



**Management's Prepared Remarks
First Quarter 2021 Conference Call
May 6, 2021**

**Tabitha Zane
Vice President, Investor Relations**

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

We have posted senior management's formal remarks and a PowerPoint presentation that summarizes our comments on the Investor Relations section of our website at topbuild.com.

Many of our remarks will include forward-looking statements which are subject to known and unknown risks and uncertainties, including those set forth in this morning's press release as well as in the Company's filings with the SEC. The Company assumes no obligation to update or supplement forward looking statements that become untrue because of subsequent events.

Please note that, some of the financial measures to be discussed on this call will be on a non-GAAP basis. The non-GAAP measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. We have provided a reconciliation of these financial measures to the most comparable GAAP measures in a table included in today's press release and in the presentation accompanying this call.

**Robert Buck
President and Chief Executive Officer**

The residential new construction market remains incredibly strong, with builders reporting robust first quarter order growth and March new housing starts at a pace of 1.74 million on a seasonally adjusted basis, well above industry expectations.

This demand is greatly outstripping the number of homes available for sale...both new and existing...and is being fueled by

- low interest rates,
- increasing household formations,
- an improving economy, and
- a COVID-enhanced consumer appetite to relocate from densely populated urban communities to suburban/rural locations.

In fact, an article in the "Wall Street Journal," noted that a recent analysis by Freddie Mac showed that the U.S. housing market is nearly four million homes short of buyer demand.

As the residential construction industry drives to meet this demand, all trades are facing material and labor constraints, effectively tempering the speed at which new homes can be built. As a result, assuming interest rates remain low and home affordability stays in balance, we should see several years of strong housing activity.

TopBuild continues to capitalize on this housing growth as our solid first quarter results demonstrate. Revenue increased 13.7%, adjusted operating profit grew 38.3% and adjusted EBITDA increased 31.1%. Adjusted operating margins expanded 230 basis points, adjusted EBITDA margins expanded 210 basis points, and adjusted net income per diluted share increased 47.4% to \$2.02.

While John will review our financial results at both TruTeam and Service Partners, I want to congratulate the teams at both segments for outstanding execution in this accelerated-growth environment challenged by both labor and material constraints and weather related issues in our Southwest and Midwest markets, which John will discuss in a few minutes.

Our TruTeam branches are working diligently every day, winning new projects, allocating labor and material appropriately, and meeting tight builder schedules. The team is doing an excellent job of managing price and customer expectations. Given the extended build cycle, customer price increases are being realized as we expected. As we moved through the quarter, pricing improved, and it continued to strengthen in April.

At Service Partners, given the steep demand curve and extreme material shortages, material cost increases were passed through to customers much more quickly and this is reflected in Service Partners' results. The team is also doing an outstanding job of managing customer service and expanding their customer base in areas such as gutters and commercial products.

Our commercial business in both segments continues to improve as delayed projects get back on track and bidding activity for both light and heavy commercial is strong. On a same branch basis, commercial revenue increased 8.1% in the first quarter compared to a year ago. On the heavy commercial side, we believe our success rate in winning new projects is due to our strong value proposition that includes expertise in a broad array of insulating products, adherence to strict safety standards and excellent quality control, all from an established and financially stable company. We also continue to expand our relationships and services with general contractors across the country.

The types of heavy commercial projects we are bidding on and winning include hospitals, distribution centers, corporate campuses as well as public works jobs such as schools, universities, and public safety facilities. We expect our commercial business will continue to strengthen as we move through the year.

On the capital allocation front, we completed two acquisitions in the first quarter, LCR Contractors and Ozark Foam, and repurchased slightly over 49,000 shares.

We discussed LCR on our last call and, as a reminder, this company primarily services heavy commercial customers and is expected to generate approximately \$58 million of annual revenue. Ozark Foam, acquired in March, is a residential and light commercial insulation company that primarily installs spray foam insulation for customers in Missouri, Arkansas, and Oklahoma. Ozark is expected to produce close to \$8 million of annual revenue.

Subsequent to the end of the first quarter, following the expiration of the HSR pre-merger waiting period, we closed on our acquisition of American Building Systems, or ABS. With \$144 million of annual revenue, ABS operates 34 branches that primarily service the Eastern United States with branches in high growth markets in Virginia, the Carolinas, Georgia and Florida.

On April 7, we acquired Creative Conservation, a residential and light commercial company serving customers throughout Virginia. Creative generated almost \$7.5 million dollars of annual revenue in 2020.

Combined, these four acquisitions are expected to generate approximately \$217 million of annual revenue. Our integration teams are hard at work ensuring a smooth transition for our new customers and employees as we integrate these companies onto our systems and operations.

Looking ahead, based on our pipeline of prospects, you can expect us to remain active on the acquisition front.

Regarding material availability, all trades in our industry continue to experience constrained capacity. While fiberglass has been on allocation for a number of months, our industry experienced a significant shortage of spray foam in the first quarter as a result of the severe weather in Texas which forced the temporary closure of a number of chemical plants. These plants are back in operation and we expect this situation to improve over the next few months.

Regarding material pricing, fiberglass manufacturers have just announced a third cost increase effective at the end of June, the first two effective in January and April of this year. We are also seeing cost increases for spray foam and other building products. In light of the current environment, we expect both TruTeam and Service Partners to drive higher selling prices throughout the year.

Many of you have asked how we manage these material cost and selling price increases. Within our branch-wide system, our sales force utilizes a tool that sets the order margin thresholds at which a job can be bid. This range is established by our regional leadership team on a market-by-market basis in response to changes in material pricing and demand. Our goal is to strike the optimal balance, market by market, between price and volume with a consistent emphasis on profitable growth. If the sales rep submits a bid outside of this established range it is escalated in the system for review by the branch manager and regional leader as appropriate.

As we look to the rest of the year, we are confident in our ability to fully offset material cost inflation with higher selling prices, and our track record supports this conviction. This type of inflationary environment, strong demand coupled with material and labor constraints, is one in which TopBuild can excel.

John Peterson
Chief Financial Officer

As Robert noted, we had a strong first quarter with revenue growth and margin expansion at both businesses.

In the first quarter, net sales increased 13.7% to \$742.8 million, driven by increased same branch sales volume, revenue from acquisitions, and higher selling prices.

First quarter adjusted gross margin expanded 40 basis points to 26.7%, driven by higher selling prices, savings from cost reduction initiatives, lower insurance costs and operational efficiencies; partially offset by material inflation.

Adjusted operating profit in the quarter grew 38.3% to \$97.2 million, with a corresponding margin improvement of 230 basis points. First quarter adjusted EBITDA was \$115.8 million, compared to \$88.4 million, a 31.1% increase, and our adjusted EBITDA margin was 15.6%, a 210-basis point improvement. Both adjusted operating and EBITDA margin improvements were driven by

the previously mentioned factors impacting gross margin, as well as lower stock-based compensation expense, reduced travel and entertainment activity, lower legal fees and continued good leverage on our fixed overhead.

Our first quarter drop-down to adjusted EBITDA margin was 30.6%, 39.9% on a same branch basis, driven by higher sales volume, strong cost controls, and continued leveraging of our platform; partially offset by higher material costs.

Adjusted net income for the first quarter was \$67.1 million, or \$2.02 per diluted share, compared to prior year first quarter of \$45.9 million, or \$1.37 per diluted share. First quarter adjustments to net income were \$15.2 million, primarily tied to \$13.9 million of debt refinancing costs and the remainder related to acquisition related expenses and the COVID-19 Leave Plan put in place last March. This Plan provides assistance to our employees directly impacted by the virus.

First quarter interest expense decreased from \$8.7 million to \$6.6 million, driven by lower LIBOR rates and a lower balance due on our term loan. During the quarter, we successfully closed on our \$400 million senior notes offering priced at 3.625% and maturing in 2029, using the proceeds to redeem our \$400 million 5.625% senior notes maturing in 2026. This 200-basis point interest reduction will generate \$8 million in annual interest savings going forward. In addition, during this same period we amended our secured credit facility, extending the term loan maturity by one year to 2026 and removing the half percent LIBOR floor which had contributed to our term loan and revolver borrowing costs.

First quarter CAPEX was \$12.3 million, approximately 1.7% of revenue and lower than our long-term target of 2%. For full year 2021, we continue to expect CAPEX to be approximately 2% of sales.

Working capital as a percent of trailing twelve-month sales was 10.2%, 30 basis points lower than first quarter 2020, primarily due to improvements in our accounts receivable aging and a richer segment mix of our Service Partners business which carries lower working capital requirements. Working capital did increase 90 basis points sequentially, primarily due to higher sales growth towards the end of the quarter.

Our effective tax rate was 20.7% in the first quarter, compared to 17.4% for the comparable period in 2020. The higher rate was primarily due to a smaller benefit related to share-based compensation, partially offset by state tax adjustments.

We ended the quarter with net leverage of .87 times trailing twelve months adjusted EBITDA. Total liquidity was \$709.2 million, inclusive of the available balance on the revolver of \$389.6 million, and cash of \$319.6 million. First quarter operating cash flow was \$89.4 million.

Now let's turn to our segment results.

TruTeam's sales increased a solid 12.0% in the first quarter. The increase in sales was driven by revenue from acquisitions, same branch volume growth, and higher selling prices. First quarter adjusted operating margin for TruTeam was 13.9%, a 120-basis point improvement.

Service Partners' first quarter sales were up a strong 17.4% to \$251.6 million, driven by an increase in both volume and higher selling prices. First quarter adjusted operating margin for Service Partners was 14.1%, a 260-basis point improvement from 2020 and the highest in Service Partners' history since becoming part of TopBuild in June 2015.

Both TruTeam and Service Partners were impacted by the severe weather experienced in many areas of the Southwest and Midwest, but most significantly in Texas where we have 27 branches, a number of which were shut down for an extended period. As a result, we estimate volume was 2.8% to 3% lower compared to a year ago and the build cycle was further elongated.

Moving to 2021 annual guidance; based on builder orders and our expectation that interest rates will remain low, we are optimistic this will be a very good year for TopBuild. However, as we noted in February, our guidance assumes some level of industry wide material and labor constraints, which has already led to an extended build cycle and higher than normal backlog.

Based on our first quarter results, acquisitions completed since our last earnings release, and internal forecasts, we are now projecting total sales to be between \$3,220 million and \$3,320 million, a \$170 million increase on both the low and high end range, and adjusted EBITDA to be between \$532 million and \$562 million, a \$27 million increase on both the high and low end range. This assumes a range of residential new housing starts of between 1.45 million and 1.5 million, which is an increase from our original guidance based on recent housing activity.

Our long-range modeling targets are unchanged from those we published on February 23rd.

Robert Buck
President and Chief Executive Officer

Looking ahead to the remainder of 2021, it should be another strong year for TopBuild. We are driving hard to achieve executional excellence in all aspects of our business, which will generate top line growth, maximize the conversion of that revenue to the bottom line and provide the free cash flow to fund our capital allocation strategy.

In closing, I thank our entire TopBuild team for their hard work, safety lifestyle and dedication to creating value for our shareholders.