



**Management's Prepared Remarks
Second Quarter 2024 Earnings Conference Call
August 6, 2024**

**PI Aquino
Vice President, Investor Relations**

Good morning and thanks for joining us. On our call today are Robert Buck, President and Chief Executive Officer, and Rob Kuhns, Chief Financial Officer.

We have posted our earnings release, senior management's formal remarks and a presentation that summarizes our comments on our website at topbuild.com.

Many of our remarks today 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 any forward-looking statements because of new information, future events, or otherwise.

Please note that some of the financial measures to be discussed during 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 our presentation, both of which are available on our website.

I'll now turn the call over to President and CEO, Robert Buck.

**Robert Buck
President and Chief Executive Officer**

Good morning and thank you for joining us today. TopBuild delivered a solid second quarter, with both segments growing top line sales and bottom-line profits.

Our teams have stayed focused on driving profitable growth and operational improvements across all of our businesses, even considering uneven housing demand and various commercial project delays – both the result of higher interest rates for longer than originally anticipated.

I'm proud of the strength of our team and the diversification of our business model, which positions us well to deliver long-term growth. Today's underbuilt housing landscape, rising household formations, potential for interest rate moderation, and escalating demand for energy efficient building codes support the long-term demand for TopBuild's products and services.

Turning to our results, sales grew 3.7% to \$1.37 billion as both of our segments realized pricing, increased volumes and benefited from acquisitions. While volumes across both segments improved, they were softer than we anticipated in the quarter.

We reported adjusted EBITDA of \$277.7 million, and an adjusted EBITDA margin of 20.3%. Excluding last year's estimated \$10 million margin benefit in Q2 related to our multi-family and

commercial business, our same branch incremental EBITDA margin was 41.2%, which is a result of the continued excellent work by our Special Operations team.

When adjusting for this margin benefit last year, we delivered both the highest quarterly sales in our history and the highest adjusted EBITDA margin in our history. This demonstrates the fundamentals of our business are performing well.

On the material side, fiberglass and certain commercial products are still in tight supply. Our teams are doing a great job managing through the supply situation. And while we saw volume growth in both segments this quarter, our growth was constrained by material supply.

Turning to our end markets, our residential business grew 5.4% in the quarter.

- The single-family environment continues to improve, and although housing demand has been choppy in certain regions, our teams continue to do a nice job balancing price and volume given current local business conditions.
- We continue to see year-over-year growth in multi-family work, although bidding has slowed. Our backlog remains strong, and we fully expect the backlog to carry into 2025.

The Commercial & Industrial end markets are also feeling the impact of the higher interest rate environment as the timing of some projects has been pushed out to 2025, but the good news is that we are not seeing project cancelations. We see these projects as future demand and this is more of a timing issue.

As we have noted before, we participate across numerous verticals in Commercial and Industrial. Let me spend a minute talking about one such commercial and industrial vertical that is growing rapidly.

Data centers store and manage digital data for organizations in highly regulated and controlled environments. Today, there are over 150 active projects in various stages under construction in the United States.

On the Installation side, our teams participate in applications such as fireproofing and firestopping, fiberglass insulation, spray foam, acoustics and various types of rigid board applications on the interior and exterior walls.

On the Specialty Distribution side of the business, our services range from distributing standard mechanical insulation products to custom fabricated and engineered insulation solutions. For example, on the exterior of the building, we will distribute insulation for the piping of air chillers, we custom fabricate aluminum jacket coverings as well provide calcium silicate inserts that both insulate and provide structural integrity in long runs of critical piping. We also provide insulation for interior ductwork and other mechanical systems.

Just to give you an idea of some of the work we're doing, in the Pacific Northwest, we are working on a 27-acre data center project that has 6 data halls planned. We started work about a month ago, although we originally planned to be on site earlier in Q2. Given the delay, we now anticipate our work on this project will continue into early 2025.

In the Southwest, we have been awarded 6 buildings within a large data center business park. For just one of these buildings, we will be providing over 55,000 linear feet of insulation.

In short, our total TopBuild revenue for a data center project can be as much as \$7-\$8M. Our backlog of work related to data centers continues to grow, with projects secured well into 2026.

Moving to capital allocation, acquisitions continue to be our number one priority. In the last 18 months we have made acquisitions totaling approximately \$280 million in annual revenue. M&A is a core competency of TopBuild, and we have a strong track record of execution and generating great returns for shareholders.

One recent acquisition that closed at the end of May was Texas Insulation, with \$39 million in annual sales. With three locations, Texas Insulation's talented team expands our spray foam capabilities in an important and rapidly growing geography, demonstrating our ability to make acquisitions in our core insulation business.

Today, our M&A pipeline is as strong as ever, and our team is busy evaluating numerous potential acquisition candidates across all three end markets we serve. While we remain focused on our core of insulation, we are always evaluating opportunities to leverage our core competencies and have the potential to expand our total addressable market.

As we announced last quarter, our Board approved a new \$1 billion share repurchase program. In the second quarter, we returned approximately \$505 million to shareholders, which demonstrates management's and our Board's confidence in the business outlook.

As you saw in our press release this morning, we are revising our outlook for 2024. Rob will speak to the guidance in more detail, but the revision is, in large part, a reflection of timing of demand, rather than any underlying changes in the business.

In summary, we posted another quarter of solid growth and our business performed very well as we've navigated uneven demand, project delays and supply tightness. We are confident we will deliver another year of strong profitable growth and increased shareholder value.

Rob Kuhns
Chief Financial Officer

Thanks Robert and thank you to our teams for their effort as we delivered another solid quarter.

Total sales of \$1.37 billion, the highest quarter in our history, grew 3.7% as both segments grew sales sequentially and on a year over year basis. M&A, net of a disposition, drove a 2.3% increase, while price was up 1.3%. Price was primarily driven by the first quarter fiberglass price increase, partially offset by 1% percent due to lower prices on spray foam and gutters that carried over from last year.

On a segment basis, Installation grew net sales by 5.2% to \$851 million. Net M&A added 2.9%, pricing added 1.3% and volume was up 1.0%.

Residential sales grew 6.7% for the Installation segment as sales for single-family homes continued to improve, both sequentially and on a year-over-year basis, and multi-family sales continued to be strong due to our backlog.

The Installation segment's commercial sales were down 1.9% due to shifts in project timing and material availability.

Net sales for Specialty Distribution grew 3.2% to \$593 million in the second quarter. Volume improved 0.6%, while pricing and acquisitions each contributed 1.3%.

Specialty Distribution Residential sales grew by 4.6% as demand for single-family homes continued to improve.

Commercial and industrial sales for the Distribution segment also grew by 2.3%.

In the second quarter, we delivered gross profit of \$423.9 million, or a 31.0% margin, which was 100 basis points lower than last year.

As we've discussed over the last several quarters, our second quarter 2023 margins had a one-time benefit of approximately \$10 million from higher-than-normal margins on multi-family and commercial projects.

Excluding this, gross margin declined 30 basis points versus last year, primarily due to the impact of acquisitions.

Our second quarter adjusted SG&A expense was 13.6% of sales, a 30-basis point improvement over prior year.

TopBuild adjusted EBITDA in the second quarter totaled \$277.7 million, or a margin of 20.3%. Excluding the \$10M margin benefit from last year, our adjusted EBITDA margin expanded 10 basis points and our same branch incremental EBITDA margin was 41.2%, driven by productivity gains and improved pricing in both segments.

The Installation segment had an adjusted EBITDA margin of 22.3%, a 10-basis point expansion after excluding the \$10 million benefit last year.

And Specialty Distribution's adjusted EBITDA margin rose 10 basis points year over year to 17.7%.

Other Income and Expense of \$7.2 million in the quarter was down from \$14.0 million last year due to interest income from higher cash balances.

Adjusted earnings per diluted share totaled \$5.42 in the quarter, 3.2% higher than last year.

Turning now to our balance sheet and cash flow. We had total liquidity of \$899.5 million at quarter end, which includes cash of \$463.2 million and availability under our revolver of \$436.2 million.

Net debt at the end of the quarter was \$947.4 million, and our leverage ratio was 0.88 times the last 12 months adjusted EBITDA.

Working capital as a percent of sales was 14.8% in the quarter, down 10 basis points compared to last year at this time. While working capital is lower than it was a year ago at this time, it has risen since year-end due to material availability as we work to ensure that we have inventory on hand.

Free cash flow for the trailing 12 months totaled \$663.4 million, an increase of 11.9% versus \$592.9 million last year.

Our capital allocation priorities remain clear. M&A continues to be our #1 priority for reinvestment. To date in 2024, we've completed 6 acquisitions totaling more than \$100 million in annual revenue – and as Robert noted earlier, acquisitions have totaled \$280 million of revenue on an annual basis for the last 18 months.

Our second capital allocation priority is returning capital to shareholders and in the quarter, we repurchased 1.25 million shares at an average price of approximately \$405 per share, totaling \$505.2 million. At the end of June, we had \$649.2 million remaining under the authorization. You can expect us to continue to prioritize our M&A pipeline and to be opportunistic with our share repurchases.

Finally – turning to our outlook, we are revising our full year sales guidance to \$5.3 to \$5.5 billion. This reduction of \$100 million at the midpoint reflects the choppiness in demand, primarily in our commercial markets, partially offset by recent M&A and higher prices from the second fiberglass price increase. While demand is still strong, some of the growth we had anticipated in the second half of this year will likely be pushed into 2025. We continue to expect 2024 residential sales to grow mid-single digits and we now expect low single digit growth in commercial and industrial.

We have also tightened and lowered our EBITDA guidance to a range of \$1.055 to \$1.125 billion, which is reduction of \$20 million at the midpoint and reflects our solid year-to-date profit performance as well confidence in our team's ability to continue to drive profitable growth and productivity improvements.

I also want to remind you that the \$10 million one-time multifamily and commercial margin benefit we discussed this quarter had a \$25 million impact for the full year. The remaining \$15 million impacted the third quarter of 2023 and should be considered in year-over-year profit and margin comparisons as we move forward.

Our teams have done a great job to date, and we're confident about our outlook for the balance of our year. We're excited about our future, as macro fundamentals continue to support long-term growth and opportunities for our business.

Robert Buck
President and Chief Executive Officer

Before we open the call up to questions, let me make a couple final comments:

- The macro fundamentals of our business are strong and supportive of growing demand for the foreseeable future.
- We have a proven, differentiated business model, a disciplined capital allocation approach and continuous focus on driving improvements in the business and executing well.
- We have a strong track record of delivering increased shareholder value, and we are confident we will deliver another strong year of profitable growth.

Let me close by expressing my gratitude to our teams for their hard work, dedication, and focus on servicing our customers and keeping each other safe. Thank you for your efforts to consistently execute and drive improvement across our business.

With that operator, we are ready for questions.