

TopBuild Corp. (BLD)

\$69.58 (As of 04/16/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/31/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Shares of TopBuild have outperformed the industry in the past year. The trend is likely to continue, given strong fourth-quarter 2019 results. Adjusted earnings surpassed the Zacks Consensus Estimate by 5.7% and grew 23.3% from the prior-year quarter, backed by strong sales, operational efficiencies, and acquisitions. Net sales also rose 3.6% year over year, driven by residential and commercial volume growth, and increased pricing at both the segments. Adjusted EBITDA margin improved 110 basis points (bps). Higher selling prices, improved labor and sales productivity, along with synergies from USI supported the growth. However, higher mix of multi-family and smaller single-family homes — which generate lower revenue per unit — partially offset the positives.

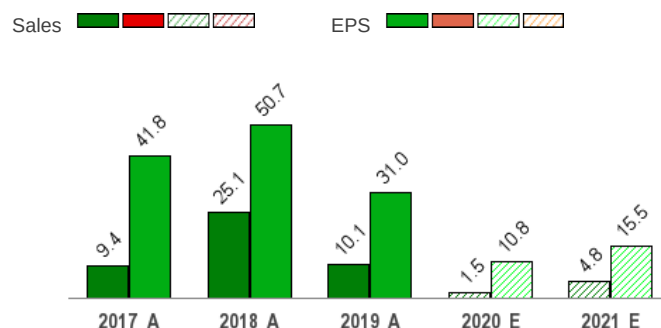
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.66 - \$54.83
20 Day Average Volume (sh)	397,365
Market Cap	\$2.3 B
YTD Price Change	-32.5%
Beta	1.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Bottom 43% (144 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	05/05/2020
Earnings ESP	-3.6%
P/E TTM	12.7
P/E F1	11.4
PEG F1	0.4
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	680 E	753 E	781 E	754 E	2,792 E
2020	650 E	648 E	677 E	688 E	2,663 E
2019	619 A	660 A	682 A	662 A	2,624 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.50 E	\$2.09 E	\$2.11 E	\$2.04 E	\$7.02 E
2020	\$1.27 E	\$1.49 E	\$1.60 E	\$1.67 E	\$6.08 E
2019	\$1.06 A	\$1.43 A	\$1.53 A	\$1.48 A	\$5.49 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

Overview

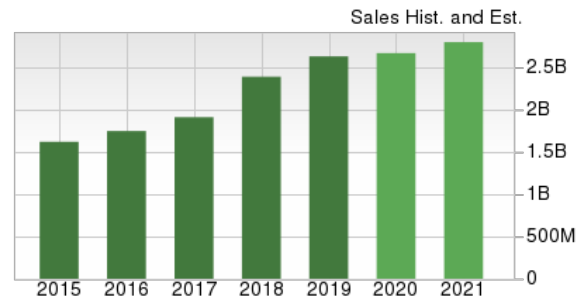
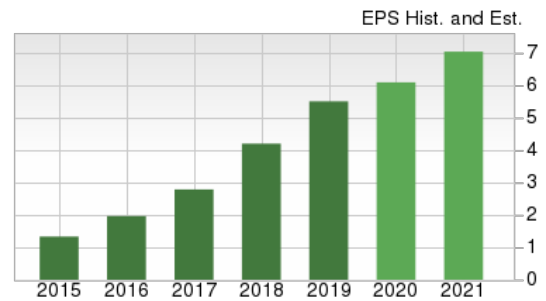
Headquartered in Daytona Beach, FL, **TopBuild Corp.** is an installer and distributor of insulation and other building products to the U.S. construction industry. TopBuild, which earlier operated as a subsidiary of Masco Corporation, provides insulation and building material services across the nation through TruTeam and Service Partners. The company started trading on the NYSE under the symbol "BLD" from Jul 1, 2015.

The company has two reportable segments — Installation (TruTeam) and Distribution (Service Partners).

Installation segment (accounting for 72.7% of total 2019 net sales) installs insulation and other building products through the TruTeam contractor services business, which had nearly 200 branches located in 40 states, as of Dec 31, 2019. The company installs various insulation applications including fiberglass batts and rolls, blown-in loose fill fiberglass, blown-in loose fill cellulose and polyurethane spray foam. Also, it installs other building products like rain gutters, glass and windows, fire proofing, garage doors, shower enclosures, as well as closet shelving. The installation process includes procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, as well as installation quality assurance.

Distribution segment (32.8%) sells and distributes insulation and other building products including rain gutters, fireplaces, closet shelving and roofing materials through the Service Partners business, which had approximately 75 branches located in 32 states, as of Dec 31, 2019. Its Service Partners customer base consists of thousands of insulation contractors of all sizes, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors and modular home builders.

[Intercompany eliminations accounted for 5.5% of total 2019 net sales.]



Reasons To Buy:

▲ **Strong Performance & Prospects:** Shares of TopBuild have outperformed the industry in the past year. The company has been recording solid earnings and revenue growth over the last few quarters. During 2019, the company's sales increased 10.1%, adjusted earnings per share grew 31%, adjusted EBITDA was up 26.7% and adjusted EBITDA margin expanded 180 basis points (bps) from 2018. The strong performance was mainly driven by the USI acquisition and increased selling prices. Also, higher sales growth in the Installation segment and operational efficiencies added to the bliss.

Strategic acquisitions and favorable construction market bode well for the company.

Meanwhile, TopBuild's superior return on equity (ROE) is indicative of growth potential. The company's ROE is currently 16.6% compared with 11.5% for the industry it belongs to. This indicates efficiency in using its shareholders' funds.

▲ **Inorganic Moves:** Acquisitions are an important part of TopBuild's growth strategy. On Feb 24, 2020, the company announced that it has acquired Hunter Insulation, an 80-year old residential insulation company based in Long Island, NY. Also, on Feb 21, 2020, it added Cooper Glass Co, LLC — a commercial glass company serving the Memphis market — to its portfolio.

In July 2019, the company acquired Burbank, CA-based Viking Insulation for a purchase price of approximately \$7.7 million. Again in 2018, it had completed the acquisition of three companies: ADO, a distributor of insulation accessories, Santa Rosa, a residential and commercial insulation company, and USI, a leading distributor and installer of insulation in both residential and commercial construction markets. Notably, 2018 buyouts added \$414.8 million to net sales and aided the company to generate \$34.7 million net income in 2019.

Apart from acquisitions, the company plans to close some low-margin businesses to focus on its core areas in a bid to accelerate growth and improve shareholder value.

▲ **Solid Economy & Improved Homebuilding Market:** The U.S. housing market has gained considerable strength on the back of declining mortgage rates, solid job market and a moderate rise in home prices. All these positives point toward continually strong demand through 2020, which is anticipated to benefit the business. Moreover, the recently announced starts data, strong household formations and optimistic builder sentiment show TopBuild's strength.

Additionally, strong industry fundamentals in both light and heavy commercial markets provide attractive growth opportunities for TopBuild.

▲ **Driving Shareholder Value:** The company plans to drive shareholder value through investing in new areas of production, selectively pursuing acquisitions with the right fit and return, as well as returning cash to its shareholders through share repurchases.

In 2019, it bought back 1.3 million shares for \$111 million through the repurchase program (including \$50 million accelerated share repurchase). On Feb 22, 2019, the board authorized the repurchase of an additional \$200 million shares under the 2019 repurchase program.

Reasons To Sell:

▼ **Raw Material Inflation:** Higher raw material costs remain a concern for TopBuild. Although inflation was moderate during 2019, it may hurt the company in the future. In 2018, gross margin was under significant pressure due to record material cost increases driven by tighter supply and higher freight costs. Also, during 2019, higher material costs remained a significant concern for the company. Manufacturers announced a cost increase from January 2020, which will certainly weigh on the bottom line.

Higher material and other costs, along with lower volumes mar the company's prospects.

Although the company has been working to recover higher commodity costs through price increases, ongoing volatility in material costs and tightened capacity remain concerns.

▼ **Lower Distribution Business Volumes:** TopBuild is witnessing lower sales volumes, primarily in the Distribution segment. In 2019, the segment registered 0.8% decline in volumes. The downfall was mainly due to its deliberate decisions with respect to prices and volume, as well as decision to exit some low-margin businesses.

▼ **Seasonal Influence on Business:** TopBuild's business has been historically subjected to seasonal influences. The company typically realizes higher sales in the third and fourth calendar quarters, corresponding with the peak season for residential new construction and residential repair/remodel activity. Sales during winters are seasonally slower due to lower construction activity. Hurricanes, severe storms, earthquakes, droughts, floods, fires and other natural disasters also hamper its performance.

▼ **Federal Government Actions:** As TopBuild's business prospects are highly correlated with U.S. housing market condition and repair and remodeling activity, any untoward situation influencing the construction and housing sectors will impact the company's financials. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn may hurt both the economy and the housing market.

Last Earnings Report

TopBuild Q4 Earnings Beat Estimates, Margins High

TopBuild Corp. reported better-than-expected earnings in fourth-quarter 2019. Earnings not only surpassed the Zacks Consensus Estimate but also grew impressively from the prior-year quarter, backed by strong volume and pricing, as well as acquisitions.

Inside the Headlines

The company reported adjusted earnings of \$1.48 per share, which surpassed the consensus estimate of \$1.40 by 5.7% and grew 23.3% from the prior-year period. The uptrend was primarily backed by strong sales and operational efficiencies.

Total net sales rose 3.6% on a year-over-year basis to \$662.3 million, driven by residential and commercial volume growth, and increased pricing at both the segments. Also, acquisitions contributed to the growth. However, the reported figure lagged the consensus mark of \$673.3 million by 1.6%. Higher mix of multi-family and smaller single-family homes — which generate lower revenue per unit — partially offset the positives.

Segmental Performance

TruTeam's revenues increased 4% year over year to \$475.9 million. Volume accounted for 0.7% of this growth and selling price contributed 2.7%. Acquisitions added 0.6% to the growth. Adjusted operating margin in the quarter expanded 90 basis points (bps) to 13.4%.

Revenues of the Service Partners segment grew 4.3% year over year to \$223.2 million, driven by 2% volume and 2.3% price increase. Adjusted operating margin also improved 120 bps from the year-ago level to 11.3%.

Operating Highlights

Adjusted gross margin expanded 120 bps year over year to 25.9%. Adjusted operating profit of \$76.6 million also increased almost 14% year over year. Adjusted operating margin improved 110 bps from the year-ago period to 11.6%. Both gross and operating margin improvements were driven by higher selling prices, improved labor and sales productivity, along with synergies from USI, partially offset by higher material costs.

Adjusted EBITDA margin improved 110 bps to 14% during the quarter. Incremental adjusted EBITDA margin was 44%.

Financial Update

Cash and cash equivalents as of Dec 31, 2019 were \$184.8 million, up from \$100.9 million at 2018-end. Net cash provided by operations was \$271.8 million in 2019 compared with \$167.2 million recorded in the comparable period last year.

In 2019, the company repurchased 1,291,771 shares for approximately \$110.9 million.

Recently, the company acquired New York-based Hunter Insulation, and a commercial glass company Cooper Glass, which serves the Memphis market. TopBuild expects these acquisitions to contribute approximately \$19 million to annual revenues.

2019 Highlights

Full-year adjusted earnings came in at \$5.49 per share, surpassing the consensus estimate of \$5.42 by 1.3% and improving 7.2% year over year. Net sales of \$2.624 billion also increased 10.1% from a year ago. Adjusted operating margin improved 140 bps to 11.2% and adjusted EBITDA margin grew 180 bps to 13.7%.

Long-Term Projections (Through 2022)

For the long term, commercial annual revenue growth is projected at about 10%. Same branch incremental adjusted EBITDA is anticipated within 22-27%. Incremental adjusted EBITDA related to acquisitions is projected in the range of 11-16%.

Residential revenues for every 50K increase in housing starts are likely to be \$80 million. Normalized tax rate is expected to be 26%.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	-1.62%
EPS Surprise	5.71%
Quarterly EPS	1.48
Annual EPS (TTM)	5.50

Recent News

TopBuild Revokes 2020 Guidance on Coronavirus Concerns - Apr 14, 2020

In view of significant uncertainty arising from the novel coronavirus outbreak, TopBuild Corp. announced the withdrawal of its full-year 2020 revenue and adjusted EBITDA guidance.

The company — which is slated to release first-quarter results on May 5 — had expected revenues within \$2,765-\$2,835 million for 2020. Adjusted EBITDA was projected between \$387 million and \$412 million, indicating a significant increase from \$359.1 million registered in 2019.

Meanwhile, with the exception of a few states, it has been operating and installing, and distributing materials wherein residential and commercial construction is considered an essential service.

From liquidity perspective, TopBuild had \$187 million cash on hand at the end of first-quarter 2020. It has \$389 million available under the \$450-million revolving credit facility, which excludes \$61 million of letters of credit.

Valuation

TopBuild's shares are down 32.5% in the year-to-date period and 5.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 26.8% and 29.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.9% and 20.2%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 10.95X forward 12-month earnings, which compares to 12.39X for the Zacks sub-industry, 12.63X for the Zacks sector and 18.65X for the S&P 500 index.

Over the past four years, the stock has traded as high as 27.64X and as low as 8.76X, with a 5-year median of 16.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 11.5X forward 12-month earnings.

The table below shows summary valuation data for BLD

Valuation Multiples - BLD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.95	12.39	12.63	18.65
	4-Year High	27.64	17.29	17.94	19.34
	4-Year Low	8.76	7.13	10.75	15.19
	4-Year Median	16.59	13.53	15.83	7.45
P/S F12M	Current	0.86	0.9	1.36	3.09
	4-Year High	1.46	3.59	2.12	3.44
	4-Year Low	0.49	0.69	1.17	2.54
	4-Year Median	0.9	0.89	1.59	3.01
EV/EBITDA TTM	Current	8.69	17.86	14.78	10.17
	4-Year High	32.01	30.62	21.2	12.87
	4-Year Low	7.74	14.67	12.27	8.27
	4-Year Median	14.75	23.28	17.97	10.78

As of 04/16/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 253)



Top Peers

Arcosa, Inc. (ACA)	Neutral
Foundation Building Materials, Inc. (FBM)	Neutral
Frontdoor, Inc. (FTDR)	Neutral
Installed Building Products, Inc. (IBP)	Neutral
James Hardie Industries PLC. (JHX)	Neutral
Aegion Corporation (AEGN)	Underperform
Patrick Industries, Inc. (PATK)	Underperform
Advanced Drainage Systems, Inc. (WMS)	Underperform

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	BLD Neutral	X Industry	S&P 500	FBM Neutral	JHX Neutral	PATK Underperform
VGM Score	A	-	-	A	C	A
Market Cap	2.33 B	719.89 M	19.06 B	388.86 M	5.17 B	655.29 M
# of Analysts	5	3	14	6	1	3
Dividend Yield	0.00%	0.00%	2.26%	0.00%	1.71%	3.64%
Value Score	B	-	-	A	C	A
Cash/Price	0.07	0.13	0.06	0.04	0.04	0.17
EV/EBITDA	8.38	6.28	11.49	4.98	13.35	5.59
PEG Ratio	0.44	1.89	2.09	0.93	NA	NA
Price/Book (P/B)	2.05	1.04	2.55	0.95	4.87	1.31
Price/Cash Flow (P/CF)	9.72	6.49	10.06	2.55	14.81	4.09
P/E (F1)	12.39	14.57	17.56	10.10	24.85	14.57
Price/Sales (P/S)	0.89	0.91	1.94	0.18	2.02	0.28
Earnings Yield	8.74%	6.62%	5.57%	9.85%	4.02%	6.85%
Debt/Equity	0.65	0.35	0.70	1.52	1.33	1.48
Cash Flow (\$/share)	7.16	2.52	7.01	3.54	0.79	6.71
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	44.15%	20.63%	10.92%	NA	-10.73%	29.16%
Proj. EPS Growth (F1/F0)	10.67%	-1.65%	-3.36%	-18.64%	-39.74%	-51.08%
Curr. Cash Flow Growth	28.04%	-0.35%	5.93%	52.18%	46.24%	-8.44%
Hist. Cash Flow Growth (3-5 yrs)	34.19%	13.97%	8.55%	71.37%	6.13%	30.81%
Current Ratio	1.64	1.87	1.24	1.97	1.61	2.76
Debt/Capital	39.48%	33.57%	42.78%	60.33%	57.13%	59.69%
Net Margin	7.28%	4.54%	11.64%	1.87%	9.22%	3.83%
Return on Equity	16.56%	11.50%	16.74%	10.91%	23.39%	19.21%
Sales/Assets	1.01	1.05	0.54	1.50	0.62	1.67
Proj. Sales Growth (F1/F0)	1.48%	0.00%	-0.14%	-3.83%	-15.49%	-15.01%
Momentum Score	B	-	-	D	F	C
Daily Price Chg	-1.36%	-0.80%	-0.20%	-2.80%	-3.95%	0.55%
1 Week Price Chg	37.00%	11.31%	16.01%	33.25%	13.36%	52.86%
4 Week Price Chg	8.84%	5.71%	14.56%	-12.15%	5.13%	37.96%
12 Week Price Chg	-40.77%	-29.57%	-22.94%	-52.50%	-45.22%	-49.74%
52 Week Price Chg	-5.60%	-28.90%	-15.02%	-30.99%	-14.56%	-50.23%
20 Day Average Volume	397,365	273,150	3,220,598	389,159	112,835	313,653
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-32.74%
(F1) EPS Est 4 week change	-7.27%	-8.27%	-7.09%	-35.22%	-46.59%	-55.69%
(F1) EPS Est 12 week change	-3.13%	-13.02%	-9.32%	-32.58%	-48.35%	-56.87%
(Q1) EPS Est Mthly Chg	-14.84%	-9.36%	-10.68%	-68.00%	NA	-117.22%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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