, 2032
5.625% Senior Notes	TopBuild's 5.625% senior unsecured notes which were due on May 1, 2026 and redeemed in full on March 15, 2021
2015 LTIP	2015 Long-Term Incentive Program authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents
2022 ASR Agreement	$100 million accelerated share repurchase agreement with Bank of America, N.A.
2019 Repurchase Program	$200 million share repurchase program authorized by the Board on February 22, 2019
2021 Repurchase Program	$200 million share repurchase program authorized by the Board on July 26, 2021
2022 Repurchase Program	$200 million share repurchase program authorized by the Board on July 25, 2022
ABS	American Building Systems, Inc.
Amendment No. 1 to Credit Agreement	Amendment No. 1 to the Credit Agreement dated March 8, 2021
Amendment No. 2 to Credit Agreement	Amendment No. 2 to the Credit Agreement dated October 7, 2021
Amendment No. 3 to Credit Agreement	Amendment No. 3 to the Credit Agreement dated December 9, 2022
Annual Report	Annual report filed with the SEC on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Assured	Assured Insulating Inc.
Board	Board of Directors of TopBuild
BofA	Bank of America, N.A.
Billings	Billings Insulation Service, Inc.
Credit Agreement	Amended and Restated Credit Agreement, dated March 20, 2020, among TopBuild Corp., Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto.
Current Report	Current report filed with the SEC on Form 8-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
DI	DI Super Holdings, Inc.
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the United States of America
Lenders	Bank of America, N.A., together with the other lenders party to "Credit Agreement"
LCR	L.C.R. Contractors, LLC
LIBOR	London interbank offered rate
Net Leverage Ratio	As defined in the “Credit Agreement,” the ratio of outstanding indebtedness, less up to $100 million of unrestricted cash, to EBITDA
NYSE	New York Stock Exchange
Quarterly Report	Quarterly report filed with the SEC on Form 10-Q pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ROU	Right of use (asset), as defined in ASC 842
RSA	Restricted stock award
SEC	United States Securities and Exchange Commission
Secured Leverage Ratio	As defined in the “Credit Agreement,” the ratio of outstanding indebtedness, including letters of credit, to EBITDA
SOFR	Secured overnight financing rate
Term Loan	Amendment No. 2 to Credit Agreement provided for a term loan facility in an aggregate principal amount of $600.0 million with a maturity date of October 2026
TopBuild	TopBuild Corp. and its wholly-owned consolidated domestic subsidiaries. Also, the "Company," "we," "us," and "our"

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this Annual Report that reflect our views about future periods, including our future plans and performance, constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "will," "would," "anticipate," "expect," "believe," "designed," "plan," "may," "project," "estimate" or "intend," the negative of these terms, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against unduly relying on any of these forward-looking statements. Our future performance may be affected by the duration and impact of negative macro-economic impacts on the United States economy, specifically with respect to residential, commercial/industrial construction, our ability to collect our receivables from our customers, our reliance on residential new construction, residential repair/remodel, and commercial/industrial construction; our reliance on third-party suppliers and manufacturers; our ability to attract, develop, and retain talented personnel and our sales and labor force; our ability to maintain consistent practices across our locations; our ability to maintain our competitive position; and our ability to realize the expected benefits of our acquisitions. We discuss the material risks we face under the caption entitled "Risk Factors" in Item 1A of this Annual Report. Our forward-looking statements in this Annual Report speak only as of the date of this Annual Report. Factors or events that could cause our actual results to differ may emerge from time to time and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events, or otherwise.

PART I

Item 1. BUSINESS

Overview

TopBuild Corp., headquartered in Daytona Beach, Florida, is a leading installer and specialty distributor of insulation and other building material products to the construction industry in the United States and Canada. On July 1, 2015, we began trading on the NYSE under the symbol "BLD."

Segment Overview

We operate in two segments: our Installation segment, which accounts for approximately 59% of our sales, and our Specialty Distribution segment, which accounts for approximately 41% of our sales.

We believe that having both Installation and Specialty Distribution provides us with a number of distinct competitive advantages. First, the combined buying power of our two business segments, along with our scale, strengthens our ties to the major manufacturers of insulation and other building material products. This helps to ensure we are buying competitively and ensures the availability of supply to our local branches and distribution centers. The overall effect is driving efficiencies through our supply chain. Second, being a leader in both installation and specialty distribution allows us to reach a broader set of builders and contractors more effectively, regardless of their size or geographic location in the U.S. and Canada, and leverage housing and commercial/industrial construction growth wherever it occurs. Third, during housing industry downturns, many insulation contractors who buy directly from manufacturers during industry peaks return to purchasing through specialty distributors. As a result, this helps to reduce our exposure to cyclical swings in our business.

Installation

We provide insulation installation services nationwide through our Installation segment which has approximately 230 branches located across the United States.

Various insulation applications we install include:

- Fiberglass batts and rolls
- Blown-in loose fill fiberglass
- Polyurethane spray foam
- Blown-in loose fill cellulose

In addition to insulation products, which represented 79% of our Installation segment's sales during the year ended December 31, 2022, we install other building products including glass and windows, rain gutters, afterpaint products, fireproofing, garage doors, and fireplaces.

We handle every stage of the installation process including material procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, and installation quality assurance. The amount of insulation installed in a new home or commercial/industrial building is regulated by various building and energy codes.

Our Installation customer base includes national and regional single-family homebuilders, single-family custom builders, multi-family builders, commercial/industrial general contractors, remodelers, and individual homeowners.

Through our TopBuild Home Services, Inc. subsidiary ("Home Services") and our Environments for Living® program, we offer services and tools designed to assist builders with applying the principles of building science to new home construction. We offer pre-construction plan reviews using industry-standard home-energy analysis software, various inspection services, and diagnostic testing. TopBuild Home Services is one of the top ten Home Energy Rating System Index (HERS) raters in the U.S.

Specialty Distribution

We distribute building and mechanical insulation, insulation accessories, rain gutters and other building product materials for the residential and commercial/industrial end markets through our Specialty Distribution business. Insulation and insulation accessories, primarily fiberglass and spray foam, comprise approximately 89% of our Specialty Distribution sales. We have approximately 162 distribution centers across the United States and 17 distribution centers in Canada. Our customer base consists of thousands of insulation contractors of all sizes serving a wide variety of residential and commercial/industrial industries, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors, and modular home builders.

For further information on our segments, see *Item 8. Financial Statements and Supplementary Data – Note 8. Segment Information.*

Demand for Our Products and Services

Demand for our insulation products and services is driven by new single-family residential and multi-family home construction, commercial/industrial construction, residential remodel and repair activity, commercial/industrial maintenance and repair, and the growing need for more energy efficient homes, commercial structures, and industrial plants. Being a leader in both insulation installation and specialty distribution allows us to reach a broader set of customers more effectively. We recognize that competition for the installation and sale of insulation and other building material products occurs in localized geographic markets in the U.S. and Canada, and, as such, our operating model is based on geographically diverse branches that develop and maintain local customer relationships. At the same time, our dispersed branches benefit from centralized functions such as purchasing, information technology, sales and marketing support, and credit and collections.

Competitive Advantages

The market for the distribution and installation of building product materials is highly fragmented and competitive. Barriers to entry for local competitors are relatively low, increasing the risk that additional competitors will emerge. Our ability to maintain our competitive position depends on a number of factors including our scale, sales channels, diversified product lines, operation capabilities and strong local presence.

Scale. Within our geographic footprint, we provide products and services to each major construction line of business in the U.S. and provide commercial/industrial products in Canada. Our scale and local market presence combined with our various centralized corporate functions and corporate executive management team, enable us to successfully compete as we:

- Leverage systems, management, and best practice processes across both our Installation and Specialty Distribution businesses;
- Provide national and regional home builders and commercial/industrial general contractors with broad geographic reach, while maintaining consistent policies and practices that enable reliable, high-quality products and services across many geographies and building sites;
- Provide designers and installers of mechanical systems for commercial/industrial buildings, technical knowledge and expertise, and value-add fabrication services;
- Leverage our strong ties to major manufacturers of insulation and other building products to help ensure we are buying competitively, maintaining our supply to our local branches and distribution centers, and driving efficiencies throughout our supply chain;
- Provide consistent, customized support and geographic coverage to our customers; and
- Maintain an operating capacity that allows us to ramp-up rapidly, without major incremental investment, to target forecasted growth in housing starts and construction activity in each of our lines of business throughout the U.S. and Canada.

Two avenues to reach builders and contractors. We believe that having both installation and specialty distribution businesses provides a number of advantages to reaching our customers and driving share gains. Our Installation business customer base includes builders of all sizes. Our branches go to market with the local brands that regional and custom builders recognize and value, and our national footprint is appealing to large builders who value consistency across a broad geography. Our Specialty Distribution business focuses on selling to small contractors who generally have strong local relationships with smaller custom builders and general contractors, and to industrial general contractors and facilities requiring customized solutions on a recurring basis. Being a leader in both installation and specialty distribution allows us to more effectively reach a broader set of builder customers and contractors, regardless of their size or geographic location within the U.S. and Canada, and leverage new construction housing, and commercial/industrial growth wherever it occurs.

Diversified lines of business. In response to the housing downturn in prior years and to mitigate the cyclicality of residential new home construction, we expanded and enhanced our ability to serve the commercial/industrial construction markets. This included expanding our commercial/industrial operations and sales capacity, adding commercial/industrial product offerings, developing relationships with commercial/industrial general contractors, and building our expertise and reputation for quality service for both light and heavy commercial/industrial construction projects. Although commercial/industrial construction is affected by many of the same macroeconomic and local economic factors that drive residential new construction, commercial/industrial construction has historically followed different cycles than residential new construction.

Strong local presence. Competition for the installation and sale of insulation and other building material products to builders occurs in localized geographic markets throughout the U.S. and Canada. Builders and contractors in each local market have different options in terms of choosing among insulation installers and specialty distributors for their projects, and value local relationships, quality, and timeliness. Our Installation branches are locally branded businesses that are recognized within the communities in which they operate. Our Specialty Distribution centers service primarily local contractors, lumberyards, retail stores and others who, in turn, service local homebuilders and other customers, while also servicing industrial customers with customized recurring requirements. Our operating model, in which individual branches and distribution centers maintain local customer relationships, enables us to develop local, long-tenured relationships with these customers, build local reputations for quality, service and timeliness, and provide specialized products and personalized services tailored to a geographic region or customer. At the same time, our local operations benefit from centralized functions, such as purchasing, information technology, sales support, and credit and collections, and the resources and scale efficiencies of an installation and distribution business that has a presence across the U.S. and Canada.

Unique ability to offset decreases in demand for services with our Specialty Distribution business. During industry downturns many insulation contractors, who buy directly from manufacturers during industry peaks, return to purchasing through distributors for small, "Less Than Full Truckload" shipments. This tends to drive incremental customers to our Specialty Distribution business, which could offset a decrease in demand for installation services in our Installation business because of a downturn. We believe that our leadership position in both installation and specialty distribution businesses helps to reduce exposure to cyclical swings in our lines of business.

Strong cash flow and favorable working capital fund organic growth. Over the last several years, we have reduced fixed costs and improved our labor utilization. As a result, we can achieve profitability at lower levels of demand as compared to historical periods. For further discussion on our cash flows and liquidity, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*.

Major Customers

We have a diversified portfolio of customers. Our top customer accounted for approximately three percent of our total revenues for the year ended December 31, 2022. Our top ten customers accounted for approximately 12 percent of our total sales in 2022.

Suppliers

Our businesses depend on our ability to obtain an adequate supply of high-quality products and components from manufacturers and other suppliers. We source the majority of our fiberglass building products from four primary U.S.-based residential fiberglass insulation manufacturers: Knauf, CertainTeed, Johns Manville, and Owens Corning. Failure by our suppliers to provide us with an adequate supply of high-quality products on commercially reasonable terms, or to comply with applicable legal requirements, could have a material, adverse effect on our financial condition or operating results. We believe we generally have positive relationships with our suppliers and are in continuous contact and work closely with our suppliers regarding the quality of materials. Our current business model with material suppliers affords us flexibility in maximizing material purchasing, which is often driven by region, demand, supply, and pricing, without the constraints of exclusivity agreements.

Human Capital

As a leading installer of insulation and specialty distributor of insulation and building material products to the construction industry in the U.S. and Canada, our performance relies heavily on human capital and relationships with customers and suppliers. Accordingly, our success depends on our ability to attract, retain, protect, and develop our employees. To support these objectives, we have designed and implemented a human capital management program that fosters a culture of inclusivity, collaboration, support, and innovation where every voice is welcome, heard, and respected.

Employee Recruiting & Retention

As of December 31, 2022, we had 13,119 employees (excluding contingent workers), of which 7,832 were installers. Over 800 of our employees are currently covered by 65 collective bargaining agreements that expire on various dates through 2026. We believe that our relationship with our unions is good.

The residential new construction housing market remained strong through most of 2022, which continued the shortage of construction industry labor. To attract and retain experienced employees in such a tight labor market, we strive to offer a competitive compensation and benefits program to all our employees that meets their diverse needs, such as tuition reimbursement, career growth, matching 401k contributions, multiple dental and medical plan options, and paid time off, including for entry-level employees.

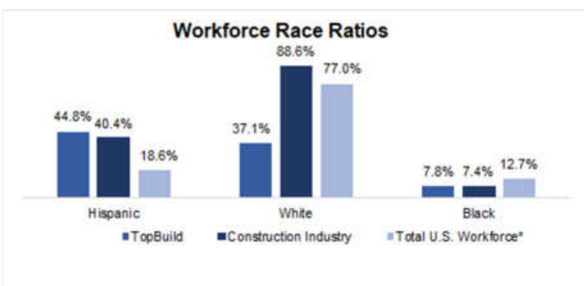
We take proactive steps to recruit construction labor, led by our Friends and Family Referral Program which we expanded in 2022. This program has been very successful since its launch in 2020. In 2022, it led to the hiring and retention of 1,424 installers. In addition to hiring directly from the local communities in which our branches operate, we partner with organizations that help source talent with diverse backgrounds, including veterans, refugees, and trade school students and graduates.

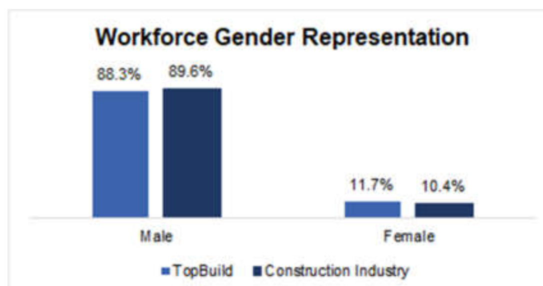
Voluntary turnover across all employees in 2022 was 33.2%. As reported by Gallup (August 2022), annual turnover below 40% is considered low in today's employment environment. We attribute our effective retention rate to an engaging culture, competitive wages, comprehensive benefits, and positive employee relations.

To build a pipeline of leadership talent, we recruit internally and externally into our Manager in Training program, which fosters development of participants into leaders of our company and high performers in our industry. The program lasts 12-24 months and participants are supported by our executive management team as they are immersed in all aspects of our operations and directly serve and support our customers and suppliers. At any time, we have 15-20 employees enrolled in our Manager in Training program and, upon completion of the program, they are promoted into branch leadership roles within our company. In 2022, more than 50% of those promoted from the Manager in Training program were women.

Diversity and Inclusion

We are taking steps as an employer to embrace and expand diversity and inclusion as part of our culture and talent practices. As of December 31, 2022, our employees self-identified as 44.8% Hispanic, 37.1% White, 7.8% Black, and 10.3% Other or Undisclosed. Our employees represent a higher racial diversification in comparison to both the construction industry and the total U.S. workforce, as reported by the Bureau of Labor Statistics (December 2022). In addition, our workforce female representation as of December 31, 2022, was higher than the U.S. construction industry. Our corporate leadership team (Managers and above) self-identifies as approximately 47% female and 24% non-white or undisclosed.





*Sums to >100% due to multi-racial reporting.

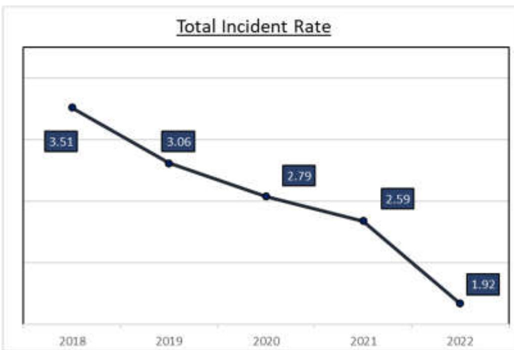
We acknowledge and are committed to respecting and upholding the human rights and dignity of all individuals within our operations. We have adopted a company-wide Human Rights policy, which is designed to promote a workplace that values and respects the contributions and perspectives of all employees from a variety of backgrounds, skills, and experiences. Company policies, including the Human Rights Policy, are published in the ESG section of our website.

Safety

The success of our business is fundamentally connected to safety. Safety is one of our core values, is engrained in our culture, and is an important metric in how we measure our success as a company. A primary responsibility of our employees is to provide a safe environment for their co-workers, our customers, and our suppliers. To align our team with our safety goals, a portion of our annual incentive compensation for all eligible employees, including our senior leadership, is tied to our safety performance. While our ultimate goal is to have zero incidents, we set aggressive annual targets based on reductions from prior year performance across each business segment and the company as a whole. For 2022, the total incident rate safety target for our company was 2.55 and our actual incident rate incurred was 1.92, which significantly beat our target and remained well below the industry average of 3.4 as reported by the Bureau of Labor and Statistics for NAICS 23831 (2021). Our focus and investment in safety has led to consistent improvement year-over-year, as reflected in the graphs below.

We strive to achieve continuous improvement in safety by providing our employees with ongoing, specialized safety training sessions, information, and programs. This training commences at hiring, with additional sessions delivered at every branch operation and at our Branch Support Center in Daytona Beach, Florida throughout the year. During 2022, we assigned each of our employees an average of 17.4 hours of safety training. In addition, our regional Safety Managers audit both field locations and our Branch Support Center to assess compliance with company policy, practices, and procedures.

We closely monitor injury trends and conduct extensive research to better understand and improve our work environments. We have realized continuous improvement in our safety performance year-over-year as indicated in the graphs below. In 2022, our total incident rate improved by over 25% against prior year to 1.92 per the OSHA guidelines with no fatalities, and our lost time case rate of 0.56 remains below industry average of 1.5 as reported by the Bureau of Labor and Statistics for NAICS 23831 (2021) and has continually improved. Our incident rate does not include the impact of acquired companies in the year of acquisition or potential work-related COVID-19 exposures.



Community Involvement

TopBuild has a long-standing commitment to service in our communities. We provided ongoing support to a number of national and local charitable organizations in 2022, including:

Habitat For Humanity. One of our most impactful partnerships is Habitat for Humanity. Our annual fundraiser raised $650,000 in 2022, increasing the total raised to over $2.6M over the past 6 years with this event. In addition to monetary donations to Habitat for Humanity, our teams in the field support families on their journey towards home ownership by donating material, volunteering their time at local Habitat Builds, and attending dedication ceremonies, where the impacts of living our core values of Unity and Community are truly seen and felt.

The Salvation Army. We continued to sponsor the Salvation Army's Angel Tree initiative, which provides new clothing and toys to families in need each year during the holiday season.

The NASCAR Foundation. We continued our partnership with the NASCAR foundation and expanded our sponsorship commitment to fund and build playsets for pediatric cancer patients.

Payit4ward. We sponsored Payit4ward's annual summer Back to School Drive for the 5th year running, which provided supplies and backpacks to over 3,000 children.

The American Red Cross. We regularly donate to the American Red Cross, helping to ensure they have the necessary funding throughout the year to assist families recovering from natural disasters. In 2022, TopBuild matched employee giving and donated more than $35,000 for those affected by hurricanes Ian and Nicole.

Our people are our most valuable resources, and together with our affiliate partnerships, we remain committed to supporting and improving the communities where we live and work.

Employee Feedback

Employee engagement is important to us as we continue to establish and develop our initiatives to create a positive employee experience. In 2022, we added new hire and exit surveys and use their feedback to continually improve our offerings and communication. Additionally, we conduct an all-employee survey bi-annually, most recently in 2021, and 62% of our employees responded. Our engagement index score was 84%. This score is made up of key questions related to pride in the company, sense of accomplishment, and intent to stay. We shared the results with our leadership at all levels and locations and with our Board. The leaders reviewed areas of satisfaction and dissatisfaction and continue to work with their teams to prioritize actions and activities in response. Overall areas of strength include employee perception of a solid culture of safety within our company and satisfaction with our company's direction and culture.

Executive Officers

Set forth below is information about our executive officers. There are no family relationships among any of the officers named below.

Robert M. Buck, age 53

- Chief Executive Officer and President since January 1, 2021
- President and Chief Operating Officer from June 2015 – December 2020
- Group Vice President of Masco from 2014 – June 2015, responsible for the Installation and Other Services Segment consisting of both Masco Contractor Services and Specialty Distribution
- President of Masco Contractor Services from 2009 – 2014

Joseph M. Viselli, age 55

- Vice President and Chief Operating Officer since October 2022
- Senior Vice President and General Manager of Distribution International from June 2020 – October 2022
- Senior Vice President and General Manager of Silvercote from June 2019 – October 2022
- General Manager of Silvercote and Senior Vice President of Knauf Insulation from February 2017 – June 2019

Robert M. Kuhns, age 49

- Vice President and Chief Financial Officer since March 2022
- Vice President, Controller from July 2018 – March 2022
- Senior Director, Assistant Corporate Controller of Mohawk Industries, Inc. from July 2015 – July 2018
- Senior Director, International Finance of Mohawk Industries, Inc. from March 2013 – July 2015

Luis F. Machado, age 60

- Vice President, General Counsel and Corporate Secretary since August 2020
- Vice President, General Counsel and Secretary of CTS Corporation from 2015 – August 2020
- Senior Vice President, Legal, and Assistant Secretary of L Brands, Inc. from 2010 – 2015

Jennifer J. Shoffner, age 50

- Chief Human Resources Officer since August 2020
- Vice President, Talent Management from February 2020 – August 2020
- Vice President, Human Resources of Liberty Hardware, a Masco Company, from 2006 – 2011 and 2013 – January 2020

Steven P. Raia, age 67

- President, TruTeam Operations since March 2019
- Senior Vice President of Operations, from November 2015 – March 2019
- Various operations management and roles in insulation businesses prior to 2015

Robert J. Franklin, age 63

- President, Specialty Distribution since October 2022
- President, Service Partners Operations from September 2019 to October 2022
- Vice President of Operations, TruTeam from 2017 – September 2019
- Regional Leader, TruTeam from 2015 – 2016
- Various operations management and roles in insulation businesses prior to 2015

Legislation and Regulation

We are subject to U.S. and Canadian federal, state, provincial, and local laws and regulations, particularly those pertaining to health and safety (including protection of employees and consumers), labor standards/regulations, contractor licensing, and environmental issues. In addition to complying with currently effective legal requirements and preparing for proposed future requirements, even more stringent legal requirements could eventually be imposed on our industries. Additionally, some of our products and services require certification by industry or other organizations. Maintaining compliance with potentially changing legal requirements and industry standards may require us to alter our specialty distribution and installation processes and our sourcing, which could adversely impact our business. Further, as discussed in our Item 1A (Risk Factors), if we do not effectively and timely comply with legal requirements and industry standards, our operating results could be negatively affected.

Additional Information

We provide our Annual Reports, Quarterly Reports, Current Reports and amendments to those reports free of charge on our website, www.topbuild.com, as soon as reasonably practicable after these reports are filed with or furnished to the SEC. We also provide Environmental, Social and Governance ("ESG") information, including with respect to certain safety metrics, on our website. Information contained on our website is not incorporated by reference into this Form 10-K, and you should not consider information contained on our website to be part of this Form 10-K or in deciding whether to purchase shares of our common stock.

Use of our Website to Distribute Material Company Information

We use our website, www.topbuild.com, as a channel of distribution and routinely post important Company information including press releases, investor presentations and financial information. We may also use our website to expedite public access to time-critical information regarding our Company in advance of or in lieu of distributing a press release or a filing with the SEC disclosing the same information. Visitors to our website can also register to receive automatic e-mail and other notifications alerting them when new information is made available.

Item 1A. RISK FACTORS

A number of risks and uncertainties could affect our business and cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be those material to our business. If any of these risks occur, our business, financial condition and results of operations could suffer, and the trading price of our common stock could decline. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this Annual Report.

Risks Which May Be Material to Our Business

Risks Relating to Products and Supply Chain

We are dependent on third-party suppliers and manufacturers to provide us with an adequate supply of high-quality products, and the loss of a large supplier or manufacturer could negatively affect our operating results.

Failure by our suppliers to provide us with an adequate supply of high-quality products on commercially reasonable terms, or to comply with applicable legal requirements, could have a material adverse effect on our financial condition or operating results. While we believe that we have positive relationships with our suppliers, the fiberglass insulation industry has encountered both shortages and periods of significant oversupply during past housing market cycles, leading to volatility in prices and allocations of supply, which affect our results. While we do not believe we depend on any sole or limited source of supply, we source the majority of our building products, primarily insulation, from a limited number of large suppliers. The loss of a large supplier, or a substantial decrease in the availability of products or components from our suppliers, could disrupt our business and adversely affect our operating results.

Our profit margins could decrease due to changes in the costs of the products we install and/or distribute.

The principal building products that we install and distribute have been subject to price changes in the past, some of which have been significant. Our results of operations for individual quarters can be, and have been, hurt by a delay between the time building product or material cost increases are implemented and the time we are able to increase prices for our installation or specialty distribution services, if at all. Our supplier purchase prices may depend on our purchasing volume or other arrangements with any given supplier. While we have been able to achieve cost savings through volume purchasing or other arrangements with suppliers in the past, we may not be able to consistently continue to receive advantageous pricing for the products we distribute and install. If we are unable to maintain purchase pricing consistent with prior periods or are unable to pass on price increases, our costs could increase and our margins may be adversely affected.

The development of alternatives to distributors in the supply chain could cause a decrease in our sales and operating results and limit our ability to grow our business.

Our Specialty Distribution customers could begin purchasing more of their products directly from manufacturers, which would result in decreases in our net sales and earnings. Our suppliers could invest in infrastructure to expand their own local sales force and sell more products directly to our Specialty Distribution customers, which also would negatively impact our business.

New product innovations or new product introductions could negatively impact our business.

New product innovations or new product introductions could negatively impact demand for the products we install and distribute.

Issues with product quality or performance could negatively impact our business.

Our business depends on high-quality products from manufacturers and other suppliers, and issues with the quality or performance of such products could negatively impact our business. While we are generally indemnified by our manufacturers and suppliers for claims relating to the quality of their products, our business could be negatively impacted by product quality or performance issues, including exposure to legal claims and regulatory proceedings and damage to our reputation.

We may not be able to identify new products or new product lines and integrate them into our specialty distribution network, which may impact our ability to compete. Our expansion into new markets may present competitive, distribution, and regulatory challenges that differ from current ones.

Our business depends, in part, on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete, or trends in new products, which could cause us to lose market share. Our expansion into new markets, new products, or new product lines may present competitive, distribution and regulatory challenges, as well as divert management's attention away from our core business. In addition, our ability to integrate new products and product lines into our specialty distribution network could affect our ability to compete.

Risks Relating to Events Beyond Our Control

A decline in general economic conditions could materially reduce demand for our services or the products that we distribute.

Demand for our products and services depends heavily on the operating level of our customers and the economic factors that affect them, including general economic conditions. In a recession or economic downturn, our customers may materially reduce construction activities because of lower consumer demand, which in turn will decrease their need for our services and the products that we distribute. Volatile economic and credit conditions also make it more difficult for our customers to forecast and plan future business activities and may prevent them from ordering our products or services as frequently or in the quantities they otherwise would. We may experience materially adverse impacts to our business because of any economic recession or slowing in the rate of growth.

An epidemic, pandemic, or similar serious public health issue (such as COVID-19), and the measures undertaken by governmental authorities to address it, may cause business and market disruptions, impacting demand for our services or the products we distribute, our ability to provide services, or our results of operations or financial condition.

The spread of highly infectious or contagious diseases (such as COVID-19) could cause quarantines, business shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions, and overall economic and financial market instability, all of which may impact general economic conditions or consumer confidence. To the extent that economic activity, business conditions, and the industries in which we operate deteriorate as a result of such disruptions, we would expect to experience an adverse impact on demand for our services and the products we distribute, our ability to provide services, or our results of operations or financial condition.

Risks Relating to Human Capital

The long-term performance of our businesses relies on our ability to attract, develop, and retain talented personnel, including sales representatives, branch managers, installers, and truck drivers, while controlling our labor costs.

We are highly dependent on the skills and experience of our senior management team and other skilled and experienced personnel. The failure to attract and retain key employees could negatively affect our competitive position and operating results.

Our business results also depend upon our branch managers and sales personnel, including those of businesses acquired. Our ability to control labor costs and attract qualified labor is subject to numerous external factors including prevailing wage rates, the labor market, the demand environment, the impact of legislation or regulations governing wages and hours, labor relations, immigration, healthcare benefits, and insurance costs. In addition, we compete with other companies to recruit and retain qualified installers and truck drivers in a tight labor market, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions generally have high turnover rates, which can lead to increased training and retention costs. If we fail to attract qualified labor on favorable terms, we may not be able to meet the demand of our customers, which could adversely impact our business, financial condition, and results of operations.

Changes in employment and immigration laws and regulations may adversely affect our business.

Various federal and state labor laws and regulations govern the relationship with our employees and impact operating costs. These laws include:

- employee classification as exempt or non-exempt for overtime and other purposes;
- workers' compensation rates;
- immigration status;
- mandatory health benefits;
- tax reporting; and
- other wage and benefit requirements.

We have a significant exposure to changes in laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements, payroll taxes, and the enforcement of non-competition agreements, as well as vaccination and testing mandates which may be imposed in connection with the occurrence of pandemic or health concerns, which changes would have a direct impact on our operating costs. Significant additional government-imposed increases in the preceding areas could have a material adverse effect on our business, financial condition, and results of operations.

In addition, various states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the U.S. Congress and Department of Homeland Security from time to time consider and implement changes to federal immigration laws, regulations, or enforcement programs. These changes may increase our compliance and oversight obligations, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we verify the employment eligibility status of all our employees, including through participation in the "E-Verify" program where required, some of our employees may, without our knowledge, be unauthorized workers. Use of the verification tools and/or "E-Verify" program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties and, if any of our workers are found to be unauthorized, we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and retain qualified employees, which could disrupt our operations. We could also become subject to fines, penalties, and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration laws. These factors could have a material adverse effect on our business, financial condition, and results of operations.

Union organizing activity and work stoppages could delay or reduce availability of products that we install and increase our costs.

Approximately 800 of our employees are currently covered by collective bargaining or other similar labor agreements that expire on various dates through 2026. Any inability by us to negotiate collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Further, if a significant number of additional employees were to unionize, including in the wake of any future legislation or regulation that makes it easier for employees to unionize, these risks would increase. In addition, certain of our suppliers have unionized work forces, and certain of the products we install and/or distribute are transported by unionized truckers. Strikes, work stoppages, or slowdowns could result in slowdowns or closures of facilities where the products that we install and/or distribute are manufactured, or could affect the ability of our suppliers to deliver such products to us. Any interruption in the production or delivery of these products could delay or reduce availability of these products and increase our costs.

Our business relies significantly on the expertise of our employees and we generally do not have intellectual property that is protected by patents.

Our business is significantly dependent upon our expertise in installation and distribution logistics, including significant expertise in the application of building science through our Environments for Living® program. We rely on a combination of trade secrets and contractual confidentiality provisions and, to a much lesser extent, copyrights and trademarks, to protect our proprietary rights. Accordingly, our intellectual property is more vulnerable than it would be if it were protected primarily by patents. We may be required to spend significant resources to monitor and protect our proprietary rights, and in the event a misappropriation or breach of our proprietary rights occurs, our competitive position in the market may be harmed. In addition, competitors may develop competing technologies and expertise that renders our expertise obsolete or less valuable.

Risks Relating to Mergers and Acquisitions

We may not be successful in identifying and making acquisitions. In addition, acquisition integrations involve risks that could negatively affect our operating results, cash flows, and liquidity.

We have made, and in the future may continue to make, strategic acquisitions as part of our growth strategy. We may be unable to make accretive acquisitions or realize expected benefits of any acquisitions for any of the following reasons:

- failure to identify attractive targets in the marketplace;
- increased competition for attractive targets;
- incorrect assumptions regarding the future results of acquired operations or assets, expected cost reductions, or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to obtain acceptable financing; or
- restrictions in our debt agreements.

Our ability to successfully implement our business plan and achieve targeted financial results is dependent on our ability to successfully integrate acquired businesses. The process of integrating acquired businesses, may expose us to operational challenges and risks, including, but not limited to:

- the ability to profitably manage acquired businesses or successfully integrate the acquired business' operations, financial reporting, and accounting control systems into our business;
- the expense of integrating acquired businesses;
- increased indebtedness;
- the loss of installers, suppliers, customers or other significant business partners of acquired businesses;
- potential impairment of goodwill and other intangible assets;
- risks associated with the internal controls and accounting policies of acquired businesses;
- diversion of management's attention due to the increase in the size of our business;
- the ability to fund cash flow shortages that may occur if anticipated revenue is not realized or is delayed, whether by general economic or market conditions, or unforeseen internal difficulties;

- the availability of funding sufficient to meet increased capital needs;
- difficulties in the assimilation of different corporate cultures and business practices;
- the ability to retain vital employees or hire qualified personnel required for expanded operations;
- failure to identify all known and contingent liabilities during due diligence investigations; and
- the indemnification granted to us by sellers of acquired companies may not be sufficient.

Failure to successfully integrate any acquired business may result in reduced levels of revenue, earnings, or operating efficiency than might have been achieved if we had not acquired such business. In addition, our past acquisitions results, and any future acquisitions could result in the incurrence of additional debt and related interest expense, contingent liabilities, and amortization expenses related to intangible assets, which could have a material adverse effect on our financial condition, operating results, and cash flow.

We may not be able to achieve the benefits that we expect to realize as a result of future acquisitions. Failure to achieve such benefits could have an adverse effect on our financial condition and results of operations.

We may not be able to realize anticipated cost savings, revenue enhancements, or other synergies from future acquisitions, either in the amount or within the time frame that we expect. In addition, the costs of achieving these benefits may be higher than, and the timing may differ from, what we expect. Our ability to realize anticipated cost savings, synergies, and revenue enhancements may be affected by a number of factors, including, but not limited to, the following:

- the use of more cash or other financial resources on integration and implementation activities than we expect;
- unanticipated increases in expenses unrelated to any future acquisition, which may offset the expected cost savings and other synergies from any future acquisition;
- our ability to eliminate duplicative back office overhead and redundant selling, general, and administrative functions; and
- our ability to avoid labor disruptions in connection with the integration of any future acquisition, particularly in connection with any headcount reduction.

While we expect future acquisitions to create opportunities to reduce our combined operating costs, these cost savings reflect estimates and assumptions made by our management, and it is possible that our actual results will not reflect these estimates and assumptions within our anticipated timeframe or at all.

If we fail to realize anticipated cost savings, synergies, or revenue enhancements, our financial results may be adversely affected, and we may not generate the cash flow from operations that we anticipate.

Risks Relating to Legal and Regulatory Matters

Because we operate our business through highly dispersed locations across the U.S. and Canada, our operations may be materially adversely affected by inconsistent local practices, and the operating results of individual branches and centers may vary.

We operate our business through a network of highly dispersed locations throughout the United States and Canada, supported by executives and services at our Branch Support Center in Daytona Beach, Florida, with local branch management retaining responsibility for day-to-day operations and adherence to applicable local laws. Our operating structure can make it difficult for us to coordinate procedures across our operations. In addition, our branches and distribution facilities may require significant oversight and coordination from headquarters to support their growth.

Inconsistent implementation of corporate strategy and policies at the local or regional level could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Claims and litigation could be costly.

We are, from time to time, involved in various claims, litigation matters, and regulatory proceedings that arise in the ordinary course of our business and which could have a material adverse effect on us. These matters may include contract disputes, automobile liability and other personal injury claims, warranty disputes, environmental claims or proceedings, other tort claims, employment and tax claims, claims relating to the quality of products sourced from our suppliers, and other proceedings and litigation, including class actions. In addition, we are exposed to potential claims by our employees or others based on job related hazards.

We may also be subject to claims or liabilities arising from our acquisitions for the periods prior to our acquisition of them, including environmental, employee-related, and other liabilities and claims not covered by insurance. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims.

Our builder and contractor customers are subject to product liability, casualty, negligence, construction defect, breach of contract, warranty, and other claims in the ordinary course of their business. Our contractual arrangements with our builder and contractor customers may include our agreement to defend and indemnify them against various liabilities.

We rely on manufacturers and other suppliers to provide us with most of the products we install. Because we do not have direct control over the quality of products manufactured or supplied by third-party suppliers, we are exposed to risks relating to the quality of those products. In addition, we are exposed to potential claims arising from the conduct of our employees, homebuilders, and other subcontractors, for which we may be liable contractually or otherwise.

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract, and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of fault or the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services.

Although we intend to defend all claims and litigation matters vigorously, given the inherently unpredictable nature of claims and litigation, we cannot predict with certainty the outcome or effect of any claim or litigation matter.

We expect to maintain insurance against some, but not all, of our risks of loss resulting from claims and litigation. We may elect not to obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. The levels of insurance we maintain may not be adequate to fully cover any and all losses or liabilities. If any significant accident, judgment, claim, or other event is not fully insured or indemnified against, it could have a material adverse impact on our business, financial condition, and results of operations.

Compliance with government regulation and industry standards could impact our operating results.

We are subject to national, state, provincial, and local government regulations, particularly those pertaining to health and safety, including protection of employees and consumers, employment laws, including immigration and wage and hour regulations, contractor licensing, data privacy, cybersecurity, and climate and environmental issues. In addition to complying with current requirements, even more stringent requirements are under review by the Securities and Exchange Commission and other governmental authorities which could be imposed in the future. Compliance with these regulations and industry standards is costly and may require us to invest additional resources into our compliance infrastructure, thereby increasing our cost structure. We may also be required to alter our installation and distribution processes, product sourcing, or business practices, which could make recruiting and retaining labor in a tight labor market more challenging. If we do not effectively and timely comply with such regulations and industry standards, our results of operations could be negatively affected, and we could become subject to substantial penalties or other legal liability.

We are subject to environmental regulation and potential exposure to environmental liabilities.

We are subject to various federal, state, provincial, and local environmental laws and regulations. Although we believe that we operate our business, including each of our locations, in compliance with applicable laws and regulations and maintain all material permits required under such laws and regulations to operate our business, we may be held liable or incur fines or penalties in connection with such requirements. In addition, environmental laws and regulations, including those related to energy use and climate change, may become more stringent over time, and any future laws and regulations could have a material impact on our operations or require us to incur material additional expenses to comply with any such future laws and regulations.

Changes in building codes and consumer preferences could affect our ability to market our service offerings and our profitability. Moreover, if we do not respond to evolving customer preferences or changes in building standards, or if we do not maintain or expand our leadership in building science, our business, results of operation, financial condition, and cash flow would be adversely affected.

Each of our lines of business is impacted by building codes and consumer preferences, including a growing focus on energy efficiency. Our competitive advantage is due, in part, to our ability to respond to changes in consumer preferences and building codes. However, if our installation and distribution services and our leadership in building sciences do not adequately or quickly adapt to changing preferences and building standards, we may lose market share to competitors, which would adversely affect our business, results of operation, financial condition, and cash flows. Further, our growth prospects could be harmed if consumer preferences and building standards evolve more slowly than we anticipate towards energy efficient service offerings, which are more profitable than minimum code service offerings.

Risks Relating to the Industry in Which We Operate

Our business relies on residential new construction, commercial construction and industrial manufacturing activity, and to a lesser extent on residential repair/remodel, all of which are cyclical.

Demand for our services is cyclical and highly sensitive to general macroeconomic and local economic conditions over which we have no control. Macroeconomic and local economic conditions, including consumer confidence levels, fluctuations in home prices, unemployment and underemployment levels, income and wage growth, student loan debt, household formation rates, mortgage tax deduction limits, the age and volume of the housing stock, the availability of home equity loans and mortgages and the interest rates for such loans, and other factors, affect consumers' discretionary spending on both residential new construction projects and residential repair/remodel activity. The commercial and industrial construction markets are affected by macroeconomic and local economic factors including, but not limited to, general economic conditions, cost of financing, credit availability, material costs, labor rates, vacancy and absorption rates, manufacturing capacity and demand, technological advancements, foreign and domestic competition, and import and export activity. Changes or uncertainty regarding these and similar factors could adversely affect our results of operations and our financial position.

We face significant competition, and increased competitive pressure may adversely affect our business, financial condition, results of operations and cash flows.

The market for the specialty distribution and installation of building products and materials is highly fragmented and competitive, and barriers to entry are relatively low. Our Installation competitors include national contractors, regional contractors, and local contractors, and we face many or all of these competitors for each project on which we bid. Our Specialty Distribution competitors include numerous specialty insulation distributors. In some instances, our Specialty Distribution business sells products to companies that may compete directly with our installation service business. We also compete with broad line building products distributors, big box retailers, and insulation manufacturers. In addition to price, we believe that competition in our industry is based largely on existing customer relationships, customer service and the quality and timeliness of installation services and distribution product deliveries in each local market. In the event that increased demand leads to higher prices for the products we sell and install, we may have limited ability to pass on price increases in a timely manner, or at all, due to the fragmented and competitive nature of our industry.

Our business is seasonal and is susceptible to adverse weather conditions and natural disasters. We also may be adversely affected by any natural or man-made disruptions to our facilities.

We normally experience stronger sales during the third and fourth calendar quarters, corresponding with the peak season for residential new construction and residential repair/remodel activity. Sales during the winter weather months are seasonally slower due to the lower construction activity. Historically, the installation of insulation lags housing starts by several months. In addition, to the extent that hurricanes, severe storms, earthquakes, droughts, floods, fires, other natural disasters, or similar events occur in the geographic areas in which we operate, our business may be adversely affected. Any widespread disruption to our facilities resulting from a natural disaster, an act of terrorism, or any other cause could materially impair our ability to provide installation and/or distribution services for our customers.

We are subject to competitive pricing pressure from our customers.

Residential homebuilders historically have exerted significant pressure on their outside suppliers to keep prices low in the highly fragmented building products and materials supply and services industry. In addition, consolidation among homebuilders and changes in homebuilders' purchasing policies or payment practices could result in additional pricing pressure.

Risks Relating to Our Operations Outside of the United States

We face risks relating to our operations outside of the United States.

A portion of our operations are conducted in Canada. As a result, our operating results and financial condition could be materially adversely affected by economic, political, health, regulatory and other factors existing outside of the United States. Our foreign operations are subject to inherent risks, which may materially adversely affect us, including: political and economic changes or instability; expropriation or the imposition of government controls; changes in government regulations; export requirements; trade restrictions; earnings repatriation and expatriation restrictions; exposure to different legal standards, including related to intellectual property and data privacy; health conditions and standards; currency controls; fluctuations in exchange rates; increases in the duties and taxes we pay; inflation or deflation; greater difficulty in collecting accounts receivable and longer payment cycles; changes in labor conditions, staffing, and managing our foreign operations; limitations on insurance coverage against geopolitical risks, natural disasters, and business operations; and communication among management and foreign operations. In addition, these same factors may also place us at a competitive disadvantage compared to foreign competitors.

FCPA Risk

We may face risks associated with violations of the Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our Code of Ethics mandates compliance with these anti-bribery laws. We cannot assure you that our internal controls and procedures will always protect us from the detrimental actions of our employees or agents. If we are found to be liable for FCPA violations (either due to our own acts or inadvertence or due to the acts or inadvertence of others), we could suffer from criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

We are exposed to fluctuations in foreign currency exchange rates that may adversely affect our business, financial condition, and operating results.

We transact business outside of the United States. We present our consolidated financial statements in U.S. dollars, but a portion of our revenues and expenditures are transacted in other currencies. As a result, we are exposed to fluctuations in foreign currencies. Additionally, we may have currency exposure arising from funds held in currencies other than U.S. dollars. Volatility in the exchange rates between the foreign currencies and the U.S. dollar could materially harm our business, financial condition, or operating results.

Risks Relating to Information Technology and Cybersecurity

We rely on information technology systems, and in the event of a disruption or security incident, we could experience problems with customer service, inventory, collections, and cost control and incur substantial costs to address related issues.

Our operations are dependent upon our information technology systems, including systems run by third-party vendors which we do not control, to manage customer orders on a timely basis, to coordinate our installation and specialty distribution activities across locations, and to manage invoicing. If we experience problems with our information technology systems, we could experience, among other things, delays in receiving customer orders, placing orders with suppliers, and scheduling production, installation services, deliveries, or shipments.

A substantial disruption in our information technology systems could have an adverse impact on revenue, harm our reputation, and cause us to incur legal liability and costs, which could be significant, to address and remediate such events and related security concerns.

In addition, we could be adversely affected if any of our significant customers or suppliers experienced any similar events that disrupted their respective business operations or damaged their reputations.

In the event of a cybersecurity incident, we could experience operational interruptions, incur substantial additional costs, become subject to legal or regulatory proceedings or suffer damage to our reputation.

In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation or corruption of our information technology systems and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by unauthorized persons, malicious software, computer viruses, undetected intrusion, hardware failures, or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruptions, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings, and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experience any similar events that disrupt their business operations or damage their reputations.

We maintain monitoring practices and protections of our information technology to reduce these risks and test our systems on an ongoing basis for potential threats. We carry cybersecurity insurance to help mitigate the financial exposure and related notification procedures in the event of intentional intrusion. There can be no assurance, however, that our efforts will prevent the risk of a security breach of our databases or systems that could adversely affect our business.

Risks Relating to Liquidity and Our Ability to Finance Our Operations

If we are required to take significant non-cash charges, our financial resources could be reduced, and our financial flexibility may be negatively affected.

We have significant goodwill and other intangible assets related to business combinations on our balance sheet. The valuation of these assets is largely dependent upon the expectations for future performance of our businesses. Expectations about the growth of residential new construction, commercial/industrial construction, residential repair/remodel activity, and the utilization of industrial facilities, may impact whether we are required to recognize noncash, pretax impairment charges for goodwill and other indefinite lived intangible assets, or other long-lived assets. If the value of our goodwill, other intangible assets, or long-lived assets is further impaired, our earnings and stockholders' equity would be adversely affected and may impact our ability to raise capital in the future.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

Our future capital requirements will depend on many factors, including industry and market conditions, our ability to successfully complete future business combinations and the expansion of our existing operations. We anticipate that we may need to raise additional funds in order to grow our business and implement our business strategy. Economic and credit market conditions, the performance of the construction industry, and our financial performance, as well as other factors may constrain our financing abilities. Our ability to secure additional financing and to satisfy our financial obligations will depend upon our future operating performance, the availability of credit, economic conditions, and financial, business, and other factors, many of which are beyond our control. Any financing, if available, may be on terms that are not favorable to us and will be subject to changes in interest rates and the capital markets environment. If we cannot obtain adequate capital, we may not be able to fully implement our business strategy and our business, operational results and financial condition could be adversely affected.

Our indebtedness and restrictions in our existing credit facility, Senior Notes or any other indebtedness we may incur in the future, could adversely affect our business, financial condition, results of operations, ability to make distributions to shareholders, and the value of our common stock.

Our indebtedness could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payments and other obligations;
- reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions or strategic investments and other general corporate requirements, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to increased interest expense related to our indebtedness with variable interest rates, including borrowings under our credit facility;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition, results of operations, or ability to meet our payment obligations. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell certain assets, reduce or delay capital investments, or seek to raise additional capital, and some of these activities may be on terms that are unfavorable or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations.

Our existing term loan, revolving credit facility and the indentures governing our Senior Notes limit, and any future credit facility or other indebtedness we enter into may limit our ability to, among other things:

- incur or guarantee additional debt;
- make distributions or dividends on, or redeem or repurchase shares of our common stock;
- make certain investments, acquisitions, or other restricted payments;
- incur certain liens or permit them to exist;
- acquire, merge, or consolidate with another company; and
- transfer, sell, or otherwise dispose of substantially all of our assets.

Our revolving credit facility contains, and any future credit facility or other debt instrument we may enter into will also likely contain, covenants requiring us to maintain certain financial ratios and meet certain tests, such as an interest coverage ratio, a leverage ratio, and a minimum test. Our ability to comply with those financial ratios and tests can be affected by events beyond our control, and we may not be able to comply with those ratios and tests when required to do so under the applicable debt instruments. For additional information regarding our outstanding debt see *Item 8. Financial Statements and Supplementary Data – Note 6. Long-Term Debt.*

Adverse credit ratings could increase our costs of borrowing money and limit our access to capital markets and commercial credit.

Moody's Investor Service and Standard & Poor's routinely evaluate our credit ratings related to our Senior Notes. If these rating agencies downgrade any of our current credit ratings, our borrowing costs could increase and our access to the capital and commercial credit markets could be adversely affected.

In connection with the Separation, Masco indemnified us for certain liabilities, and we indemnified Masco for certain liabilities. If we are required to act under these indemnities to Masco, we may need to divert cash to meet those obligations, which could adversely affect our financial results. Moreover, the Masco indemnity may not be sufficient to compensate us for the full amount of liabilities for which it may be liable, and Masco may not be able to satisfy its indemnification obligations to us in the future.

Indemnities that we may be required to provide Masco are not subject to any cap, may be significant, and could negatively affect our business, particularly indemnities relating to our actions that could affect the tax-free nature of the Separation. Third parties could also seek to hold us responsible for any of the liabilities that Masco has agreed to retain, and under certain circumstances, we may be subject to continuing contingent liabilities of Masco following the Separation, such as certain shareholder litigation claims. Further, Masco may not be able to fully satisfy its indemnification obligations, or such indemnity obligations may not be sufficient to cover our liabilities. Moreover, even if we ultimately succeed in recovering from Masco any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could negatively affect our business, results of operations, liquidity, and financial condition.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax liabilities imposed by multiple jurisdictions including income taxes; indirect taxes which include excise and duty, sales and use, and gross receipts taxes; payroll taxes; franchise taxes; withholding taxes; and ad valorem taxes. New tax laws and regulations, and changes in existing tax laws and regulations, are continuously being enacted or proposed which could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

Risks Relating to Our Common Stock

The price of our common stock may fluctuate substantially, and the value of your investment may decline.

The market price of our common stock could fluctuate significantly due to a number of factors, many of which are beyond our control, including:

- fluctuations in our quarterly or annual earnings results, or those of other companies in our industry;
- failures of our operating results to meet our published guidance, the estimates of securities analysts or the expectations of our stockholders, or changes by securities analysts in their estimates of our future earnings;
- announcements by us or our customers, suppliers, or competitors;
- changes in laws or regulations which adversely affect our industry or us;

- changes in accounting standards, policies, guidance, interpretations, or principles;
- general economic, industry, and stock market conditions;
- future sales of our common stock by our stockholders;
- future issuances of our common stock by us; and
- other factors described in these "Risk Factors" and elsewhere in this Annual Report.

Provisions in our certificate of incorporation and bylaws, and certain provisions of Delaware law, could delay or prevent a change in control.

The existence of some provisions of our certificate of incorporation and bylaws and Delaware law could discourage, delay, or prevent a change in control that a stockholder may consider favorable. These include provisions:

- authorizing a large number of shares of stock that are not yet issued, which could have the effect of preventing or delaying a change in control if our board of directors issued shares to persons that did not support such change in control, or which could be used to dilute the stock ownership of persons seeking to obtain control; and
- prohibiting stockholders from calling special meetings of stockholders or taking action by written consent.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that could have resulted in a premium over the market price for shares of our common stock.

These provisions apply even if a takeover offer is considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in our and our stockholders' best interests.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a preferred judicial forum for disputes with us or our directors, officers, or other employees.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of Delaware General Corporation Law, our certificate of incorporation (including any certificate of designations for any class or series of our preferred stock), or our bylaws, in each case, as amended from time to time, or (iv) any action asserting a claim governed by the internal affairs doctrine, shall be the Court of Chancery of the State of Delaware (provided, however, that in the event that the Court of Chancery of the State of Delaware lacks subject matter jurisdiction over such proceeding, the sole and exclusive forum for such action or proceeding shall be another state or federal court located within the State of Delaware), in all cases subject to the court having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have received notice of, and consented to, the foregoing provision. This forum selection provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable or cost effective for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and employees.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We operate approximately 230 Installation branch locations and approximately 180 Specialty Distribution centers in the United States and Canada, most of which are leased. Our 65,700 square foot Branch Support Center is leased and located at 475 North Williamson Boulevard in Daytona Beach, FL 32114. This lease expires in June 2029, assuming no exercise of any options set forth in the lease. We believe that our facilities have sufficient capacity and are adequate for our installation and specialty distribution requirements.

Item 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see *Item 8. Financial Statements and Supplementary Data – Note 11. Other Commitments and Contingencies*, which we incorporate herein by reference.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders of our Common Stock. Our common stock is traded on the NYSE under the symbol "BLD". As of February 16, 2023, there were approximately 1,590 holders of our issued and outstanding common stock.

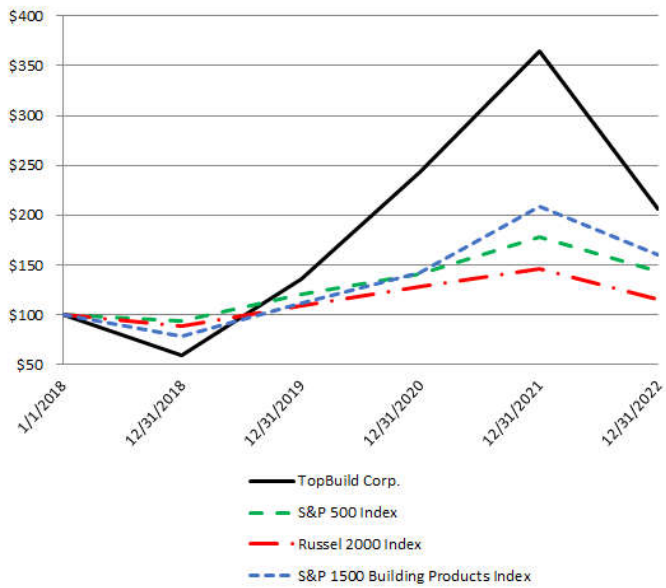
Dividends. No dividends were paid during the years ended December 31, 2022 and 2021. Our Credit Agreement, in certain circumstances, limits the amount of dividends we may distribute. We do not anticipate declaring cash dividends to holders of our common stock in the foreseeable future.

Issuer Purchases of Equity Securities. We have $154.4 million of shares remaining under for repurchase under our 2022 Share Repurchase Program. The following table provides information regarding the repurchase of our common stock for the three months ended December 31, 2022, in thousands, except share and per share data:

Period	Total Number of Shares Purchased	Average Price Paid per Common Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2022 - October 31, 2022	-	-	-	$ 204,406
November 1, 2022 - November 30, 2022	331,306	$ 150.92	331,306	$ 154,406
December 1, 2022 - December 31, 2022	-	-	-	$ 154,406
Total	331,306	$ 150.92	331,306	

Excluded from this disclosure are shares repurchased to settle statutory employee tax withholdings related to the vesting of stock awards.

Performance Graph and Table. The following graph and table compare the cumulative total return of our common stock for the five-year period beginning January 1, 2018, through December 31, 2022, with the total cumulative return of the Russell 2000 Index, the Standard & Poor's 500 Index, and the Standard & Poor's 1500 Building Products Index. The graph and table assume an initial investment of $100 in our common stock and each of the three indices at the opening of business on January 1, 2018, and reinvestment of dividends.



	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
TopBuild Corp.	$ 59	$ 136	$ 243	$ 364	$ 207
Standard & Poor's 500 Index	$ 94	$ 120	$ 140	$ 178	$ 144
Russell 2000 Index	$ 88	$ 108	$ 129	$ 146	$ 115
Standard & Poor's 1500 Building Products Index	$ 78	$ 111	$ 142	$ 209	$ 160

Item 6. [Reserved]

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of our financial position, results of operations, and cash flows. This financial and business analysis should be read in conjunction with the financial statements and related notes.

In this section, we generally discuss the results of our operations for the year ended December 31, 2022 compared to the year ended December 31, 2021. For a discussion of the year ended December 31, 2021 to the year ended December 31, 2020, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022, which discussion is hereby incorporated herein by reference.

Executive Summary

We are a leading installer and specialty distributor of insulation and related building material products to the construction industry in the United States and Canada. Demand for our products and services is driven primarily by residential and commercial/industrial construction and by industrial manufacturing activity. A number of local and national factors influence activity in each of our lines of business, including demographic trends, interest rates, employment levels, business investment, supply and demand for housing, availability of credit, foreclosure rates, consumer confidence, and general economic conditions.

The core of our business is inherently environmentally friendly. The insulation we install and distribute drives thermal efficiency, lowers energy usage, and reduces carbon emissions. We are a leader in delivering these benefits for new and existing homes and commercial/industrial facilities across the United States and Canada.

Strategy

We are a leading installer and specialty distributor of insulation for the residential and commercial/industrial end markets in the United States and Canada. We also distribute a range of other related building material products including gutters, garage doors, windows, and glass. We are committed to creating long-term value for all stakeholders – employees, customers, suppliers, and investors. Our core values include:

- Safety – We put the safety of our people first.
- Integrity – We deliver results with integrity, respect, and accountability.
- Focus – We are customer-focused, grounded in strong relationships.
- Innovation – We are continuously improving and encourage idea sharing.
- Unity – We are united as one team, valuing diversity.
- Community – We make a difference in the communities we serve.
- Empowerment – We are empowered to be our best, individually and as a team.

Our strategy is focused on growth and productivity including:

- Attracting and retaining top talent
- Leveraging technology to streamline processes;
- Expanding our business and market share in the residential and commercial/industrial end-markets;
- Acquiring strategically aligned businesses;
- Driving operational efficiencies throughout the business.

Our operating results depend heavily on residential new construction activity and, to a lesser extent, on commercial/industrial construction and industrial manufacturing activity, all of which are cyclical. We are also dependent on third-party suppliers and manufacturers providing us with an adequate supply of high-quality products.

Material Trends in Our Business

We recognize that there is uncertainty around the economy as the Federal Reserve seeks to slow inflation by raising interest rates. Higher interest rates and overall inflation have led to many consumers being priced out of the housing market as evidenced by our homebuilders reporting higher cancellation rates, declining order volumes, and decreasing housing starts in the second half of 2022. The backlog of houses under construction supported our sales through the back half of 2022 and we anticipate that trend to continue into the second quarter of 2023 for single family homes and into the fourth quarter of 2023 for multi-family homes. We remain optimistic about the long-term fundamentals of the U.S. housing market and believe that when mortgage rates eventually stabilize consumer demand will rebound.

The commercial/industrial end-markets are showing mixed signals, in part due to higher interest rates. However, our bidding and order activity remains strong and we remain optimistic about the long-term fundamentals for these markets as well.

Seasonality

Sales across our end markets are typically slower during the winter months due to lower construction activity.

Results of Operations

We report our financial results in conformity with GAAP.

The following table sets forth our net sales, gross profit, operating profit, and margins, as reported in our Consolidated Statements of Operations, in thousands:

	Year Ended December 31,	
	2022	**2021**
Net sales	**$ 5,008,744**	**$ 3,486,207**
Cost of sales	3,522,025	2,511,818
Cost of sales ratio	*70.3 %*	*72.1 %*
Gross profit	**1,486,719**	**974,389**
Gross profit margin	*29.7 %*	*27.9 %*
Selling, general, and administrative expense	689,555	497,970
Selling, general, and administrative expense to sales ratio	*13.8 %*	*14.3 %*
Operating profit	**797,164**	**476,419**
Operating profit margin	*15.9 %*	*13.7 %*
Other expense, net	(55,029)	(42,976)
Income tax expense	(186,146)	(109,427)
Net income	**$ 555,989**	**$ 324,016**
Net margin	*11.1 %*	*9.3 %*

Comparison of the Years Ended December 31, 2022 and December 31, 2021

Sales and Operations

Net sales for 2022 increased 43.7 percent, or $1.5 billion, to $5.0 billion. The increase was driven by a 24.9 percent increase in sales from acquisitions, 13.4 percent impact from higher selling prices, and a 5.4 percent increase in sales volume.

Our gross profit margins were 29.7 percent and 27.9 percent for 2022 and 2021, respectively. Gross profit margin improved primarily due to higher selling prices, higher sales volume, and productivity initiatives partially offset by an increase in cost of material.

Selling, general, and administrative expenses as a percentage of sales were 13.8 percent and 14.3 percent for 2022 and 2021, respectively. Decreased selling, general, and administrative expense as a percent of sales was primarily the result of higher sales, partially offset by higher amortization of intangible assets related to purchase accounting and acquisition integration costs.

Operating margins were 15.9 percent and 13.7 percent for 2022 and 2021, respectively. The increase in operating margins related to higher selling prices, higher sales volume, and productivity initiatives, partially offset by an increase in cost of material, and higher amortization of intangible assets related to purchase accounting and acquisition integration costs.

Other Expense, Net

Other expense, net, which primarily consists of interest expense, increased $12.1 million to $55.0 million in 2022 compared with 2021. The increase is primarily related to increased average debt outstanding in 2022 and higher interest rates on our Term Loan, partially offset by increased interest income.

Income Tax Expense

Our effective tax rate decreased from 25.2 percent in 2021 to 25.1 percent in 2022. The lower 2022 rate is primarily related to a decrease in non-deductible items offset by a decrease in the benefit related to share-based compensation.

2022 and 2021 Business Segment Results

The following table sets forth our net sales and operating profit information by business segment, in thousands:

	Year Ended December 31,		
	2022	**2021**	**Percent Change**
Net sales by business segment:			
Installation	$ 2,969,978	$ 2,378,401	24.9 %
Specialty Distribution	2,278,261	1,287,176	77.0 %
Intercompany eliminations	(239,495)	(179,370)	
Net sales	$ 5,008,744	$ 3,486,207	43.7 %
Operating profit by business segment (a):			
Installation	$ 548,795	$ 383,722	43.0 %
Specialty Distribution	326,226	169,368	92.6 %
Intercompany eliminations	(39,839)	(29,653)	
Operating profit before general corporate expense	835,182	523,437	59.6 %
General corporate expense, net (b)	(38,018)	(47,018)	
Operating profit	$ 797,164	$ 476,419	67.3 %
Operating profit margins:			
Installation	18.5 %	16.1 %	
Specialty Distribution	14.3 %	13.2 %	
Operating profit margin before general corporate expense	16.7 %	15.0 %	
Operating profit margin	15.9 %	13.7 %	

(a) Segment operating profit includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).

(b) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance and legal, including salaries, benefits, and other related costs.

2022 and 2021 Business Segment Results Discussion

Changes in operating profit margins in the following business segment results discussion exclude general corporate expense, net in 2022 and 2021, as applicable.

Installation

Sales

Sales increased $591.6 million, or 24.9 percent, in 2022 compared to 2021. Sales increased 12.2 percent due to higher selling prices, 9.2 percent from higher sales volume and 3.4 percent from acquisitions.

Operating Results

Operating margins in the Installation segment were 18.5 percent and 16.1 percent for 2022 and 2021, respectively. The increase in operating margin was driven by higher selling prices, higher sales volume, and productivity initiatives, partially offset by an increase in cost of material.

Specialty Distribution

Sales

Sales increased $991.1 million, or 77.0 percent, in 2022 compared to 2021. Sales increased 61.8 percent from acquisitions, 15.8 percent due to higher selling prices partially offset by a slight decrease in volume of 0.6 percent.

Operating Results

Operating margins in the Specialty Distribution segment were 14.3 percent and 13.2 percent for 2022 and 2021, respectively. The increase in operating margin was driven primarily by higher selling prices and productivity initiatives, partially offset by higher amortization of intangible assets related to purchase accounting.

Commitments and Contingencies

We are subject to certain claims, charges, litigation, and other proceedings in the ordinary course of our business. We believe we have adequate defenses in these matters, and we do not believe that the ultimate outcome of these matters will have a material adverse effect on us. For additional information see *Item 8. Financial Statements and Supplementary Data – Note 11. Other Commitments and Contingencies.*

Liquidity and Capital Resources

We have access to liquidity through our cash from operations and available borrowing capacity under our Credit Agreement, which provides for borrowing and/or standby letter of credit issuances of up to $500 million under the revolving facility. For additional information regarding our outstanding debt and borrowing capacity see *Item 8. Financial Statements and Supplementary Data – Note 6. Long-Term Debt.*

The following table summarizes our total liquidity, in thousands:

	As of	
	December 31, 2022	**December 31, 2021**
Cash and cash equivalents (a)	$ 240,069	$ 139,779
Revolving facility	500,000	500,000
Less: standby letters of credit	(67,689)	(69,936)
Availability under revolving facility	432,311	430,064
Total liquidity	$ 672,380	$ 569,843

(a) Our cash and cash equivalents consist of AAA-rated money market funds as well as cash held in our demand deposit accounts.

We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and known contractual obligations including funding our debt service requirements, capital expenditures, lease obligations and working capital needs for at least the next twelve months. We also have adequate liquidity to maintain off-balance sheet arrangements for short-term leases, letters of credit, and performance and license bonds. See *Item 8. Financial Statements and Supplementary Data* of this Annual Report for related disclosures.

Cash Flows

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods indicated, in thousands:

	Year Ended December 31,	
	2022	**2021**
Changes in cash and cash equivalents:		
Net cash provided by operating activities	$ 495,801	$ 403,025
Net cash used in investing activities	(93,907)	(1,322,245)
Net cash (used in) provided by financing activities	(300,073)	729,007
Impact of exchange rate changes on cash	(1,531)	(15)
Net increase (decrease) in cash and cash equivalents	$ 100,290	$ (190,228)

Net cash flows provided by operating activities increased $92.8 million for the year ended December 31, 2022, as compared to December 31, 2021. Net income was up $231.9 million, or 71.6%, compared with the prior year period, driven by the impact of our acquisitions, higher sales prices and sale volumes. That increase was largely offset by the impact of higher levels of working capital, particularly receivables and inventory.

Net cash used in investing activities was $93.9 million for the year ended December 31, 2022, primarily comprised of $76.4 million for purchases of property and equipment (primarily vehicles, equipment and computer hardware and software), as well as $20.5 million for acquisitions. Net cash used in investing activities was $1,322.2 million for the year ended December 31, 2021, primarily comprised of $1,267.1 million for acquisitions and $55.5 million for purchases of property and equipment, primarily vehicles.

Net cash used in financing activities was $300.1 million for the year ended December 31, 2022. During the year ended December 31, 2022, we used $250.0 million for the repurchase of common stock, $38.7 million for debt repayments, and $9.7 million net activity related to exercise of share-based incentive awards and stock options. Additionally, we borrowed and repaid $70 million on our Revolving Facility, all within the second quarter of 2022. Net cash provided by financing activities was $729.0 million for the year ended December 31, 2021. Cash increased by $1,218.8 million from proceeds received on Amendment No. 1 to Credit Agreement as well as the 4.125% Senior Notes issuance used to fund the acquisition of DI. These increases were partially offset by repayments of $433.1 million including $400.0 million to redeem our 5.625% Senior Notes and payments on our term loan and equipment notes as well as $15.0 million used for debt issuance costs related to Amendment No. 1 to Credit Agreement as well as the 4.125% Senior Notes issuance. Additionally, we used $35.6 million for the repurchase of common stock as well as $5.5 million net activity related to exercise of share-based incentive awards and stock options.

Critical Accounting Policies and Estimates

We prepare our Consolidated Financial Statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities, and any related contingencies, at the date of the financial statements, as well as the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Our significant accounting policies are more fully described in *Item 8. Financial Statements and Supplementary Data – Note 1. Summary of Significant Accounting Policies*. However, certain of our accounting policies considered critical are those we believe are both most important to the portrayal of our financial condition and operating results and require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our Consolidated Financial Statements.

Revenue Recognition and Receivables

We recognize revenue for our Installation segment over time as the related performance obligation is satisfied with respect to each particular order within a given customer's contract. Progress toward complete satisfaction of the performance obligation is measured using a cost-to-cost measure of progress method. The cost input is based on the amount of material installed at that customer's location and the associated labor costs, as compared to the total expected cost for the particular order. The total expected cost is a significant estimate in the revenue recognition process, requires judgment, and is subject to variability throughout the duration of the contract as a result of contract modifications and other circumstances impacting job completion. Generally, this results in revenue being recognized as the customer is able to receive and utilize the benefits provided by our services. Each contract contains one or more individual orders, which are based on services delivered. When material and installation services are bundled in a contract, we combine these items into one performance obligation as the overall promise is to transfer the combined item.

Revenue from our Specialty Distribution segment is recognized when title to products and risk of loss transfers to our customers. This represents the point in time when the customer is able to direct the use of and obtain substantially all the benefits from the product. The determination of when control is deemed transferred depends on the shipping terms that are agreed upon in the contract.

At time of sale, we record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives based on historical experience, which is continuously adjusted. The duration of our contracts with customers is relatively short, generally less than a 90-day period, and therefore there is not a significant financing component when considering the determination of the transaction price which gets allocated to the individual performance obligations, generally based on standalone selling prices. Additionally, we consider shipping costs charged to a customer as a fulfillment cost rather than a promised service and expense as incurred. Sales taxes, when incurred, are recorded as a liability and excluded from revenue on a net basis.

We record a contract asset when we have satisfied our performance obligation prior to billing and a contract liability when a customer payment is received prior to the satisfaction of our performance obligation. The difference between the beginning and ending balances of our contract assets and liabilities primarily results from the timing of our performance and the customer's payment.

We maintain allowances for estimated losses resulting from the inability of customers to make required payments. In addition, we monitor our customer receivable balances and the credit worthiness of our customers on an on-going basis. During downturns in our markets, declines in the financial condition and creditworthiness of customers impact the credit risk of the receivables involved and we have incurred additional bad debt expense related to customer defaults.

Business Combinations

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, and non-compete agreements as identifiable intangible assets, which are recorded at fair value as of the transaction date. The fair value of the customer relationships intangible assets was determined by management using the multi-period excess earnings method under the income approach. Assumptions used in determining the fair value of the customer relationships intangible asset included forecasted revenue growth rate, customer attrition rate, and discount rate. The fair value of other intangible assets is determined primarily using current industry information. Goodwill is recorded when consideration transferred exceeds the fair value of identifiable assets and liabilities. Measurement-period adjustments to assets acquired and liabilities assumed with a corresponding offset to goodwill are recorded in the period they occur, which may include up to one year from the acquisition date. Contingent consideration is recorded at fair value at the acquisition date.

Goodwill and Other Intangible Assets

We have two reporting units, which are also our operating and reporting segments: Installation and Specialty Distribution, and both contain goodwill. Our operating segments engage in business activities for which discrete financial information including long range forecasts is available, and we complete the impairment testing of goodwill at this level, as defined by accounting guidance. Assets acquired and liabilities assumed are assigned to the applicable reporting unit based on whether the acquired assets and liabilities relate to the operations of such unit and determination of its fair value. Goodwill assigned to the reporting unit is the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed for the reporting unit.

We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. If we conclude otherwise, then no further action is taken. We also have the option to bypass the qualitative assessment and only perform a quantitative assessment. For the year ended December 31, 2022, we performed a quantitative assessment.

Fair value for our reporting units is determined using a discounted cash flow method which includes significant unobservable inputs (Level 3 inputs). We believe this methodology is comparable to what would be used by other market participants. Using the discounted cash flow method requires us to make significant estimates and assumptions, including long term projections of cash flows, market conditions, and appropriate discount rates. Our judgments are based on historical experience, current market trends, consultations with external valuation specialists and other information. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, changes to estimates and assumptions could result in different outcomes. In estimating future cash flows, we rely on internally generated long-range forecasts for sales and operating profits, and generally a one to three percent long term assumed annual growth rate of cash flows for periods after the long-range forecast. We generally develop these forecasts based upon, among other things, recent sales data for existing products, and estimated U.S. housing starts.

When necessary, an impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds its fair value. In the fourth quarters of 2022 and 2021, we performed an assessment on our goodwill and determined that the estimated fair value of each reporting unit substantially exceeded its carrying value at December 31, 2021, and therefore the goodwill was not impaired.

We did not recognize any impairment charges for goodwill for the years ended December 31, 2022, 2021, and 2020. As of December 31, 2022, net goodwill reflected $762.0 million of accumulated impairment losses, relating primarily to impairment charges taken in 2008-2010 following the substantial decrease in U.S. housing starts after the financial crisis of 2007-2008.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We evaluate the remaining useful lives of amortizable identifiable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization.

Income Taxes

If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of deferred tax assets.

While we believe we have adequately assessed for our uncertain tax positions, amounts asserted by taxing authorities could vary from our assessment of uncertain tax positions. Accordingly, provisions for tax-related matters, including interest and penalties, could be recorded in income tax expense in the period revised assessments are made.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements and their expected or actual effect on our reported results of operations are addressed in *Item 8. Financial Statements and Supplementary Data – Note 1. Summary of Significant Accounting Policies*.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We have a Term Loan outstanding with a principal balance of $566.3 million and a revolving facility with an aggregate borrowing capacity of $500.0 million. We also have outstanding 3.625% Senior Notes with an aggregate principal balance of $400.0 million and 4.125% Senior Notes with an aggregate principal balance of $500.0 million. The 3.625% Senior Notes and 4.125% Senior Notes bear a fixed rate of interest and therefore are excluded from the calculation below as they are not subject to fluctuations in interest rates.

On December 9, 2022, the Company entered into Amendment No. 3 to Credit Agreement. Amendment No. 3 to Credit Agreement replaces LIBOR with SOFR as the reference interest rate benchmark.

Interest payable on both the aggregate Term Loan and revolving facility is based on a variable interest rate. As a result, we are exposed to market risks related to fluctuations in interest rates on this outstanding indebtedness. As of December 31, 2022, the applicable interest rate as of such date was 5.42%. Based on our outstanding borrowings as of December 31, 2022, a 100 basis point increase in the interest rate would result in a $5.6 million increase in our annualized interest expense. There was no outstanding balance under the revolving facility as of December 31, 2022.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of TopBuild Corp.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of TopBuild Corp. and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of operations, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition-Total Expected Costs for Performance Obligations Satisfied Over Time

As described in Notes 1 and 3 to the consolidated financial statements, $2,970 million of the Company's total revenues for the year ended December 31, 2022 was generated from the Installation segment. Revenue is recognized for the Installation segment over time as the related performance obligation is satisfied with respect to each particular order within a given customer's contract. Progress toward complete satisfaction of the performance obligation is measured using a cost-to-cost measure of progress method. The cost input is based on the amount of material installed at that customer's location and the associated labor costs, as compared to the total expected cost for the particular order. The total expected cost is a significant estimate in the revenue recognition process, requires judgment, and is subject to variability throughout the duration of the contract as a result of contract modifications and other circumstances impacting job completion. Revenue is recognized over time as the customer is able to receive and utilize the benefits provided.

The principal considerations for our determination that performing procedures relating to revenue recognition – total expected costs for performance obligations satisfied over time is a critical audit matter are (i) the significant judgment by management when determining the total expected costs for a customer contract and (ii) a high degree of auditor judgment and effort in performing procedures and evaluating management's significant assumptions related to the estimated amount of material installed and the associated labor costs.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the estimation of total expected costs for performance obligations satisfied over time. The procedures also included, among others (i) testing management's process for determining the total expected costs for a sample of customer contracts and (ii) evaluating the reasonableness of significant assumptions related to the estimated amount of material to be installed and the associated labor costs used by management and considering the factors that can affect the accuracy of those estimates. Evaluating the reasonableness of significant assumptions used involved assessing management's ability to reasonably estimate total expected costs for customer contracts by (i) performing a comparison of the originally estimated and actual costs incurred on completed contracts and (ii) evaluating the timely identification of circumstances that may warrant a modification to total expected cost, including actual costs in excess of estimates.

/s/ PricewaterhouseCoopers LLP
Tampa, Florida
February 23, 2023

We have served as the Company's auditor since 2015.

TOPBUILD CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands except share amounts)

	As of	
	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 240,069	$ 139,779
Receivables, net of an allowance for credit losses of $16,281 at December 31, 2022, and $8,798 at December 31, 2021	836,071	668,419
Inventories, net	438,644	352,801
Prepaid expenses and other current assets	34,257	26,692
Total current assets	1,549,041	1,187,691
Right of use assets	205,892	177,177
Property and equipment, net	253,484	244,574
Goodwill	1,966,994	1,949,763
Other intangible assets, net	614,967	684,209
Other assets	16,453	15,116
Total assets	$ 4,606,831	$ 4,258,530
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 487,114	$ 461,917
Current portion of long-term debt	40,068	38,640
Accrued liabilities	199,370	175,891
Short-term operating lease liabilities	60,880	54,591
Short-term finance lease liabilities	2,207	2,387
Total current liabilities	789,639	733,426
Long-term debt	1,417,257	1,454,483
Deferred tax liabilities, net	251,481	248,243
Long-term portion of insurance reserves	59,783	51,875
Long-term operating lease liabilities	149,943	125,339
Long-term finance lease liabilities	6,673	7,770
Other liabilities	2,349	960
Total liabilities	2,677,125	2,622,096
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, $0.01 par value: 250,000,000 shares authorized; 39,325,916 shares issued and 31,642,832 outstanding at December 31, 2022, and 39,165,024 shares issued and 32,927,185 outstanding at December 31, 2021	393	391
Treasury stock, 7,683,084 shares at December 31, 2022, and 6,237,839 shares at December 31, 2021, at cost	(692,799)	(431,030)
Additional paid-in capital	887,367	873,031
Retained earnings	1,756,665	1,200,676
Accumulated other comprehensive loss	(21,920)	(6,634)
Total equity	1,929,706	1,636,434
Total liabilities and equity	$ 4,606,831	$ 4,258,530

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except share and per common share amounts)

	Year Ended December 31,		
	2022	**2021**	**2020**
Net sales	$ 5,008,744	$ 3,486,207	$ 2,718,038
Cost of sales	3,522,025	2,511,818	1,971,677
Gross profit	1,486,719	974,389	746,361
Selling, general, and administrative expense	689,555	497,970	391,315
Operating profit	797,164	476,419	355,046
Other income (expense), net:			
Interest expense	(56,716)	(29,143)	(32,456)
Loss on extinguishment of debt	—	(13,837)	(233)
Other, net	1,687	4	733
Other expense, net	(55,029)	(42,976)	(31,956)
Income before income taxes	742,135	433,443	323,090
Income tax expense	(186,146)	(109,427)	(76,067)
Net income	$ 555,989	$ 324,016	$ 247,023
Net income per common share:			
Basic	$ 17.26	$ 9.88	$ 7.50
Diluted	$ 17.14	$ 9.78	$ 7.42
Weighted average shares outstanding:			
Basic	32,213,839	32,801,906	32,917,971
Diluted	32,440,405	33,146,171	33,299,986

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2022	**2021**	**2020**
Net income	$ 555,989	$ 324,016	$ 247,023
Other comprehensive loss:			
Foreign currency translation adjustment	(15,286)	(6,634)	-
Comprehensive income	$ 540,703	$ 317,382	$ 247,023

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2022	**2021**	**2020**
Cash Flows Provided by (Used in) Operating Activities:			
Net income	$ 555,989	$ 324,016	$ 247,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	123,335	79,390	62,410
Share-based compensation	12,310	11,316	14,752
Loss on extinguishment of debt	-	13,837	233
Loss (gain) on sale of property and equipment	1,833	1,356	(88)
Amortization of debt issuance costs	2,867	2,036	1,491
Provision for bad debt expense	5,510	7,304	6,270
Loss from inventory obsolescence	6,659	2,637	2,512
Deferred income taxes, net	6,041	(2,818)	(4,070)
Change in certain assets and liabilities:			
Receivables, net	(169,327)	(69,042)	2,612
Inventories, net	(93,874)	(46,518)	(11,843)
Prepaid expenses and other current assets	(9,222)	558	(460)
Accounts payable	26,581	54,961	16,844
Accrued liabilities	20,703	24,816	20,545
Other, net	6,396	(824)	(347)
Net cash provided by operating activities	495,801	403,025	357,884
Cash Flows Provided by (Used in) Investing Activities:			
Purchases of property and equipment	(76,382)	(55,546)	(40,938)
Acquisition of businesses, net of cash acquired	(20,500)	(1,267,114)	(83,408)
Proceeds from sale of property and equipment	2,975	415	2,463
Net cash used in investing activities	(93,907)	(1,322,245)	(121,883)
Cash Flows Provided by (Used in) Financing Activities:			
Proceeds from issuance of long-term debt	-	1,218,750	300,000
Repayment of long-term debt	(38,658)	(433,070)	(324,948)
Payment of debt issuance costs	-	(14,965)	(2,280)
Proceeds from revolving credit facility	70,000	-	-
Repayment of revolving credit facility	(70,000)	-	-
Taxes withheld and paid on employees' equity awards	(11,719)	(8,805)	(14,932)
Exercise of stock options	2,028	3,303	1,438
Repurchase of shares of common stock	(250,050)	(35,556)	(49,151)
Payment of contingent consideration	(1,674)	(650)	(928)
Net cash (used in) provided by financing activities	(300,073)	729,007	(90,801)
Impact of exchange rate changes on cash	(1,531)	(15)	-
Net increase (decrease) in cash and cash equivalents	100,290	(190,228)	145,200
Cash and cash equivalents- Beginning of period	139,779	330,007	184,807
Cash and cash equivalents- End of period	$ 240,069	$ 139,779	$ 330,007
Supplemental disclosure of cash paid for:			
Interest	$ 49,888	$ 22,144	$ 30,896
Income taxes	186,722	109,179	77,689
Supplemental disclosure of noncash activities:			
Leased assets obtained in exchange for new operating lease liabilities	$ 103,997	$ 131,909	$ 38,646
Leased assets obtained in exchange for new finance lease liabilities	—	10,469	—
Accruals for property and equipment	141	1,060	645

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share amounts)

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Equity
Balance at December 31, 2019	$ 388	$ (330,018)	$ 849,657	$ 632,862	$ -	$ 1,152,889
Cumulative-effect of accounting change	-	-	-	(3,225)	-	(3,225)
Net income	-	-	-	247,023	-	247,023
Share-based compensation	-	-	14,752	-	-	14,752
Issuance of 253,470 restricted share awards under long-term equity incentive plan	1	-	(1)	-	-	-
Repurchase of 542,772 shares pursuant to 2019 Repurchase Program	-	(49,151)	-	-	-	(49,151)
Repurchase of 73,455 shares pursuant to the settlement of the 2019 ASR Agreement	-	(7,500)	7,500	-	-	-
142,822 shares withheld to pay taxes on employees' equity awards	-	-	(14,932)	-	-	(14,932)
19,242 shares issued upon exercise of stock options	-	-	1,438	-	-	1,438
Balance at December 31, 2020	$ 389	$ (386,669)	$ 858,414	$ 876,660	$ -	$ 1,348,794
Net income	-	-	-	324,016	-	324,016
Share-based compensation	-	-	11,316	-	-	11,316
Issuance of 144,679 restricted share awards under long-term equity incentive plan	2	-	(2)	-	-	-
Repurchase of 183,136 shares pursuant to 2019 Repurchase Program	-	(35,556)	-	-	-	(35,556)
43,715 shares withheld to pay taxes on employees' equity awards	-	(8,805)	-	-	-	(8,805)
53,275 shares issued upon exercise of stock options	-	-	3,303	-	-	3,303
Other comprehensive loss, net of tax	-	-	-	-	(6,634)	(6,634)
Balance at December 31, 2021	$ 391	$ (431,030)	$ 873,031	$ 1,200,676	$ (6,634)	$ 1,636,434
Net income	-	-	-	555,989	-	555,989
Share-based compensation	-		12,310	-	-	12,310
Issuance of 168,137 restricted share awards under long-term equity incentive plan	2	-	(2)	-	-	-
Repurchase of 1,390,667 shares pursuant to the Share Repurchase Programs	-	(250,050)	-	-	-	(250,050)
53,593 shares withheld to pay taxes on employees' equity awards	-	(11,719)	-	-	-	(11,719)
25,215 shares issued upon exercise of stock options	-	-	2,028	-	-	2,028
Other comprehensive loss, net of tax	-	-	-	-	(15,286)	(15,286)
Balance at December 31, 2022	$ 393	$ (692,799)	$ 887,367	$ 1,756,665	$ (21,920)	$ 1,929,706

See notes to our consolidated financial statements.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. TopBuild is a Delaware corporation and trades on the NYSE under the symbol "BLD." We report our business in two segments: Installation and Specialty Distribution. Our Installation segment primarily installs insulation and other building products. Our Specialty Distribution segment primarily sells and distributes insulation and other building products. Our segments are based on our operating units, for which financial information is regularly evaluated by our Chief Operating Decision Maker.

Financial Statement Presentation. The consolidated financial statements have been developed in conformity with GAAP. All intercompany transactions between the TopBuild entities have been eliminated.

Use of Estimates and Assumptions in the Preparation of Financial Statements. The preparation of our consolidated financial statements in conformity with GAAP requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of any contingent assets and liabilities, at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

Revenue Recognition. Revenue is disaggregated between our Installation and Specialty Distribution segments. A reconciliation of disaggregated revenue by segment is included in *Note 8 – Segment Information*.

We recognize revenue for our Installation segment over time as the related performance obligation is satisfied with respect to each particular order within a given customer's contract. Progress toward complete satisfaction of the performance obligation is measured using a cost-to-cost measure of progress method. The cost input is based on the amount of material installed at that customer's location and the associated labor costs, as compared to the total expected cost for the particular order. The total expected cost is a significant estimate in the revenue recognition process, requires judgment, and is subject to variability throughout the duration of the contract as a result of contract modifications and other circumstances impacting job completion. Generally, this results in revenue being recognized as the customer is able to receive and utilize the benefits provided by our services. Each contract contains one or more individual orders, which are based on services delivered. When material and installation services are bundled in a contract, we combine these items into one performance obligation as the overall promise is to transfer the combined item.

Revenue from our Specialty Distribution segment is recognized when title to products and risk of loss transfers to our customers. This represents the point in time when the customer is able to direct the use of and obtain substantially all the benefits from the product. The determination of when control is deemed transferred depends on the shipping terms that are agreed upon in the contract.

At time of sale, we record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives based on historical experience, which is continuously adjusted. The duration of our contracts with customers is relatively short, generally less than a 90-day period, therefore there is not a significant financing component when considering the determination of the transaction price which gets allocated to the individual performance obligations, generally based on standalone selling prices. Additionally, we consider shipping costs charged to a customer as a fulfillment cost rather than a promised service and expense as incurred. Sales taxes, when incurred, are recorded as a liability and excluded from revenue on a net basis.

We record a contract asset when we have satisfied our performance obligation prior to billing and a contract liability when a customer payment is received prior to the satisfaction of our performance obligation. The difference between the beginning and ending balances of our contract assets and liabilities primarily results from the timing of our performance and the customer's payment. See *Note 3 – Revenue Recognition* for more information.

Business Combinations. The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, and non-compete agreements as identifiable intangible assets, which are recorded at fair value as of the transaction date. The fair value of the customer relationships intangible assets were determined by management using the multi-period excess earnings method under the income approach. Assumptions used in determining the fair value of the customer relationships intangible asset included forecasted revenue growth rate, customer attrition rate, and discount rate. The fair value of other intangible assets is determined primarily using current industry information. Goodwill is recorded when consideration transferred exceeds the fair value of identifiable assets and liabilities. Measurement-period adjustments to assets acquired and liabilities assumed with a corresponding offset to goodwill are recorded in the period they occur, which may include up to one year from the acquisition date. Contingent consideration is recorded at fair value at the acquisition date.

Cash and Cash Equivalents. We consider our highly liquid investments with a maturity of three months or less at the time of purchase to be cash and cash equivalents.

Receivables, net. We do business with a significant number of customers, principally homebuilders and contractors. We monitor our exposure for credit losses on our customer receivable balances and the credit worthiness of our customers on an on-going basis. Expected credit losses are measured by segment using historical loss rate information adjusted for current conditions, with changes in the allowance recorded as a provision for (or reversal of) credit loss expense. Expected losses are charged against the allowance when management believes a receivable is uncollectible. During downturns in our markets, declines in the financial condition and creditworthiness of customers impact the credit risk of the receivables involved and we have incurred additional expense related to customer defaults. Receivables, net are presented net of certain allowances, including allowance for credit losses.

Inventories, net. Inventories, net consist primarily of insulation and insulation accessories, rain gutters, garage doors, fireplaces, glass and windows, shelving, and other products. We value inventory at the lower of cost or net realizable value, where cost is determined by the first in-first out cost method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. Inventory value is evaluated at each balance sheet date to ensure that it is carried at the lower of cost or net realizable value.

Inventory provisions are recorded to reduce inventory to the lower of cost or net realizable value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items such as product discontinuance, engineering/material changes, or regulatory-related changes. Our inventory reserve balances were $17.3 million and $11.2 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022, and 2021, primarily all inventory consisted of finished goods.

Property and Equipment, net. Property and equipment, net, including significant improvements to existing facilities, are recorded at cost. Upon retirement or disposal, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the Consolidated Statements of Operations. Maintenance and repair costs are charged against earnings as incurred. Gains and losses on the disposal of equipment are included in selling, general, and administrative expense.

We review our property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount is not recoverable from its undiscounted cash flows, we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

Depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are generally as follows:

Asset Class	Estimated Useful Life
Buildings and land improvements	20 – 40 years
Software	3 – 6 years
Company vehicles	3 – 8 years
Equipment	6 – 10 years

Leases. At the inception of a contract, we determine whether the contract is, or contains, a lease based on the unique facts and circumstances present. Our facilities operating leases and various vehicle and equipment finance leases have lease and non-lease fixed cost components, which we account for as one single lease component in calculating the present value of minimum lease payments. Variable lease and non-lease cost components are expensed as incurred and are primarily included in cost of sales on the accompanying consolidated statement of operations.

Lease payments are recognized as an expense in the consolidated statements of operations on a straight-line basis over the lease term, including future option periods the Company reasonably expects to exercise, whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. This generally results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in later years. The difference between rent expense recognized and actual rental payments is typically represented as the spread between the ROU asset and lease liability.

We recognize a ROU asset and a lease liability at the lease commencement date. Our leases may include options to extend or terminate the lease, which will be reflected in the calculation of the lease liability and corresponding ROU asset when it is reasonably certain that we will exercise that option. We do not recognize ROU assets and lease liabilities for short-term leases that have an initial lease term of 12 months or less. We recognize the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

The lease liability is initially measured as the present value of the unpaid lease payments as of the lease commencement date. The lease liability is discounted based on our IBR at the time of modification for an existing lease or at the time of lease commencement for new leases. Our IBR includes significant assumptions regarding our secured borrowing rates obtained on equipment note issuances and adjustments for differences in the remaining lease term, underlying assets and market conditions for companies with similar credit qualities as well as interest rate index fluctuations. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. The ROU asset is subsequently measured throughout the lease term as the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Certain vehicle lease agreements have residual value guarantees at the end of the lease which require us to return the asset with a specified percentage of the original or other calculated value.

Fair Value. The fair value measurement standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (referred to as an "exit price"). A fair value hierarchy is established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities or other inputs that are observable or can be corroborated by market data.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Goodwill and Other Intangible Assets. We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level. Our operating segments are reporting units that engage in business activities for which discrete financial information, including long-range forecasts, are available. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. If we conclude otherwise, then no further action is taken. We also have the option to bypass the qualitative assessment and only perform a quantitative assessment.

Fair value for our reporting units is determined using a discounted cash flow method, which includes significant unobservable inputs (Level 3 inputs). Using the discounted cash flow method requires us to make significant estimates and assumptions, including long term projections of cash flows, market conditions, and appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. In estimating future cash flows, we rely on internally generated long-range forecasts for sales and operating profits, including capital expenditures.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We evaluate the remaining useful lives of amortizable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization. For additional information, see *Note 5 – Goodwill and Other Intangibles*.

Insurance Reserves. We use a combination of high deductible and matching deductible insurance programs for a number of risks including, but not limited to, workers' compensation, general liability, vehicle, and property liabilities. Our workers' compensation insurance is primarily a high-deductible insurance program and our primary general liability insurance is a matching deductible program. We are insured for covered claims above the deductibles and retentions on an excess basis. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported claims through December 31, 2022 and 2021. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability. We also record an insurance receivable for claims that exceeded the stop loss limit included in other assets on our Consolidated Balance Sheets which offsets an equal liability included within the reserve amount recorded in other liabilities on our Consolidated Balance Sheets. At December 31, 2022 and 2021, the amount of this receivable and liability was \$16.5 million and \$13.2 million, respectively.

Advertising. Advertising costs are expensed as incurred. Advertising expense, net of manufacturers support, was approximately \$2.9 million, \$2.3 million, and \$1.4 million for the years ended December 31, 2022, 2021 and 2020, respectively, and is included in selling, general, and administrative expense.

Share-based Compensation. Our share-based compensation program currently consists of RSAs and stock options. Share-based compensation expense is reported in selling, general, and administrative expense. We do not capitalize any compensation cost related to share-based compensation awards. The income tax benefits and deficiencies associated with share-based awards are reported as a component of income tax expense. Excess tax benefits and deficiencies are included in net cash provided by (used in) operating activities while shares withheld for tax-withholding are reported in financing activities under the caption "Taxes withheld and paid on employees' equity awards" in our Consolidated Statements of Cash Flows. Award forfeitures are accounted for in the period they occur.

Award Type:	Fair Value Determination	Vesting	Expense Recognition‡	Expense Measurement
Restricted Share Awards				
Service Condition	Closing stock price on date of grant	Ratably; 3 years	Straight-line	Fair value at grant date
Performance Condition	Closing stock price on date of grant	Cliff; 3 years	Straight-line; Adjusted based on meeting or exceeding performance targets	Evaluated quarterly; 0 - 200% of fair value at grant date depending on performance
Market Condition	Monte-Carlo Simulation	Cliff; 3 years	Straight-line; Recognized even if condition is not met	Fair value at grant date
Stock Options†	Black-Scholes Options Pricing Model	Ratably; 3 or 5 years	Straight-line	Fair value at grant date

†Stock options expire no later than 10 years after the grant date.
‡Expense is reversed if award is forfeited prior to vesting.

Debt Issuance Costs. Debt issuance costs are amortized as interest expense over the life of the respective debt, which approximates the effective interest rate method. Unamortized debt issuance costs are presented as a direct deduction from the related debt on our Consolidated Balance Sheets.

Income Taxes. We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax basis and financial reporting basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which we operate.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence. If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable.

Only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by taxing authorities are recognized. There is an increased potential for volatility in our effective tax rate because of future changes in the income tax environment and the inherent complexities of income tax law in the various jurisdictions. Accordingly, provisions for tax-related matters, including interest and penalties, could be recorded in income tax expense in the period revised assessments are made.

Foreign Currency. Foreign currency assets and liabilities are translated into United States dollars using the exchange rates in effect at the end of each reporting period. Equity accounts are translated at historical rates, except for the change in retained earnings during the year, which is the result of the income statement translation process. Revenue and expense accounts are translated using the weighted average exchange rate during the period. The cumulative translation adjustments associated with the net assets of foreign subsidiaries are recorded in accumulated other comprehensive loss on our Consolidated Statement of Stockholders' Equity. Net foreign currency transaction gains and losses arising during the normal course of business are included in Other, net on our Consolidated Statement of Operations.

Recently Adopted Accounting Pronouncements

Credit Losses. In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,", which replaces the current incurred loss methodology with an expected loss methodology, referred to as the current expected credit loss (CECL) methodology. We adopted Topic 326 on January 1, 2020, using the modified retrospective method, which resulted in a $3.2 million cumulative-effect adjustment recorded through retained earnings at the beginning of 2020.

Contract Assets and Liabilities. In October 2021, the FASB issued ASU 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". This standard improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability, as well as payment terms and their effect on subsequent revenue recognized by the acquirer. This standard became effective for us beginning January 1, 2023, and did not have a material impact to our financial statements upon adoption.

2. LEASES

We lease various assets to support our business including warehouses for our installation branch locations and specialty distribution centers, office space for our Branch Support Center in Daytona Beach, Florida and other administrative locations, as well as fleet vehicles and certain equipment. In addition, we lease certain operating facilities from related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. These related party leases are immaterial to our consolidated statements of operations.

The following table presents lease-related assets and liabilities and their classification on our Consolidated Balance Sheets, in thousands:

		As of	
		December 31, 2022	**December 31, 2021**
Assets	**Classification**		
Operating	Right of use assets	$ 205,892	$ 177,177
Finance	Property and equipment, net	6,647	9,743
Total lease assets		$ 212,539	$ 186,920
Liabilities			
Current			
Operating	Short-term operating lease liabilities	$ 60,880	$ 54,591
Finance	Short-term finance lease liabilities	2,207	2,387
Non-Current			
Operating	Long-term operating lease liabilities	149,943	125,339
Finance	Long-term finance lease liabilities	6,673	7,770
Total lease liabilities		$ 219,703	$ 190,087
Weighted-average remaining lease term:			
Operating leases		4.2 years	4.1 years
Finance leases		3.8 years	4.4 years
Weighted-average discount rate:			
Operating leases		3.2 %	3.1 %
Finance leases		2.9 %	2.9 %

The components of lease expense were as follows and are primarily included in cost of sales and in selling, general and administrative expenses on the accompanying consolidated statement of operations for finance leases and operating leases, in thousands:

	Year Ended December 31,		
	2022	**2021**	**2020**
Operating lease cost (a)	$ 75,366	$ 55,824	47,731
Financing lease cost:			
Amortization of leased assets	2,815	673	-
Interest on finance lease obligations	268	24	-
Short-term lease cost	18,315	15,258	12,397
Sublease income	(780)	(882)	(727)
Net lease cost	$ 95,984	$ 70,897	$ 59,401

(a) Includes variable cost components of $14,451, $8,711 and $6,177 in the years ended December 31, 2022, 2021, and 2020, respectively.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2022, were as follows, in thousands:

Payments due by Period	
2023	$ 72,253
2024	59,464
2025	47,629
2026	32,455
2027	18,265
2028 and Thereafter	13,369
Total future minimum lease payments	243,435
Less: imputed interest	(23,732)
Lease liability at December 31, 2022	$ 219,703

The amounts below are included in the cash flows provided by operating activities section on the accompanying consolidated statement of cash flows, in thousands:

	Year Ended December 31,		
	2022	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from finance leases	$ (268)	$ (74)	$ -
Operating cash flows from operating leases	(74,135)	(48,125)	(41,773)
Financing cash flows from finance leases	(2,361)	(562)	-

3. REVENUE RECOGNITION

Revenue is disaggregated between our Installation and Specialty Distribution segments and further based on market and product, as we believe this best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following tables present our revenues disaggregated by market (in thousands):

	Year Ended December 31, 2022			
	Installation	Specialty Distribution	Eliminations	Total
Residential	$ 2,503,123	$ 967,687	$ (198,809)	$ 3,272,001
Commercial/Industrial	466,855	1,310,574	(40,686)	1,736,743
Net sales	$ 2,969,978	$ 2,278,261	$ (239,495)	$ 5,008,744

	Year Ended December 31, 2021			
	Installation	Specialty Distribution	Eliminations	Total
Residential	$ 1,919,336	$ 825,233	$ (147,276)	$ 2,597,293
Commercial/Industrial	459,065	461,943	(32,094)	888,914
Net sales	$ 2,378,401	$ 1,287,176	$ (179,370)	$ 3,486,207

	Year Ended December 31, 2020			
	Installation	Specialty Distribution	Eliminations	Total
Residential	$ 1,542,515	$ 705,554	$ (120,186)	$ 2,127,883
Commercial/Industrial	400,946	220,653	(31,444)	590,155
Net sales	$ 1,943,461	$ 926,207	$ (151,630)	$ 2,718,038

The following tables present our revenues disaggregated by product (in thousands):

	Year Ended December 31, 2022			
	Installation	Specialty Distribution	Eliminations	Total
Insulation and accessories	$ 2,344,807	$ 2,019,108	$ (204,849)	$ 4,159,066
Glass and windows	227,318	-	-	227,318
Gutters	106,969	189,800	(30,412)	266,357
All other	290,884	69,353	(4,234)	356,003
Net sales	$ 2,969,978	$ 2,278,261	$ (239,495)	$ 5,008,744

	Year Ended December 31, 2021			
	Installation	Specialty Distribution	Eliminations	Total
Insulation and accessories	$ 1,880,309	$ 1,074,377	$ (149,556)	$ 2,805,130
Glass and windows	183,808	-	-	183,808
Gutters	88,856	149,730	(25,097)	213,489
All other	225,428	63,069	(4,717)	283,780
Net sales	$ 2,378,401	$ 1,287,176	$ (179,370)	$ 3,486,207

	Year Ended December 31, 2020			
	Installation	Specialty Distribution	Eliminations	Total
Insulation and accessories	$ 1,505,839	$ 766,139	$ (123,234)	$ 2,148,744
Glass and windows	164,229	-	-	164,229
Gutters	82,846	102,094	(22,088)	162,852
All other	190,547	57,974	(6,308)	242,213
Net sales	$ 1,943,461	$ 926,207	$ (151,630)	$ 2,718,038

The following table represents our contract assets and contract liabilities with customers, in thousands:

	Included in Line Item on Consolidated Balance Sheets	As of December 31, 2022	As of December 31, 2021
Contract Assets:			
Receivables, unbilled	Receivables, net	$ 75,481	$ 71,401
Contract Liabilities:			
Deferred revenue	Accrued liabilities	$ 21,940	$ 14,310

The aggregate amount remaining on uncompleted performance obligations was $411.3 million as of December 31, 2022. We expect to satisfy the performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

On certain of our long-term contracts, a percentage of the total project cost is withheld and not invoiced to the customer and collected until satisfactory completion of the customer's project, typically within a year. This amount is referred to as retainage and is common practice in the construction industry. Retainage receivables are classified as a component of Receivables, net on our Consolidated Balance Sheets and were $63.0 million and $57.6 million as of December 31, 2022 and 2021, respectively.

4. PROPERTY & EQUIPMENT

The following table sets forth our property and equipment by class as of December 31, 2022 and 2021, in thousands:

	As of December 31, 2022	As of December 31, 2021
Land and improvements	$ 7,437	$ 7,776
Buildings	47,384	45,478
Equipment	150,674	142,686
Computer hardware and software	167,897	158,731
Company vehicles	214,137	177,061
	587,529	531,732
Less: Accumulated depreciation	(340,692)	(296,901)
Total property and equipment, net	$ 246,837	$ 234,831

For additions to property and equipment as a result of 2022 acquisitions, see *Note 15 – Business Combinations.* As of December 31, 2022 and 2021, property and equipment, net on our Consolidated Balance Sheet includes $6.6 million and $9.7 million right of use assets on finance leases, respectively, which is disclosed further in *Note 2 – Leases.*

Depreciation expense was $52.9 million, $42.9 million and $40.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

5. GOODWILL AND OTHER INTANGIBLES

We have two reporting units which are also our operating and reporting segments: Installation and Specialty Distribution. Both reporting units contain goodwill. Assets acquired and liabilities assumed are assigned to the applicable reporting unit based on whether the acquired assets and liabilities relate to the operations of such unit and determination of its fair value. Goodwill assigned to the reporting unit is the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed for the reporting unit.

In the fourth quarters of 2022 and 2021, we performed annual assessments of our goodwill resulting in no indicators of impairment.

Changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021, by segment, were as follows, in thousands:

	Gross Goodwill December 31, 2021	Additions	Fx Translation Adjustment	Gross Goodwill December 31, 2022	Accumulated Impairment Losses	Net Goodwill December 31, 2022
Goodwill, by segment:						
Installation	$ 1,818,872	$ 8,107	$ -	$ 1,826,979	$ (762,021)	$ 1,064,958
Specialty Distribution	892,912	10,585	(1,461)	902,036	-	902,036
Total goodwill	$ 2,711,784	$ 18,692	$ (1,461)	$ 2,729,015	$ (762,021)	$ 1,966,994

	Gross Goodwill December 31, 2020	Additions	Fx Translation Adjustment	Gross Goodwill December 31, 2021	Accumulated Impairment Losses	Net Goodwill December 31, 2021
Goodwill, by segment:						
Installation	$ 1,726,356	$ 92,516	$ -	$ 1,818,872	$ (762,021)	$ 1,056,851
Specialty Distribution	446,350	451,331	(4,769)	892,912	-	892,912
Total goodwill	$ 2,172,706	$ 543,847	$ (4,769)	$ 2,711,784	$ (762,021)	$ 1,949,763

The following table sets forth our other intangible assets, in thousands:

	As of December 31,		
	2022	2021	2020
Gross definite-lived intangible assets	$ 782,316	$ 783,843	$ 252,751
Accumulated amortization	(167,349)	(99,634)	(62,146)
Net definite-lived intangible assets	$ 614,967	$ 684,209	$ 190,605
Indefinite-lived intangible assets not subject to amortization	-	-	-
Other intangible asset, net	$ 614,967	$ 684,209	$ 190,605
Amortization expense	$ 67,620	$ 36,501	$ 21,886

The following table sets forth a breakout of our intangible assets as of December 31, 2022, in thousands:

	Gross Definite-lived Intangible Assets	Accumulated Amortization	Net Definite-lived Intangible Assets
Trademarks	$ 44,047	$ (13,513)	$ 30,534
Customer relationships	730,550	(146,192)	584,358
Non-compete	7,719	(7,644)	75
Total	$ 782,316	$ (167,349)	$ 614,967

The following table sets forth a breakout of our intangible assets as of December 31, 2021, in thousands:

	Gross Definite-lived Intangible Assets	Accumulated Amortization	Net Definite-lived Intangible Assets
Trademarks	$ 44,365	$ (8,161)	$ 36,204
Customer relationships	731,759	(84,499)	647,260
Non-compete	7,719	(6,974)	745
Total	$ 783,843	$ (99,634)	$ 684,209

The following table sets forth the amortization expense related to the definite-lived intangible assets during each of the next five years, in thousands:

	Amortization Expense
2023	$ 60,870
2024	60,795
2025	60,795
2026	60,795
2027	57,516

6. LONG-TERM DEBT

The following table reconciles the principal balances of our outstanding debt to our Consolidated Balance Sheets, in thousands:

	As of December 31,	
	2022	2021
3.625% Senior Notes due 2029	$ 400,000	$ 400,000
4.125% Senior Notes due 2032	500,000	500,000
Term loan	566,250	596,250
Equipment notes	8,427	17,085
Unamortized debt issuance costs	(17,352)	(20,212)
Total debt, net of unamortized debt issuance costs	1,457,325	1,493,123
Less: current portion of long-term debt	40,068	38,640
Total long-term debt	$ 1,417,257	$ 1,454,483

The following table sets forth our remaining principal payments for our outstanding debt balances as of December 31, 2022, in thousands:

	2023	2024	2025	2026	2027	Thereafter	Total
3.625% Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 400,000	$ 400,000
4.125% Senior Notes	-	-	-	-	-	500,000	500,000
Term loan	33,750	45,000	48,750	438,750	-	-	566,250
Equipment notes	6,318	2,109	-	-	-	-	8,427
Total	$ 40,068	$ 47,109	$ 48,750	$ 438,750	$ -	$ 900,000	$ 1,474,677

Credit Agreement

On December 9, 2022, the Company entered into Amendment No. 3 to Credit Agreement. Amendment No. 3 to Credit Agreement provides a provision that replaces LIBOR with SOFR and makes other conforming changes.

The following table outlines the key terms of the Credit Agreement (dollars in thousands):

Senior secured term loan facility	$ 300,000
Additional delayed draw term loan	$ 300,000
Additional term loan and/or revolver capacity available under incremental facility (a)	$ 300,000
Revolving facility	$ 500,000
Sublimit for issuance of letters of credit under revolving facility (b)	$ 100,000
Sublimit for swingline loans under revolving facility (b)	$ 35,000
Interest rate as of December 31, 2022	5.42 %
Scheduled maturity date	10/7/2026

(a) Additional borrowing capacity is available under the incremental facility, subject to certain terms and conditions (including existing or new lenders providing commitments in respect of such additional borrowing capacity).
(b) Use of the sublimits for the issuance of letters of credit and swingline loans reduces the availability under the revolving facility.

Interest payable on borrowings under the Credit Agreement is based on an applicable margin rate plus, at our option, either:

- A base rate determined by reference to the highest of either (i) the federal funds rate plus 0.50 percent, (ii) BofA's "prime rate," and (iii) the SOFR rate for U.S. dollar deposits with a term of one month, plus 1.00 percent; or
- A SOFR rate determined by reference to the costs of funds for deposits in U.S. dollars for the interest period relevant to such borrowings, subject to a floor of 0%.

The applicable margin rate is determined based on our Secured Leverage Ratio. In the case of base rate borrowings, the applicable margin rate ranges from 0.00 percent to 1.50 percent and in the case of SOFR rate borrowings, the applicable margin ranges from 1.00 percent to 2.50 percent. Borrowings under the Credit Agreement are prepayable at the Company's option without premium or penalty. The Company is required to make prepayments with the net cash proceeds of certain asset sales and certain extraordinary receipts.

Revolving Facility

The Company has outstanding standby letters of credit that secure our financial obligations related to our workers' compensation, general insurance, and auto liability programs. These standby letters of credit, as well as any outstanding amount borrowed under our revolving facility, reduce the availability under the revolving facility. The following table summarizes our availability under the revolving facility, in thousands:

	As of December 31,	
	2022	2021
Revolving facility	$ 500,000	$ 500,000
Less: standby letters of credit	(67,689)	(69,936)
Availability under revolving facility	$ 432,311	$ 430,064

We are required to pay commitment fees to the Lenders in respect of any unutilized commitments. The commitment fees range from 0.15 percent to 0.275 percent per annum, depending on our Secured Leverage Ratio. We must also pay customary fees on outstanding letters of credit.

3.625% Senior Notes

The 3.625% Senior Notes are $400.0 million senior unsecured obligations and bear interest at 3.625% per year, payable semiannually in arrears on March 15 and September 15, beginning on September 15, 2021. The 3.625% Senior Notes mature on March 15, 2029, unless redeemed early or repurchased. If we undergo a change in control, we must make an offer to repurchase all of the 3.625% Senior Notes then outstanding at a repurchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest (if any) to, but not including, the repurchase date.

The Company may redeem the 3.625% Senior Notes, in whole or in part, at any time on or after March 15, 2024 at the redemption prices specified in the notes. The Company may also redeem all or part of the 3.625% Senior Notes at any time prior to March 15, 2024 at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus the Applicable Premium (as defined in the notes), as of, and accrued and unpaid interest to, the redemption date. Additionally, the Company may redeem up to 40% of the aggregate principal amount of the 3.625% Senior Notes prior to March 15, 2024 with the net cash proceeds of certain sales of its capital stock at 103.625% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption only if, after the redemption, at least 60% of the aggregate principal amount of the notes originally issued remains outstanding.

4.125% Senior Notes

The 4.125% Senior Notes are $500.0 million senior unsecured obligations and bear interest at 4.125% per year, payable semiannually in arrears on February 15 and August 15, beginning on August 15, 2022. The 4.125% Senior Notes mature on February 15, 2032, unless redeemed early or repurchased. If we undergo a change in control, we must make an offer to repurchase all of the 4.125% Senior Notes then outstanding at a repurchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest (if any) to, but not including, the repurchase date.

The Company may redeem the 4.125% Senior Notes, in whole or in part, at any time on or after October 15, 2026 at the redemption prices specified in the notes plus accrued and unpaid interest if redeemed during the 12 month period commencing on October 15 of the years set for: 2026 – 102.063%, 2027 – 101.375%, 2028 – 100.688%, 2029 and thereafter – 100.000%. The Company may also redeem a make-whole redemption of the 4.125% Senior Notes at any time prior to October 15, 2026 at the treasury rate plus 50 basis points. Additionally, the Company may redeem up to 40% of the aggregate principal amount of the 4.125% Senior Notes prior to October 15, 2024 with the net cash proceeds of certain sales of its capital stock at 104.125% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption only if, after the redemption, at least 60% of the aggregate principal amount of the notes originally issued remains outstanding.

Equipment Notes

We did not issue equipment notes during the year ended December 31, 2022. The company issued $41.6 million of equipment notes for the purpose of financing the purchase of vehicles and equipment in prior years. The Company's equipment notes each have a five year term maturing from 2023 to 2024 and bear interest at fixed rates between 2.8% and 4.4%.

Covenant Compliance

The indentures governing our 3.625% Senior Notes and our 4.125% Senior Notes (together, our "Senior Notes") contain restrictive covenants that, among other things, generally limit the ability of the Company and certain of its subsidiaries (subject to certain exceptions) to (i) create liens, (ii) pay dividends, acquire shares of capital stock and make payments on subordinated debt, (iii) place limitations on distributions from certain subsidiaries, (iv) issue or sell the capital stock of certain subsidiaries, (v) sell assets, (vi) enter into transactions with affiliates and (vii) effect mergers. The indentures provide for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of covenants or other agreements in the indenture; defaults in failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the indenture, the trustee or the holders of at least 30% in aggregate principal amount of each of our Senior Notes then outstanding may declare the principal of, premium, if any, and accrued interest on the Senior Notes subject to such declaration immediately due and payable. The Senior Notes and related guarantees have not been registered under the Securities Act of 1933, and we are not required to register either the Senior Notes or the guarantees in the future.

The Credit Agreement contains certain covenants that limit, among other things, the ability of the Company to incur additional indebtedness or liens; to make certain investments or loans; to make certain restricted payments; to enter into consolidations, mergers, sales of material assets, and other fundamental changes; to transact with affiliates; to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends; or to make certain accounting changes. The Credit Agreement contains customary affirmative covenants and events of default.

The Credit Agreement requires that we maintain a Net Leverage Ratio and minimum Interest Coverage Ratio throughout the term of the agreement. The following table outlines the key financial covenants effective for the period covered by this Quarterly Report:

	As of December 31, 2022
Maximum Net Leverage Ratio	3.50:1.00
Minimum Interest Coverage Ratio	3.00:1.00
Compliance as of period end	In Compliance

7. FAIR VALUE MEASUREMENTS

Fair Value on Recurring Basis

The carrying values of cash and cash equivalents, receivables, net, and accounts payable are considered to be representative of their respective fair values due to the short-term nature of these instruments. We measure our contingent consideration liabilities related to business combinations at fair value. For more information see *Note 15 – Business Combinations.*

Fair Value on Non-Recurring Basis

Fair value measurements were applied to our long-term debt portfolio. We believe the carrying value of our term loan approximates the fair market value primarily due to the fact that the non-performance risk of servicing our debt obligations, as reflected in our business and credit risk profile, has not materially changed since we assumed our debt obligations under the Credit Agreement. In addition, due to the floating-rate nature of our term loan, the market value is not subject to variability solely due to changes in the general level of interest rates as is the case with a fixed-rate debt obligation. Based on active market trades of our 3.625% Senior Notes and our 4.125% Senior Notes close to December 31, 2022 (Level 1 fair value measurements), we estimate that the fair value of each in the table below:

	As of December 31, 2022	
	Fair Value	Gross Carrying Value
3.625% Senior Notes	$ 332,980	$ 400,000
4.125% Senior Notes	$ 415,000	$ 500,000

During all periods presented, there were no transfers between fair value hierarchy levels.

8. SEGMENT INFORMATION

Our reportable segments are Installation and Specialty Distribution.

Our Installation segment installs insulation and other building products. We sell primarily to the residential new construction market, with increasing activity in the commercial/industrial construction market, along with repair/remodel of residential housing. In addition to insulation, we install other building products including glass and windows, rain gutters, afterpaint products, fireproofing, garage doors, and fireplaces.

Our Specialty Distribution segment distributes building and mechanical insulation, insulation accessories and other building product materials for the residential and commercial/industrial end markets. In addition to insulation and accessories, it distributes rain gutters, fireplaces, closet shelving, and roofing materials, among other items. Distributed products are sold from distribution centers in various parts of the United States and Canada, primarily to contractors and dealers (including lumber yards) serving a wide variety of commercial/industrial markets.

Our Chief Operating Decision Maker regularly reviews financial information of our segments in determining resource allocation and assessing performance. The key performance metric we use to evaluate our businesses is segment operating profit. Operating profit for the individual segments includes corporate costs which are allocated to the segments based on various metrics including sales and headcount.

Intercompany sales from the Specialty Distribution segment to the Installation segment are recorded by the Specialty Distribution segment with a profit margin and by our Installation segment at cost.

Key information by segment is as follows, for the years ended December 31, in thousands:

	Net Sales			Operating Profit (b)		
	2022	2021	2020	2022	2021	2020
Operations by segment (a):						
Installation	$ 2,969,978	$ 2,378,401	$ 1,943,461	$ 548,795	$ 383,722	$ 294,793
Specialty Distribution	2,278,261	1,287,176	926,207	326,226	169,368	115,343
Intercompany eliminations and other adjustments	(239,495)	(179,370)	(151,630)	(39,839)	(29,653)	(24,305)
Total	$ 5,008,744	$ 3,486,207	$ 2,718,038	835,182	523,437	385,831
General corporate expense, net (c)				(38,018)	(47,018)	(30,785)
Operating profit, as reported				797,164	476,419	355,046
Other expense, net				(55,029)	(42,976)	(31,956)
Income before income taxes				$ 742,135	$ 433,443	$ 323,090

	Property Additions (d)			Depreciation and Amortization			Total Assets	
	2022	2021	2020	2022	2021	2020	2022	2021
Operations by segment (a):								
Installation	$ 46,518	$ 53,996	$ 32,084	$ 62,483	$ 57,815	$ 50,265	$ 2,129,255	$ 2,024,448
Specialty Distribution	17,671	41,847	8,530	56,881	18,743	9,912	2,175,835	2,080,700
Corporate	10,023	4,539	4,259	3,971	2,832	2,233	301,741	153,382
Total, as reported	$ 74,212	$ 100,382	$ 44,873	$ 123,335	$ 79,390	$ 62,410	$ 4,606,831	$ 4,258,530

(a) All of our operations are located primarily in the U.S. and to a lesser extent Canada.
(b) Segment operating profit includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(c) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs.
(d) Property additions include assets acquired in business combinations in each respective year.

9. ACCRUED LIABILITIES

The following table sets forth the components of accrued liabilities, in thousands:

	As of December 31,	
	2022	2021
Accrued liabilities:		
Salaries, wages, and commissions	$ 75,237	$ 71,664
Insurance liabilities	28,870	24,425
Customer rebates	21,561	15,625
Deferred revenue	21,940	14,311
Employee tax-related liabilities	664	12,545
Sales and property taxes	15,757	9,364
Interest payable on long-term debt	12,146	8,798
Other	23,195	19,159
Total accrued liabilities	$ 199,370	$ 175,891

As of December 31, 2021, employee tax-related liabilities included $10.2 million for employer portion social security taxes that were deferred under the CARES Act which were paid in the year ended December 31, 2022.

10. EMPLOYEE RETIREMENT PLANS

We provide a defined-contribution retirement plan for substantially all employees. In addition, we participate in 56 regional multi-employer pension plans, principally related to building trades; none of the plans are considered material.

The expense related to our participation in the retirement plans was as follows, in thousands:

	Years Ended December 31,		
	2022	2021	2020
Defined contribution plans	$ 17,946	$ 12,192	$ 10,251
Multi-employer plans	12,788	12,308	11,754
	$ 30,734	$ 24,500	$ 22,005

The Pension Protection Act ("PPA") defines a zone status for multi-employer pension plans. Plans in the green zone are at least 80 percent funded, plans in the yellow zone are at least 65 percent funded and plans in the red zone are generally less than 65 percent funded.

We participate in the Carpenters Pension Trust Fund for Northern California ("NCT"), which is our largest multi-employer plan expense and is in the red zone. The NCT has implemented a funding rehabilitation plan in accordance with government requirements. Our contributions to NCT have not exceeded 1 percent of the total contributions to the plan.

Pension Fund	Employer Identification Number/Plan Number	PPA Zone Status 2022	PPA Zone Status 2021	Funding Plan Pending / Implemented	Contributions (in thousands) 2022	Contributions (in thousands) 2021	Contributions (in thousands) 2020	Surcharge Imposed
NCT	94-6050970/001	Red	Red	Yes	$3,008	$2,326	$2,710	No

11. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. We are subject to certain claims, charges, litigation, and other proceedings in the ordinary course of our business, including those arising from or related to contractual matters, intellectual property, personal injury, environmental matters, product liability, product recalls, construction defects, insurance coverage, personnel and employment disputes, antitrust, and other matters, including class actions. We believe we have adequate defenses in these matters, and we do not believe that the ultimate outcome of these matters will have a material adverse effect on us. However, there is no assurance that we will prevail in any of these pending matters, and we could in the future incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome of these matters, which could materially impact our liquidity and our results of operations.

Other Matters. We enter into contracts, which include customary indemnities that are standard for the industries in which we operate. Such indemnities include, among other things, claims against our builder customers for issues relating to our workmanship. We generally exclude from our contracts with builder customers indemnity relating to product quality and warranty claims, as we pass such claims directly to the manufacturers of the products we install or distribute. In conjunction with divestitures and other transactions, we occasionally provide customary indemnities relating to various items including, among others, the enforceability of trademarks, legal and environmental issues, and asset valuations. We evaluate the probability that we may incur liabilities under these customary indemnities and appropriately record an estimated liability when deemed probable.

We also maintain indemnification agreements with our directors and officers that may require us to indemnify them against liabilities that arise by reason of their status or service as directors or officers, except as prohibited by applicable law.

We occasionally use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. We also have bonds outstanding for license and insurance.

The following table summarizes our outstanding performance, licensing, insurance and other bonds, in thousands:

	As of December 31, 2022	As of December 31, 2021
Outstanding bonds:		
Performance bonds	$ 152,434	$ 128,173
Licensing, insurance, and other bonds	25,439	21,792
Total bonds	$ 177,873	$ 149,965

12. INCOME TAXES

(In thousands)	2022	2021	2020
Income before income taxes:			
U.S.	$ 724,231	$ 429,731	$ 323,090
Foreign	17,904	3,712	-
Total	$ 742,135	$ 433,443	$ 323,090
Income tax expense (benefit):			
Current:			
U.S. Federal	$ 136,013	$ 88,930	$ 66,792
State and local	39,978	22,006	13,345
Foreign	3,406	1,039	-
Deferred:			
U.S. Federal	7,016	(4,123)	(8,087)
State and local	(510)	1,769	4,017
Foreign	243	(194)	-
	$ 186,146	$ 109,427	$ 76,067
Deferred tax assets at December 31:			
Receivables, net	$ 5,114	$ 3,578	
Inventories, net	6,989	5,961	
Other assets, principally share-based compensation	3,409	4,219	
Accrued liabilities	18,980	19,206	
Lease liability	13,212	14,367	
Long-term liabilities	10,934	9,821	
Long-term lease liability	35,451	33,526	
Net operating loss carryforward	6,655	7,747	
Disallowed interest carryforward	-	11,108	
	100,744	109,533	
Deferred tax liabilities at December 31:			
Right of use assets	49,120	48,300	
Property and equipment, net	46,031	42,150	
Intangibles, net	254,101	263,327	
Other	2,973	2,094	
	352,225	355,871	
Net deferred tax liability at December 31	$ 251,481	$ 246,338	

A valuation allowance must be established for deferred tax assets when it is more-likely-than-not that they will not be realized. After review of all available positive and negative evidence, the Company has determined that no valuation allowance was required for the deferred tax assets as of December 31, 2022 or December 31, 2021.

At December 31, 2022, the net deferred tax liability is $251.5 million, all of which is reported as long-term deferred tax liabilities. At December 31, 2021, the net deferred tax liability of $246.3 million consisted of net long-term deferred tax assets of $1.9 million and net long-term deferred tax liabilities of $248.2 million. The deferred assets and deferred liabilities also include the state deferreds net of the federal benefit.

Of the deferred tax asset related to the net operating loss carryforward at December 31, 2022, $2.1 million will expire between 2023 and 2040. Of the deferred tax asset related to the net operating loss carryforward at December 31, 2021, $5.3 million will expire between 2022 and 2040.

A reconciliation of the U.S. Federal statutory tax rate to the income tax expense (benefit) on income was as follows:

	2022	2021	2020
U.S. Federal statutory tax rate	21.0 %	21.0 %	21.0 %
State and local taxes, net of U.S. Federal tax benefit	4.2	4.3	4.2
Share based compensation	(0.2)	(0.5)	(2.1)
Non-deductible/non-taxable items (1)	0.1	0.1	0.2
Effect of rates different than statutory	0.1	—	—
Other, net (1)	(0.1)	0.3	0.2
Effective tax rate	25.1 %	25.2 %	23.5 %

(1) Certain prior year amounts have been reclassified to conform to current year presentation

A tax benefit of $1.7 million, $2.4 million and $7.8 million related to share-based compensation was recognized in income tax expense for the years ended December 31, 2022, 2021 and 2020, respectively.

We file income tax returns in the U.S. Federal jurisdiction, various U.S. state and local jurisdictions, and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations on filed returns for years before 2017.

13. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted average shares outstanding during the period, without consideration for common stock equivalents.

Diluted net income per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method.

Basic and diluted net income per share were computed as follows:

	Years Ended December 31,		
	2022	2021	2020
Net income (in thousands)	$ 555,989	$ 324,016	$ 247,023
Weighted average number of common shares outstanding - basic	32,213,839	32,801,906	32,917,971
Dilutive effect of common stock equivalents:			
RSAs with service-based conditions	15,199	21,130	51,324
RSAs with market-based conditions	59,561	127,723	150,530
RSAs with performance-based conditions	46,601	65,262	41,807
Stock options	105,205	130,150	138,354
Weighted average number of common shares outstanding - diluted	32,440,405	33,146,171	33,299,986
Basic net income per common share	$ 17.26	$ 9.88	$ 7.50
Diluted net income per common share	$ 17.14	$ 9.78	$ 7.42

The following table summarizes shares excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive:

	Years Ended December 31,		
	2022	2021	2020
Anti-dilutive common stock equivalents:			
RSAs with service-based conditions	14,882	1,206	3,138
RSAs with market-based conditions	157	6,926	2,085
RSAs with performance-based conditions	9,251	-	-
Stock options	21,006	19,121	29,998
Total anti-dilutive common stock equivalents	45,296	27,253	35,221

14. SHARE-BASED COMPENSATION

Effective July 1, 2015, our eligible employees commenced participation in the 2015 LTIP. The 2015 LTIP authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents. All grants are made by issuing new shares and no more than 4.0 million shares of common stock may be issued under the 2015 LTIP. As of December 31, 2022, we had 1.9 million shares remaining available for issuance under the 2015 LTIP.

Share-based compensation expense is included in selling, general, and administrative expense. The income tax effect associated with share-based compensation awards is included in income tax expense.

The following table presents share-based compensation amounts recognized in our consolidated statements of operations, in thousands:

	Year Ended December 31,		
	2022	2021	2020
Share-based compensation expense	$ 12,310	$ 11,316	$ 14,752
Income tax benefit	$ 1,733	$ 2,419	$ 7,772

The following table presents a summary of our share-based compensation activity for the year ended December 31, 2022, in thousands, except per share amounts:

	RSAs		Stock Options			
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance December 31, 2021	244.4	$ 119.41	210.5	$ 32.35	$ 87.30	$ 39,692.4
Granted	108.8	$ 181.11	—	$ —	$ —	—
Converted/Exercised	(168.1)	$ 75.65	(25.2)	$ 27.92	$ 80.40	$ 3,183.0
Forfeited/Expired	(11.9)	$ 221.25	(3.1)	$ 68.81	$ 174.76	—
Balance December 31, 2022	173.2	$ 195.06	182.2	$ 32.25	$ 86.79	$ 13,992.3
Exercisable December 31, 2022 (a)			148.4	$ 25.71	$ 69.94	$ 13,274.7

(a) The weighted average remaining contractual term for vested stock options is 5.2 years.

We had unrecognized share-based compensation expense relating to unvested awards as shown in the following table, dollars in thousands:

	As of December 31, 2022	
	Unrecognized Compensation Expense on Unvested Awards	Weighted Average Remaining Compensation Expense Period
RSAs	$ 13,408	1.0
Stock options	528	0.6
Total unrecognized compensation expense related to unvested awards	$ 13,936	

Our RSAs with performance-based conditions are evaluated on a quarterly basis with adjustments to compensation expense based on the likelihood of the performance target being achieved or exceeded. The following table shows the range of payouts and the related expense for our outstanding RSAs with performance-based conditions, in thousands:

		Payout Ranges and Related Expense			
RSAs with Performance-Based Conditions	Grant Date Fair Value	0%	25%	100%	200%
February 17, 2020	$ 2,503	$ 0	$ 626	$ 2,503	$ 5,006
February 16, 2021	$ 2,352	$ 0	$ 588	$ 2,352	$ 4,704
February 15, 2022	$ 3,382	$ 0	$ 846	$ 3,382	$ 6,764

During the first quarter of 2023, RSAs with performance-based conditions that were granted on February 17, 2020, vested based on cumulative three-year achievement of 200%. Total compensation expense recognized over the three-year performance period, net of forfeitures, was $5.0 million.

The fair value of our RSAs with a market-based condition granted under the 2015 LTIP was determined using a Monte Carlo simulation. The following are key inputs in the Monte Carlo analysis for awards granted in 2022 and 2021:

	2022	2021
Measurement period (years)	2.87	2.87
Risk free interest rate	1.76 %	0.22 %
Dividend yield	0.00 %	0.00 %
Estimated fair value of market-based RSAs at grant date	$ 298.20	$ 298.66

The fair value of stock options granted under the 2015 LTIP was calculated using the Black-Scholes Options Pricing Model. The following table presents the assumptions used to estimate the fair values of the stock options granted 2021. There were no stock options issued in 2022.

	2021
Risk free interest rate	0.76 %
Expected volatility, using historical return volatility and implied volatility	43.29 %
Expected life (in years)	6.0
Dividend yield	0.00 %
Estimated fair value of stock options at grant date	$ 89.59

15. BUSINESS COMBINATIONS

Acquiring businesses is a key part of our ongoing strategy to grow our company and expand our market share. Each acquisition has been accounted for as a business combination under ASC 805, "Business Combinations." Acquisition related costs for the years ended December 31, 2022 and 2021, were $1.3 million and $15.3 million, respectively. Acquisition related costs are included in selling, general, and administrative expense in our consolidated statements of operations. The table below provides a summary of businesses acquired in 2022 including, for significant acquisitions, the net sales and net income incurred for the year ended December 31, 2022:

2022 Acquisitions	Date	Cash Paid	Contingent Consideration	Total Purchase Price	Goodwill Acquired	Net Sales	Net Income
Billings	2/3/2022	$ 7,005	$ —	$ 7,005	$ 3,313	$ 8,001	$ 1,754
Assured	4/7/2022	4,719	500	5,219	3,317	4,242	443
All others	Various	3,258	—	3,258	1,726	(a)	(a)
Total		$ 14,982	$ 500	$ 15,482	$ 8,356	$ 12,243	$ 2,197

(a) The acquisitions' net sales and net income are immaterial.

The estimate of acquired customer relationships related to the 2022 acquisitions was $4.1 million and the weighted average useful live is 12 years.

Purchase Price Allocations

As third-party or internal valuations are finalized, certain tax aspects of the foregoing transactions are completed, and customer post-closing reviews are concluded, adjustments may be made to the fair value of assets acquired, and in some cases total purchase price, through the end of each measurement period, generally one year following the applicable acquisition date. Primarily all of the goodwill recorded during the years ended December 31, 2022 and 2021, respectively, is deductible for income tax purposes with the exception of DI. We recorded goodwill on the DI acquisition of $450.7 million, of which $64.7 million is deductible for income tax purposes.

During the year ended December 31, 2022, DI's goodwill increased by $10.7 million primarily as a result of payment of additional consideration of $4.5 million during 2022 and the finalization of purchase price adjustments to acquisition date sales and use tax liabilities, net working capital adjustments, property, plant and equipment, and true-ups to supplier rebate receivables.

The table below represents the final fair value of DI's assets and liabilities assumed:

Finalized purchase price fair values:	
Accounts receivable	145,042
Inventories	133,004
Prepaid and other assets	8,820
Property and equipment	37,562
ROU asset (operating)	66,698
Intangible assets	458,000
Goodwill	450,716
Accounts payable	(68,367)
Lease liabilities	(76,066)
Deferred tax liabilities	(83,590)
All other liabilities	(35,854)
Net assets acquired	$ 1,035,965

The table below provides a summary as of December 31, 2022 for businesses acquired during the year ended December 31, 2021:

2021 Acquisitions	Date	Cash Paid	Contingent Consideration	Total Purchase Price	Goodwill Acquired
LCR	1/20/2021	$ 53,700	—	53,700	19,500
ABS	4/5/2021	124,348	—	124,348	54,229
DI	10/15/2021	1,035,965	—	1,035,965	450,716
All others	Various	58,666	1,200	59,866	30,087
Total		$ 1,272,679	$ 1,200	$ 1,273,879	$ 554,532

Contingent Consideration

Payments of contingent consideration are classified as either financing or operating activities in our consolidated statements of cash flows in accordance with ASC 230-10-45. We made contingent payments of $0.5 million and $1.2 million for Viking and Valley, respectively, during the year ended December 31, 2022, which completed the arrangements for those acquisitions. The acquisition of Assured included a consideration arrangement of $0.5 million to be paid based on achievement of annual gross revenue targets over a two-year period.

16. SHARE REPURCHASE PROGRAMS

On July 25, 2022, our Board authorized the 2022 Repurchase Program, pursuant to which the Company may purchase up to $200 million of our common stock. Share repurchases may be executed through various means including open market purchases, privately negotiated transactions, accelerated share repurchase transactions, or other available means. The 2022 Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the 2022 Repurchase Program may be terminated, increased, or decreased by the Board at its discretion at any time. As of December 31, 2022, the Company has $154.4 million remaining under the 2022 Share Repurchase Program.

On July 26, 2021, our Board authorized the 2021 Repurchase Program, pursuant to which the Company may purchase up to $200.0 million of our common stock. The company completed its 2021 Repurchase Program during 2022 for a total of 1,067,411 shares of our common stock at a weighted average cost of $187.37 per share.

On February 22, 2019, our Board authorized the 2019 Repurchase Program, pursuant to which the Company may purchase up to $200.0 million of our common stock. The company completed its 2019 Repurchase Program during 2022 for a total of 1,935,951 shares of our common stock at an average price of $103.31.

On May 5, 2022, the Company entered into the 2022 ASR Agreement under the 2021 Repurchase Program. We paid $100 million in exchange for an initial delivery of 409,312 shares of our common stock on May 9, 2022, representing an estimated 80% of the total number of shares we expected to receive under the 2022 ASR Agreement at the time we entered into the agreement. During the quarter ended September 30, 2022, we received an additional 142,351 shares of our common stock representing the final settlement of the 2022 ASR Agreement. We purchased a total of 551,663 shares of our common stock under the 2022 ASR Agreement at an average price per share of $181.27.

The following table sets forth our share repurchases under the Repurchase Program during the periods presented:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Number of shares repurchased	1,390,667	183,136
Share repurchase cost (in thousands)	$ 250,050	$ 35,556

17. SUBSEQUENT EVENTS

On January 26, 2023, we acquired the assets of the residential insulation business of SRI Holdings, LLC. This installation acquisition enhanced our presence in Georgia, Michigan, Ohio, Florida, Alabama and South Carolina. The acquisition will be accounted for as a business combination under ASC 805, "Business Combinations." The purchase price of approximately $45.9 million was funded by cash on hand. During the measurement period, we expect to receive additional detailed information to complete the purchase price allocation.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2022.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013). Based on our assessment and those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2022.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2022, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing under *Item 8. Financial Statements and Supplementary Data – Report of Independent Registered Public Accounting Firm*.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in the fiscal quarter ended December 31, 2022, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

For information regarding our executive officers see *Item 1. Business – Executive Officers,* which we incorporate herein by reference. Further information required by this item will be set forth in our definitive proxy statement for the 2023 Annual Meeting of Shareholders ("2023 Proxy Statement") to be filed with the SEC within 120 days of the year ended December 31, 2022, and is incorporated herein by reference.

Our Board of Directors adopted a Code of Business Conduct and Ethics (the "Code") that applies to all of our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other senior officers, in accordance with applicable rules and regulations of the SEC and the NYSE. Our Code is available on our website at https://www.topbuild.com/ESG/corporate-governance. We will disclose any amendments to or waivers of this Code for directors, executive officers, or senior officers on our website. The reference to our website address does not constitute incorporation by reference of the information contained on the website, and such information is not a part of this Annual Report.

Item 11. EXECUTIVE COMPENSATION

Information required by this item will be set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Information required by this item will be set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item will be set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item will be set forth in our 2023 Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. Listing of Documents:

   i. *Financial Statements.* Our Consolidated Financial Statements included in Item 8 hereof, as required at December 31, 2022 and 2021, and for the years ended December 31, 2022, 2021, and 2020, consist of the following:
      - Consolidated Balance Sheets
      - Consolidated Statements of Operations
      - Consolidated Statements of Comprehensive Income
      - Consolidated Statements of Cash Flows
      - Consolidated Statements of Changes in Equity
      - Notes to Consolidated Financial Statements

   ii. *Exhibits*. See separate Index to Exhibits hereafter.

Item 16. FORM 10-K SUMMARY

None.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Title	Incorporated by Reference			Filed
		Form	Exhibit	Filing Date	Herewith
2.1***	Separation and Distribution Agreement, dated as of June 29, 2015, by and between Masco Corporation and TopBuild Corp.	8-K	2.1	7/6/2015	
2.2***	Agreement and Plan of Merger, dated as of March 1, 2018, by and among Legend Holdings LLC, USI Legend Parent, Inc., TopBuild Corp. and Racecar Acquisition Corp.	8-K	2.1	3/2/2018	
3.1	Composite Certificate of Incorporation of TopBuild Corp.	10-Q	3.2	7/8/2018	
3.2	Amended and Restated Bylaws of TopBuild Corp., as Amended July 29, 2019	10-K	3.2	2/25/2020	
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation	8-K	3.1	4/30/2019	
4.1	Description of TopBuild Securities Registered Under Section 12 of the Exchange Act	10-K	4.3	2/25/2020	
4.2	Indenture, dated March 15, 2021, by and among TopBuild Corp., the Guarantors party thereto and U.S. Bank National Association, as Trustee	8-K	4.01	03/16/2021	
4.3	Form of 3.625% Senior Note due 2029	8-K	4.02	03/16/2021	
4.4	Indenture, dated October 14, 2021, by and among TopBuild Corp., the Guarantors party thereto and U.S. Bank National Association, as Trustee	8-K	4.01	10/15/2021	
4.5	Form of 4.125% Senior Note due 2032	8-K	4.02	10/15/2021	
10.1†	Change in Control and Severance Agreement between Gerald Volas and TopBuild Corp.	10-K	10.11	3/3/2016	
10.2†	Amended and Restated TopBuild Corp. 2015 Long Term Stock Incentive Plan (“A&R LTIP”)	10-Q	10.2	5/11/2016	
10.3†	Form of Restricted Stock Award (“RSA”) Agreement under A&R LTIP	10-K	10.7	2/25/2020	
10.4†	Form of Performance RSA Agreement (EPS) under A&R LTIP	10-K	10.8	2/25/2020	
10.5†	Form of Performance RSA Agreement (RTSR) under A&R LTIP	10-K	10.9	2/25/2020	
10.6†	Form of Option Award Agreement under A&R LTIP	10-K	10.10	2/25/2020	
10.7†	Form of RSA Agreement for Non-Employee Director under A&R LTIP	10-K	10.11	2/25/2020	
10.8†	Amendment to the TopBuild Corp. 2015 Long Term Stock Incentive Plan	8-K	10.1	2/22/2019	
10.9†	Amendment to Change in Control and Severance Agreement dated as March 1, 2016 between TopBuild Corp. and Gerald Volas	8-K	10.3	2/22/2019	

Exhibit No.	Exhibit Title	Incorporated by Reference Form	Exhibit	Filing Date	Filed Herewith
10.10†	Employment and Retirement Transition Agreement, dated as of January 9, 2020, between TopBuild Corp. and Gerald Volas.	8-K	10.1	1/10/2020	
10.11	Amended and Restated Security and Pledge Agreement, dated March 20, 2020, among TopBuild Corp., Bank of America, N.A., as administrative agent, and the grantors party thereto.	8-K	10.2	3/23/2020	
10.12†	TopBuild Corp. Executive Severance Plan, as Amended and Restated effective December 31, 2020	8-K	10.1	12/14/2020	
10.13	Amendment No. 3 to Amended and Restated Credit Agreement, dated December 9, 2022 among TopBuild Corp., Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto.				X
10.14	Amended and Restated Credit Agreement, dated March 20, 2020, among TopBuild Corp., Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto, as amended by Amendment No. 3.				X
10.15	Form of Loan Notice to Amended and Restated Credit Agreement, dated March 20, 2020, among TopBuild Corp., Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto, as amended by Amendment No. 3.				X
21.1	List of Subsidiaries of TopBuild Corp.				X
23.1	Consent of PricewaterhouseCoopers, LLP				X
31.1	Principal Executive Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Principal Financial Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1‡	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002				
32.2‡	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002				
101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X

Exhibit No.	Exhibit Title	Incorporated by Reference Form	Exhibit	Filing Date	Filed Herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

† Indicates management contract or compensatory plan, contract or arrangement.

*** The schedules and exhibits to this agreement have been omitted pursuant to Item 601(c) of Regulation S-K. The Company agrees to supplementally furnish to the SEC, upon request, a copy of any omitted schedule or exhibit.

‡Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOPBUILD CORP.

By: /s/ Robert Kuhns
Name: Robert Kuhns
Title: Vice President and Chief Financial Officer

February 23, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert Buck Robert Buck	Director, Chief Executive Officer (Principal Executive Officer)	February 23, 2023
/s/ Robert Kuhns Robert Kuhns	Vice President, Chief Financial Officer (Principal Financial Officer)	February 23, 2023
/s/ Carrie Wood Carrie Wood	Chief Accounting Officer (Principal Accounting Officer)	February 23, 2023
/s/ Alec C. Covington Alec C. Covington	Chairman of the Board	February 23, 2023
/s/ Ernesto Bautista, III Ernesto Bautista, III	Director	February 23, 2023
/s/ Joseph S. Cantie Joseph S. Cantie	Director	February 23, 2023
/s/ Tina M. Donikowski Tina M. Donikowski	Director	February 23, 2023
/s/ Deirdre Drake Deirdre Drake	Director	February 23, 2023
/s/ Mark A. Petrarca Mark A. Petrarca	Director	February 23, 2023
/s/ Nancy M. Taylor Nancy M. Taylor	Director	February 23, 2023

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