Management's Prepared Remarks
Fourth Quarter Conference Call
February 27, 2018

Tabitha Zane
Vice President, Investor Relations

Thank you and good morning. On the call today are Jerry Volas, Chief Executive Officer, Robert Buck, President and Chief Operating Officer, and John Peterson, Chief Financial Officer.

Please note, we have posted senior management's formal remarks on the Investor Relations section of our website at topbuild.com.

Many of our remarks will include forward-looking statements concerning the company's operations and financial condition. These forward-looking statements include known and unknown risks, including those set forth in this morning's press release as well as in the Company's filings with the SEC. The Company assumes no obligation to update or supplement forward looking statements that become untrue because of subsequent events. In addition, we will also discuss non-GAAP financial measures which can be reconciled to the most comparable GAAP measures in a table included in today's press release.

Jerry Volas
Chief Executive Officer

As you can see from today's press release, we had a strong fourth quarter with organic sales growth of 8.3%, handily beating lagged housing starts. We also expanded our adjusted operating margin 180 basis points to 10.1% and our incremental EBITDA pull-through on a same-branch basis was a robust 35.5%. It was a very good end to a very good year for TopBuild, a year with many significant accomplishments for our Company and John will talk in more detail about the fourth quarter. In 2017:

- We successfully completed six acquisitions that are expected to generate over $83 million of net annual revenue, including four residential and two heavy commercial installation firms. These companies have bolstered our management team, enhanced our scale, increased our penetration in key markets and augmented our business product mix and capabilities.

- We upsized our term loan and revolving credit facility to $600 million, further enhancing our liquidity and extending our debt maturity to May 2022, almost two years beyond our prior loan maturity date. This additional capital strengthened our ability to capitalize on strategic acquisitions and other opportunities designed to enhance long-term value for our shareholders.

- We returned capital to our shareholders through a $200 million Board authorized share repurchase program, including a $100 million ASR. Over the past two years we have repurchased 3.0 million shares of our stock, demonstrating our commitment to optimizing our capital structure.

- We continued to improve labor and sales productivity in our ongoing commitment to profitable growth. We've implemented new bonus programs for our branch managers, with operating profit being a key metric. Our technology tools have enhanced our installers' efficiency and improved the sales process, and our back-office consolidation initiative has resulted in measurable savings.

- In keeping with our philosophy, you are what you measure, we improved shareholder transparency with the introduction of annual guidance metrics last October. We are now providing a forecasted annual range for revenue and adjusted EBITDA which will be updated every quarter.

- We provided you with a better understanding of the depth and experience of our leadership team at our Investor Day. They've been through numerous housing cycles, they understand what it takes to execute our business plan successfully and they are 100% focused on growing our Company profitably and creating value for our shareholders.

- And finally, we were awarded the 2017 ENERGY STAR Partner of the Year for our continued leadership in protecting the environment through superior energy efficiency achievements. TopBuild Home Services has been an ENERGY STAR partner for 15 years, working closely with home builders and consumers to create homes that are more comfortable and energy efficient.

Turning to our financial results, as you know, our primary benchmark is 90-day lagged housing starts which were up 5.2% for the year, as were TopBuild's same branch sales. This growth was driven by both volume and price increases at TruTeam and Service Partners. Total revenue, including contributions from acquired companies, increased 9.4% in 2017.

Moving on to the conversion of that strong top line growth to the bottom line, the drop-down to adjusted EBITDA was 32.5% for the year, and 47.7% on a same branch basis. Last year, on our fourth quarter call, I noted that an important driver of our performance was the operational improvements we had implemented throughout our Company. I also noted that with full-year incremental EBITDA margin at 29.4% we believed there was more to come in 2017. And, as our 2017 results clearly demonstrate, we were correct.

While John is going to talk about the impact to TopBuild of the 2017 Tax Reform Bill, I wanted to announce that we are looking at redeploying a portion of the cash we will save on our taxes to our employees, and our intention is to increase the match on our employee 401K plan. We believe that this savings plan is very important and providing additional funds to help secure our employees' future is a meaningful initiative fully supported by our leadership team and our board of directors.

As we look at 2018, we are very optimistic that it will be another strong year for TopBuild. The economy is strong, interest rates remain low, household formation is increasing and new home inventory is tight. We are seeing more first-time buyers enter the market and, as a result, we believe single family will grow proportionately greater than multi-family, which will only further enhance our top line growth.

At TopBuild this year, strategic acquisitions will remain an important aspect of our projected growth and our number one capital allocation priority. We will also continue to focus on initiatives that drive operational efficiency and improve labor and sales productivity. While we will focus on top line growth, our team is laser focused on ensuring this growth is profitable and translates into margin expansion at both of our business segments, TruTeam and Service Partners.

In our opinion, the housing recovery has several years to go and TopBuild, with exposure to 95% of all housing starts, unrivaled national scale and buying power, a diversified business model that mitigates cyclicality and a seasoned, energized and cycle-tested team, is uniquely positioned to capture a large portion of that growth.

John Peterson
Chief Financial Officer
In the fourth quarter, consolidated revenue increased 12.9% to $501 million, primarily driven by sales volume and improved selling prices at both TruTeam and Service Partners, as well as $21.8 million of revenue from companies acquired since January 2017. On a same branch basis, revenue increased a healthy 8.3% compared to fourth quarter 2016.

Gross margin expanded 60 basis points to 24.3%, compared to the same period a year ago. Adjusted operating profit grew 37.2% to $50.8 million, with a corresponding margin improvement of 180 basis points. Both gross margin and operating margin improvements were driven by volume leverage, higher selling prices and improved labor and sales productivity; partially offset by higher material costs, higher amortization expenses and higher share-based compensation expenses. Fourth quarter 2017 adjustments totaled $864,000, over half of which were acquisition related expenses.

Fourth quarter adjusted EBITDA was $57.9 million, compared to $42.1 million in 2016, and our EBITDA margin was 11.6%, a 210-basis point improvement from fourth quarter 2016. This margin improvement is a direct result of the transformative changes we have made at TopBuild to improve our operations, increase labor and sales productivity, optimize our footprint and streamline many of our processes and procedures. Profitable growth continues to be a key focus for everyone in our business.

Our drop-down to adjusted EBITDA margin was 27.7% in the fourth quarter. On a same branch basis, adjusted EBITDA was $55.0 million, a 31.3% increase, and our drop-down to adjusted EBITDA was 35.5%, driven by improved selling prices, strong cost control and continued leveraging of our platform. Incremental EBITDA margin related to our seven acquisitions was 13.6%.

TopBuild's fourth quarter SG&A increased $2.9 million, to $72.1 million, but declined 120 basis points as a percent of revenue to 14.4%. The majority of the increase was driven by the impact of acquisitions as well as higher stock-based compensation.

Looking at our full-year results, total sales increased 9.4%. Gross margin expanded 120 basis points to 24.2% and our adjusted operating margin expanded 180 basis points to 9.0%. Adjusted EBITDA for 2017 grew 36.7% to $197.6 million, and our EBITDA margin improved 210 basis points to 10.4%. Our drop-down to adjusted EBITDA margin for 2017 was 32.5% and 47.7% on a same branch basis.

Adjusted income from continuing operations for the fourth quarter of 2017 was $30.1 million, or $0.84 per diluted share compared to $22.2 million, or $0.59 per diluted share in the fourth quarter of 2016. Adjusted income from continuing operations for full year 2017 was $101.8 million, or $2.78 per diluted share, compared to $74.1 million, or $1.96 per diluted share for full year 2016.

CAPEX for full year 2017 was $25.3 million, approximately 1.3% of revenue. Fourth quarter CAPEX was $12.2M, or 2.4% of revenue. Included in fourth quarter Capex was over $7M of vehicle purchases which we have historically acquired through operating leases. As a reminder, on our third quarter call we communicated that we plan to use equipment debt financing to fund our future fleet acquisition instead of operating leases. In the fourth quarter, we funded our vehicle purchases with cash on the balance sheet. This cash will be refunded in first quarter 2018 from proceeds of the new equipment debt facility to be executed during the quarter.

Working capital as a percent of sales was 9.1%, 180 basis points higher than prior year. This increase is primarily due to a couple of factors. The primary driver was continued growth in our commercial line of business from both acquisitions and organic growth. As we've discussed in the past, commercial business typically comes with longer payment terms than residential business. Another factor impacting our year end working capital balance was a change in normal seasonal sales patterns. Typical seasonal sales show a steeper decline in the fourth quarter leading to a lower Accounts Receivable balance. This year's seasonality had stronger 4Q sales which delivered a higher AR balance than we saw in 4Q16. As a result of the current and anticipated growth of the commercial line of business, we are adjusting our long-term guidance of year-end working capital as a percent of annual sales to a range of 8.5% to 9.5%.

Operating cash flow was $113.2 million for the year. We ended the year with a net leverage ratio of 0.9 and total liquidity available of $359.5 million, inclusive of the available balance on the revolver of $202.9 million, the delayed draw of committed funds on our term loan of $100 million and cash of $56.5 million.

Due to the change in the federal tax laws enacted late last year, we are modifying our normalized effective tax rate to 27% from our previous guidance of 38%. We are still analyzing its full impact and waiting to see how individual states are going to address the new federal tax law changes with regards to their own business tax rates and will communicate any material changes. Also, as noted in today's release, in the fourth quarter we did recognize a onetime benefit of $74.1 million from the adjustment of our deferred assets and liabilities to reflect the change in the federal tax rate.

Moving to 2018 annual guidance, we are projecting total revenue to be between $2,050 million and $2,115 million and adjusted EBITDA to be between $222 million and $242 million. This guidance assumes a range of residential new housing starts of between 1.24 million and 1.28 million. It does include the two acquisitions we recently announced in January but does not include any additional acquisitions we may make this year. Further, we have not changed any of our long-term assumptions with the exception of working capital and the new normalized tax rate, both of which I discussed earlier.

Robert Buck
President and Chief Operating Officer
2017 was another great year for both TruTeam and Service Partners. Our success is due, in large measure, to the hard work and dedication of our over 8,000 employees. Their focus on working safely, providing outstanding service to our customers and pushing for operational excellence throughout our Company enables us to grow profitably and ultimately enhance value for our shareholders.

Looking at TruTeam's financial results, fourth quarter sales increased 16.2%, benefitting from higher same branch volume, acquisitions and a 1.2% increase in selling prices. Adjusted operating margin was 12.7%, a 270-basis point improvement from fourth quarter 2016. Although volume leverage was a key contributor in the quarter, results were also favorably impacted by higher selling prices and continued improvement in sales and labor productivity. On a same branch basis, TruTeam's revenue increased 9.2% outpacing fourth quarter lagged housing starts of 2.0%.

For full year 2017, TruTeam's revenue increased 11.4% and adjusted operating margin was 11.0%, a 240-basis point expansion from 2016. On a same branch basis, TruTeam's 2017 revenue aligned very closely with lagged housing starts of 5.2% for the year.

TruTeam's commercial business grew 23.5% for full year 2017, from a combination of organic growth and acquired revenue. Our commercial backlog is strong and our bundled services approach is giving us a competitive edge in this business.

We also saw strong spray foam growth, which is benefitting from sales execution, new building codes and consumer education. Installation revenue from this product increased almost 18% in 2017.

At Service Partners, sales were up 9.0% in the quarter driven by volume growth and higher selling prices. As we forecasted, selling prices at Service Partners improved throughout the year, with a 2% increase in the fourth quarter. Adjusted operating margin was flat at 9.3%.

For the full year, Service Partners' sales were up 6.4% and adjusted operating margin expanded 70 basis points to 9.6%. Distribution revenue from spray foam increased 24% at Service Partners in 2017.

On the material side, we saw three price increases in 2017 and there is a January 2018 fiberglass price increase currently in play. We've also seen fiberglass supply tighten over the past 12 months and we continue to see labor constraints in the industry. As you can see from our margin performance in 2017, our local teams did a great job managing labor productivity, logistics and material cost increases to improve margins across both businesses in 2017. We expect our teams will continue to manage these issues very well in 2018 and margins should again expand for the full year.

Speaking of labor, we are always focused on talent management and developing the next generation of leaders. In July, we introduced a new program, TopBuild's Manager-in-Training program, or MIT, that is focused on developing current talent within our company and attracting new talent to join our team.

The objective of the MIT program is to provide on-the-job training for future branch managers. We want to build a 'bench' of well qualified individuals who are ready to seize new career opportunities that arise in our company.

The MIT program exposes the individual to all facets of our operations. For the first four to six months they are out in the field, learning day-to-day operations from the ground up, installing or distributing products and learning how to lead a team. They then move to production and inventory management, field sales, as well as safety and leadership training. Each MIT is assigned a mentor who guides them through the process and ensures they are meeting the program's goals and objectives.

We are very excited about this program and already have a group of recruits out in the field learning on the job.

Turning to acquisitions, we are in the process of integrating the two companies we've acquired so far in 2018, ADO Products, a distributor of insulation accessories, and Santa Rosa Insulation and Fireproofing, a residential and commercial insulation company

ADO, our first distribution acquisition as TopBuild, is a great addition to Service Partners with its strong and long-standing customer relationships and experienced leadership team. It also expands our geographic presence and distribution reach.

Santa Rosa will increase our market share not just in the Miami region but throughout Florida, an area of the country we believe that will continue to experience healthy growth. The Santa Rosa team also has strong customer relationships as well as an experienced labor force with demonstrated foam insulation and fireproofing expertise.

Combined, these acquisitions are expected to contribute almost $32 million of net revenue in 2018. We feel very good about our pipeline of M&A opportunities and deals we are looking to close.

Before turning the call back to Jerry for closing remarks, I want to again thank our TopBuild team for their hard work and dedication to our Company. We remain focused on profitable growth and believe 2018 will be another successful year of moving our Company forward and driving continued improvements.

Jerry Volas
Chief Executive Officer
Before opening it up to questions, I want to again emphasize that 2018 should be another year of profitable growth for TopBuild. The external environment is positive and our team has demonstrated that it knows how to execute well. We look for continued M&A opportunities which will further add long-term value for our Company.