

TopBuild Corp

2024 guidance in line with consensus, but looks very conservative; Reiterate Buy

Reiterate Rating: BUY | PO: 410.00 USD | Price: 391.53 USD

4Q above expectations, 2024 guidance in line with street

BLD reported 4Q23 adj. EPS of \$4.69, ahead of our \$4.64 estimate and consensus EPS of \$4.63 driven by a slightly higher EBITDA margin. 2024 EBITDA guidance of \$1,040M to \$1,130M was in line with consensus. We maintain our above consensus 2024E adj. EPS and lower our 2025E adj. EPS <1% (both above consensus). We maintain our \$410 PO, still based on 11X 2025E EV/EBITDA and reiterate our Buy rating.

2024 top line guidance looks conservative

Management initiated 2024 top line guidance of \$5,360M to \$5,560M (midpoint +5% YoY) with housing and commercial & industrial revenues up mid-single digit % YoY. Guidance assumes consistent single-family (SF) starts with the current level (~1mm vs. 947K in 2023) and flat multi-family revenues based on the current backlog. We think the top-line outlook is conservative: 1) we see upside to BLD's SF starts assumption, 2) insulation price increases have traction year-to-date and there could be an additional hike in 2024 given tight capacity. As a reminder, BLD reported 2023 revenue and EBITDA that was 8% and 21% above the mid-point of its initial guidance.

BLD expects healthy underlying incremental margins

Management expects 2024 incremental EBITDA margin in the range of 22-27% (in line with long-term target) excluding a \$25M benefit from favorable multi-family shipment timing in 2023 but noted that they always aim to beat this target. BLD had same branch incremental margins of 108% in 2023. We're modeling ~25% (including \$25M in one-time benefits in 2023) & see potential upside on better purchasing scale & improving efficiency.

SPI deal timing uncertain due to DOJ review

BLD announced its agreement to acquire Specialty Products & Insulation (SPI) in July 2023 (See our SPI report, [SPI: great strategic fit at a good price; synergies look conservative](#)) and initially anticipated the deal to close by 4Q23. The deal close is taking longer than expected. BLD is in the process of responding to a second request from the Department of Justice (DOJ) and is no longer providing a timeline.

4Q adj. EPS slightly beats on stronger margins

Revenue increased 2% YoY (forecast +2% YoY), with installation up 4% (-3.0% volume) and distribution flat (volume -0.2%). Adjusted EBITDA margin expanded ~80 bps YoY driven primarily by gross margin expansion.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	10.85	17.11	19.74	21.71	22.61
EPS Change (YoY)	49.0%	57.6%	15.4%	10.0%	4.1%
Consensus EPS (Bloomberg)			19.82	21.01	22.66
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	36.1x	22.9x	19.8x	18.0x	17.3x
EV / EBITDA*	22.1x	14.3x	12.8x	11.8x	11.4x
Free Cash Flow Yield*	2.8%	3.4%	6.3%	5.5%	5.9%

* For full definitions of *IQmethod*SM measures, see page 4.

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	5,193.8	5,194.7
2024E Rev (m)	5,623.5	5,528.7
2025E Rev (m)	5,755.7	5,689.8
2023E EPS	19.68	19.74
2025E EPS	22.79	22.61

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Stock Data

Price	391.53 USD
Price Objective	410.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-1-9
52-Week Range	184.50 USD - 414.33 USD
Mrkt Val (mn) / Shares Out (mn)	12,441 USD / 31.8
Free Float	99.3%
Average Daily Value (mn)	94.59 USD
BofA Ticker / Exchange	BLD / NYS
Bloomberg / Reuters	BLD US / BLD.N
ROE (2023E)	27.9%
Net Dbt to Eqty (Dec-2022A)	63.1%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM TopBuild Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.2%	16.3%	16.3%	15.3%	13.9%
Return on Equity	24.1%	31.1%	27.9%	23.7%	19.7%
Operating Margin	14.8%	16.1%	17.3%	17.6%	17.8%
Free Cash Flow	347	419	785	690	734

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.9x	1.4x	1.1x	1.2x
Asset Replacement Ratio	0.7x	0.6x	0.5x	0.7x	0.9x
Tax Rate	26.0%	26.0%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	82.7%	63.1%	22.3%	-3.6%	-21.3%
Interest Cover	18.1x	14.4x	12.3x	13.0x	13.5x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,486	5,009	5,195	5,529	5,690
% Change	28.3%	43.7%	3.7%	6.4%	2.9%
Gross Profit	991	1,487	1,604	1,715	1,777
% Change	NA	NA	NA	NA	NA
EBITDA	606	941	1,049	1,133	1,171
% Change	38.7%	55.2%	11.5%	8.0%	3.4%
Net Interest & Other Income	(29)	(55)	(53)	(42)	(42)
Net Income (Adjusted)	360	555	627	691	719
% Change	48.3%	54.3%	13.0%	10.2%	4.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	360	555	627	691	719
Depreciation & Amortization	79	123	133	139	139
Change in Working Capital	(36)	(219)	77	(58)	(22)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	36	12	19	19
Capital Expenditure	(56)	(76)	(64)	(100)	(120)
Free Cash Flow	347	419	785	690	734
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	(32)	(248)	3	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	771	(39)	(40)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	140	240	849	1,539	2,273
Trade Receivables	668	836	799	909	935
Other Current Assets	379	473	402	455	466
Property, Plant & Equipment	245	253	264	226	207
Other Non-Current Assets	2,826	2,804	2,849	2,849	2,849
Total Assets	4,259	4,607	5,163	5,977	6,731
Short-Term Debt	39	40	47	47	47
Other Current Liabilities	695	750	724	830	844
Long-Term Debt	1,454	1,417	1,373	1,373	1,373
Other Non-Current Liabilities	434	470	455	455	455
Total Liabilities	2,622	2,677	2,599	2,704	2,719
Total Equity	1,636	1,930	2,564	3,273	4,012
Total Equity & Liabilities	4,259	4,607	5,163	5,977	6,731

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Building Products

Company Description

TopBuild (BLD) is the leading installer and specialty distributor of insulation in the US. BLD has a national reach with 410+ branches (235 TruTeam branches) across the installation and specialty distribution divisions. The company holds a roughly 11% market share in the commercial insulation segment (\$5.5B market size) and a roughly 10% market share in commercial/industrial mechanical (\$5.0B market).

Investment Rationale

We rate BLD shares at Buy driven by 1) share gains in residential (65% of sales), 2) continued accretive M&A, 3) significant long-term growth in non-residential (35% of sales), and 4) attractive valuation, return on invested capital (ROIC), and free cash flow generation.

Stock Data

Average Daily Volume 241,593

Quarterly Earnings Estimates

	2022	2023
Q1	3.50A	4.36A
Q2	4.43A	5.25A
Q3	4.80A	5.43A
Q4	4.40A	4.69E

Price objective basis & risk

TopBuild Corp (BLD)

Our \$410 price objective (PO) is based on a 11x EV/2025E EBITDA multiple, in line with its average from 2017-2023. We think that BLD's valuation will trade more in line with its historical valuation as housing starts recover.

Upside risks to our PO: 1) faster-than-expected recovery in new home starts, 2) further residential market share gains through organic growth and M&A, 3) continued strength in the commercial/industrial market, 4) continued price increases on insulation products.

Downside risks: 1) a downturn in the housing market leading to less starts, 2) deflation in insulation products leading to weaker revenue growth and margin pressure, 3) a broad pullback in commercial/industrial activity.

Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich



US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Smith Douglas Homes Corp.	SDHC	SDHC US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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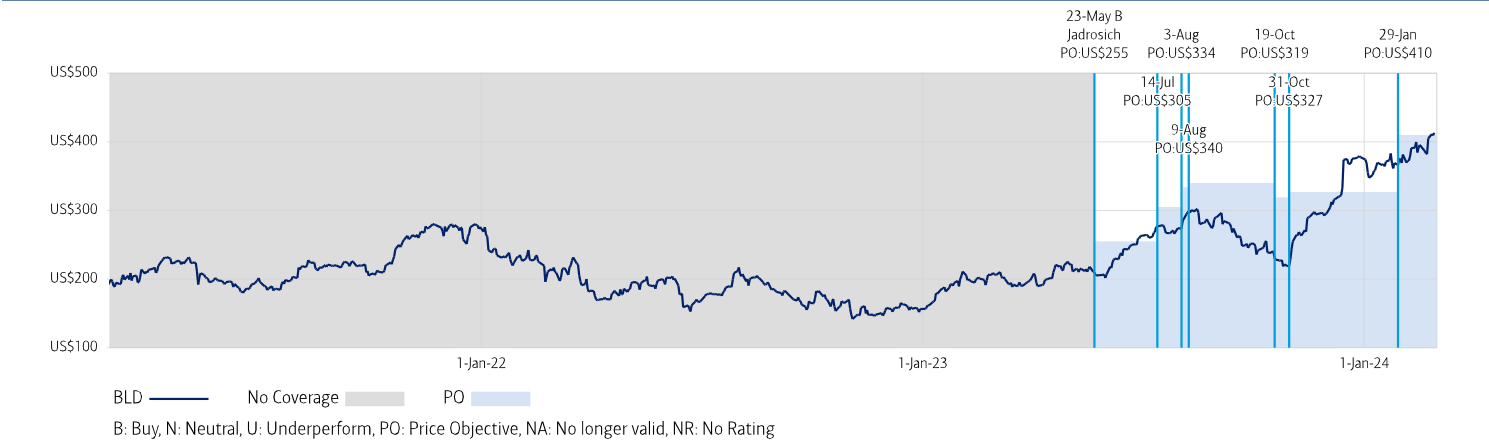
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TopBuild (BLD) Price Chart



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Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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