

TopBuild Corp. (BLD)

\$118.60 (As of 05/26/20)

Price Target (6-12 Months): **\$125.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

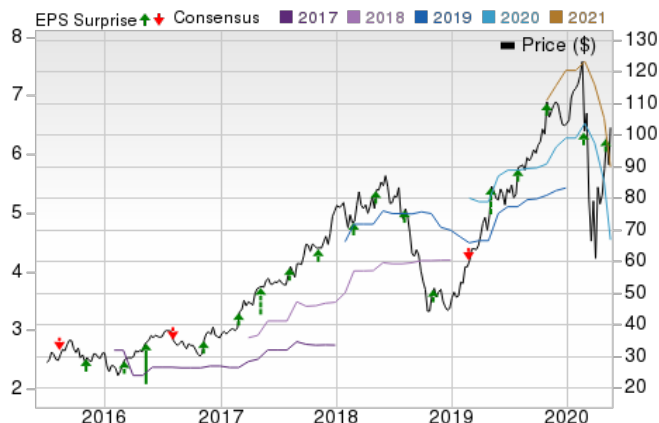
Growth: A

Momentum: D

Summary

TopBuild reported first-quarter 2020 results, wherein earnings and sales beat the respective Zacks Consensus Estimate by 7.9% and 0.5%. Also, the metrics grew 29.2% and 5.5% year over year, respectively, mainly due to higher sales volumes and improved selling prices. Adjusted EBITDA margin also improved 150 bps year over year. Shares of the company outperformed the industry in the past year. However, its net sales declined about \$10-\$11 million due to COVID-19-related project delays and economic slowdown in a few states, where its work was deemed non-essential. The company revoked 2020 revenue and adjusted EBITDA projections owing to these uncertainties.

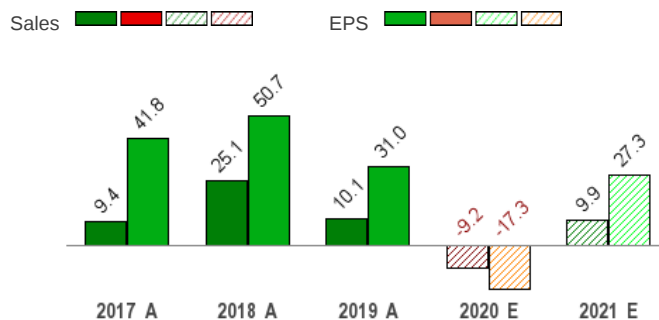
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.66 - \$54.83
20 Day Average Volume (sh)	374,655
Market Cap	\$4.0 B
YTD Price Change	15.1%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.9%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-18.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	26.1
PEG F1	0.9
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	667 E	689 E	640 E	655 E	2,618 E
2020	653 A	572 E	557 E	598 E	2,382 E
2019	619 A	660 A	682 A	662 A	2,624 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.35 E	\$1.71 E	\$1.50 E	\$1.66 E	\$5.78 E
2020	\$1.37 A	\$0.95 E	\$0.99 E	\$1.26 E	\$4.54 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 05/26/2020. The reports text is as of 05/27/2020.

Overview

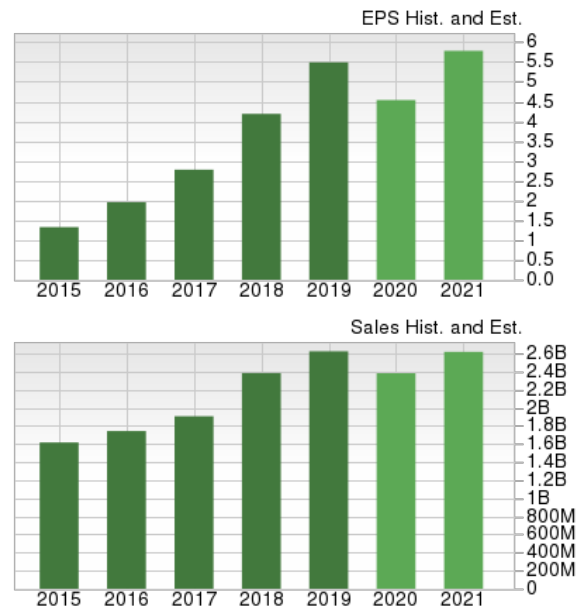
Headquartered in Daytona Beach, FL, **TopBuild Corp.** is an installer and distributor of insulation and other building products to the U.S. construction industry. TopBuild, which earlier operated as a subsidiary of Masco Corporation, provides insulation and building material services across the nation 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).

The **Installation** segment (which accounted 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 Mar 31, 2020. 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 first-quarter 2020, the company's sales increased 5.5%, adjusted earnings per share grew 29.2%, adjusted EBITDA was up 18.5% and adjusted EBITDA margin expanded 150 basis points (bps) from the prior-year period. The strong performance was mainly driven by higher sales volumes, increased selling prices and lower acquisition-related costs. Also, higher sales growth across the segment and operational efficiencies added to the bliss. In fact, acquisitions added 1.1% to the Installation segment's revenues.

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 17.1% compared with 11.7% 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 20, 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.

- ▲ **Strong Liquidity Position:** TopBuild has been maintaining a strong liquidity position to navigate through the current environment. The company ended the first quarter with \$576 million liquidity, including \$187 million cash and cash equivalents, and \$389 million of available capacity on the \$450-million revolving credit facility (whose maturity date is extended to 2025). Its current cash level has increased sequentially and is sufficient to meet the short-term obligation of \$58.1 million.

Total long-term debt (including long-term lease liabilities) of \$753.8 million was slightly up from \$752 million at 2019-end. Encouragingly, the company has no significant debt maturities in the next 12 months. Its debt to total capital at March-end was 40.8%, down from 41.6% as of Dec 31, 2019.

The company's times interest earned ratio stands at 8.2, better than 7.7 at 2019-end. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on current income.

- ▲ **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. As part of this authorization, it bought back 188,100 shares at an average price of \$75.10 per share in first-quarter 2020. As of Mar 31, it had approximately \$75 million shares remaining under the \$200-million authorization.

Meanwhile, the company has suspended the repurchase program and M&A activities to reduce capital spending in this unprecedented scenario.

Reasons To Sell:

- ▼ **Coronavirus-Induced Disruptions to Impact Near-Term Results:** TopBuild has been witnessing negative impacts of coronavirus-induced shutdown. During the first quarter, its sales were somewhat impacted by the coronavirus outbreak. The company believes that roughly \$10-\$11 million of net sales were impacted by COVID-19, mostly in four states, Washington, Michigan, Pennsylvania and New York, where operations were deemed non-essential.

Owing to uncertainty caused by the pandemic, the company has withdrawn its 2020 revenue and adjusted EBITDA guidance. In April, COVID-19 negatively impacted same-branch sales by approximately 9%. This was primarily due to the above-mentioned weakness and a number of project delays in the commercial construction space. Although it remains confident about its prospects backed by a strong liquidity position, cost-cutting measures and the ERP system, we wait for better visibility.

- ▼ **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.

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

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

Last Earnings Report

TopBuild's Q1 Earnings & Revenue Beat, Margins Up

TopBuild Corp. came up with better-than-expected first-quarter 2020 results. 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 \$1.37 per share, which surpassed the consensus estimate of \$1.27 by 7.9% and grew 29.2% from the prior-year period. The uptrend was primarily backed by higher sales volumes and improved margins.

Total net sales rose 5.5% on a year-over-year basis to \$653.2 million and topped the consensus mark of \$650 million by 0.5%. The upside was driven by higher sales volumes and selling prices.

Segmental Performance

Installation (TruTeam) revenues increased 5.9% year over year to \$475.9 million. Acquisitions added 1.1% to the growth. Volume grew 2.7% and selling price was up 2.2% from the prior-year quarter. Operating margin in the quarter expanded 120 basis points (bps) to 12.7%.

Revenues of the Distribution (Service Partners) segment grew 4.8% year over year to \$214.2 million, driven by 3.8% volume growth and 0.9% price increase. Operating margin also improved 140 bps from the year-ago level to 11.5%.

Operating Highlights

Adjusted gross margin of 26.3% expanded 120 bps. Adjusted operating profit of \$70.3 million also increased almost 19% year over year. Adjusted operating margin improved 130 bps from the year-ago period to 10.8%. Both gross and operating margin improvements were driven by higher selling prices, improved labor and sales productivity, and lower acquisition and closure costs, partially offset by high material costs.

Adjusted EBITDA grew 18.5% from the year-ago quarter to \$88.4 million. Adjusted EBITDA margin improved 150 bps to 13.5% during the quarter.

Buyouts

TopBuild wrapped up two acquisitions in the first quarter, namely Hunter Insulation and Cooper Glass. In 2019, the two firms on a combined basis generated approximately \$19 million in annual revenues.

Financial Update

Cash and cash equivalents as of Mar 31, 2020 were \$187 million, up from \$184.8 million at 2019-end. The company has \$388.6 million available borrowing capacity under the revolving facility. On Mar 23, 2020, TopBuild announced that it had entered into a new term loan and revolving credit facility, replacing the previous senior secured facilities. The revolving credit facility was upsized by \$200-\$450 million, which increased the total borrowing capacity to \$750 million. In addition, the maturity date was extended for three years to March 2025.

In the first quarter, the company repurchased 188,100 shares for \$75.10 per share. As of Mar 31, 2020, \$75 million was remaining under the \$200-million authorization.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.45%
EPS Surprise	7.87%
Quarterly EPS	1.37
Annual EPS (TTM)	5.81

Valuation

TopBuild's shares are up 15.1% in the year-to-date period and 51.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 8.5% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 12.2% and 4.5%, respectively.

The S&P 500 index is down 7% in the year-to-date period but up 6.6% in the past year.

The stock is currently trading at 23.54X forward 12-month earnings, which compares to 19.24X for the Zacks sub-industry, 18.54X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.64X and as low as 8.76X, with a 5-year median of 16.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$125 price target reflects 23.8X 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	23.54	19.24	18.54	21.76
	5-Year High	27.64	19.24	18.54	21.76
	5-Year Low	8.76	7.15	10.75	15.23
	5-Year Median	16.6	13.83	15.88	17.49
P/S F12M	Current	1.6	1.25	1.77	3.37
	5-Year High	1.6	3.59	2.12	3.44
	5-Year Low	0.49	0.69	1.17	2.53
	5-Year Median	0.92	0.9	1.6	3.01
EV/EBITDA TTM	Current	12.96	18.38	16.56	11.07
	5-Year High	32.01	30.62	21.19	12.86
	5-Year Low	7.51	13.62	12.39	8.26
	5-Year Median	14.63	23.2	17.89	10.8

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arcosa, Inc. (ACA)	Neutral	3
Aegion Corporation (AEGN)	Neutral	5
Foundation Building Materials, Inc. (FBM)	Neutral	3
Frontdoor, Inc. (FTDR)	Neutral	3
James Hardie Industries PLC. (JHX)	Neutral	2
Patrick Industries, Inc. (PATK)	Neutral	3
Advanced Drainage Systems, Inc. (WMS)	Neutral	3
Installed Building Products, Inc. (IBP)	Underperform	5

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	BLD	X Industry	S&P 500	FBM	JHX	PATK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	B	-	-	A	D	B
Market Cap	3.95 B	1.12 B	21.18 B	593.61 M	7.54 B	1.33 B
# of Analysts	5	2.5	14	5	1	3
Dividend Yield	0.00%	0.00%	2.03%	0.00%	1.17%	1.77%
Value Score	C	-	-	B	D	B
Cash/Price	0.05	0.12	0.06	0.25	0.03	0.08
EV/EBITDA	13.07	7.32	12.37	6.12	18.21	8.83
PEG Ratio	0.96	4.30	2.88	3.60	NA	NA
Price/Book (P/B)	3.35	1.37	2.90	1.42	7.28	2.69
Price/Cash Flow (P/CF)	16.56	9.13	11.55	3.88	16.48	8.44
P/E (F1)	27.00	23.54	21.24	39.26	31.56	29.80
Price/Sales (P/S)	1.49	1.13	2.24	0.27	2.89	0.57
Earnings Yield	3.83%	3.97%	4.57%	2.55%	3.17%	3.36%
Debt/Equity	0.64	0.22	0.76	1.84	1.31	1.50
Cash Flow (\$/share)	7.16	2.52	6.96	3.54	1.03	6.71
Growth Score	A	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	42.64%	20.32%	10.87%	NA	-13.99%	25.83%
Proj. EPS Growth (F1/F0)	-17.34%	-20.60%	-10.31%	-68.18%	-26.03%	-50.65%
Curr. Cash Flow Growth	28.04%	-2.64%	5.46%	52.18%	31.36%	-8.44%
Hist. Cash Flow Growth (3-5 yrs)	34.19%	15.36%	8.55%	71.37%	9.37%	30.81%
Current Ratio	1.66	2.03	1.29	2.74	1.78	2.32
Debt/Capital	38.98%	32.75%	44.54%	64.79%	56.71%	60.00%
Net Margin	7.67%	2.76%	10.59%	2.36%	9.26%	3.88%
Return on Equity	17.08%	11.84%	16.29%	12.82%	31.85%	18.62%
Sales/Assets	1.02	1.07	0.55	1.48	0.64	1.61
Proj. Sales Growth (F1/F0)	-9.23%	-4.58%	-2.34%	-5.73%	-15.22%	-18.04%
Momentum Score	D	-	-	C	F	B
Daily Price Chg	7.39%	3.01%	2.82%	3.85%	8.12%	6.17%
1 Week Price Chg	22.22%	8.53%	4.99%	12.31%	13.14%	23.60%
4 Week Price Chg	26.79%	3.30%	3.55%	22.35%	38.76%	43.61%
12 Week Price Chg	10.53%	-9.69%	-4.95%	-18.84%	-9.46%	6.29%
52 Week Price Chg	51.28%	-2.31%	-3.04%	-11.64%	34.17%	31.35%
20 Day Average Volume	374,655	200,482	2,429,758	248,797	52,303	254,141
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-17.97%	-6.31%	-2.27%	-2.78%	14.89%	0.88%
(F1) EPS Est 12 week change	-30.42%	-37.01%	-16.39%	-69.57%	-38.64%	-56.32%
(Q1) EPS Est Mthly Chg	-23.08%	-23.42%	-4.03%	-500.00%	NA	41.84%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	A
Momentum Score	D
VGM Score	B

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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