



INSTALLED BUILDING PRODUCTS

# ANNUAL REPORT

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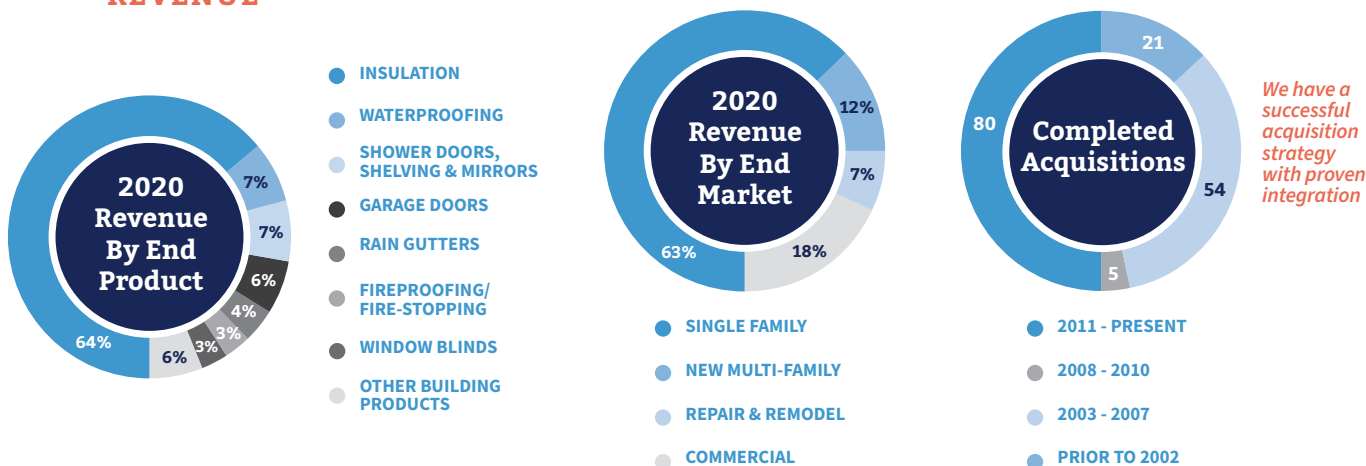
INSTALLED BUILDING PRODUCTS

# Financial Highlights

All in thousands  
except share data

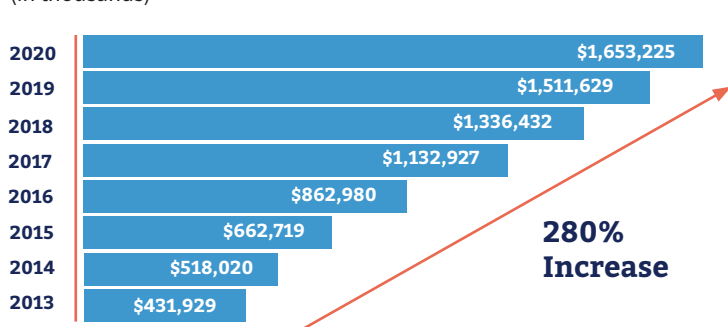
|   | 2013      | 2014      | 2015      | 2016      | 2017        | 2018        | 2019        | 2020               |
|---|-----------|-----------|-----------|-----------|-------------|-------------|-------------|--------------------|
| <b>NET REVENUE</b>  | \$431,929 | \$518,020 | \$662,719 | \$862,980 | \$1,132,927 | \$1,336,432 | \$1,511,629 | <b>\$1,653,225</b> |
| <b>OPERATING INCOME</b>   | \$13,078  | \$25,586  | \$44,952  | \$66,050  | \$74,266    | \$93,217    | \$121,160   | <b>\$161,867</b>   |
| <b>NET INCOME</b>   | \$6,040   | \$13,932  | \$26,517  | \$38,436  | \$41,140    | \$54,748    | \$68,159    | <b>\$97,239</b>    |
| <b>NET (LOSS) INCOME PER DILUTED SHARE</b>                            | \$(0.01)  | \$(0.20)  | \$0.85    | \$1.23    | \$1.30      | \$1.75      | \$2.28      | <b>\$3.27</b>      |
| <b>CASH</b>   | \$4,065   | \$10,761  | \$6,818   | \$14,482  | \$62,510    | \$90,442    | \$177,889   | <b>\$231,520</b>   |
| <b>SHORT-TERM INVESTMENTS</b>   | —         | —         | —         | —         | \$30,053    | \$10,060    | \$37,961    | —                  |
| <b>CURRENT ASSETS</b>   | \$95,512  | \$119,288 | \$150,232 | \$192,391 | \$354,942   | \$411,545   | \$581,949   | <b>\$623,943</b>   |
| <b>CURRENT LIABILITIES</b>  | \$64,443  | \$76,556  | \$97,422  | \$130,105 | \$159,806   | \$181,686   | \$214,149   | <b>\$236,475</b>   |
| <b>TOTAL DEBT</b>   | \$50,059  | \$53,738  | \$143,677 | \$166,720 | \$359,722   | \$463,454   | \$575,539   | <b>\$569,815</b>   |
| <b>NET DEBT</b>   | \$45,994  | \$42,977  | \$136,859 | \$152,238 | \$267,159   | \$362,952   | \$359,689   | <b>\$338,295</b>   |
| <b>WORKING CAPITAL</b><br>(Excluding Cash and Short-Term Investments) | \$27,004  | \$31,971  | \$45,992  | \$47,804  | \$102,573   | \$129,357   | \$151,950   | <b>\$155,948</b>   |

## REVENUE

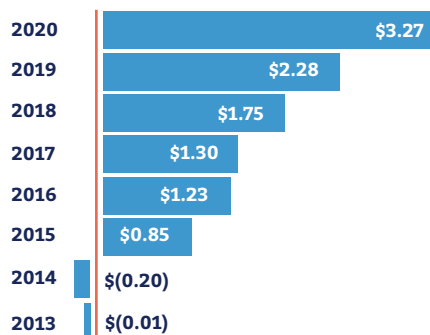


### STRONG REVENUE GROWTH

(in thousands)



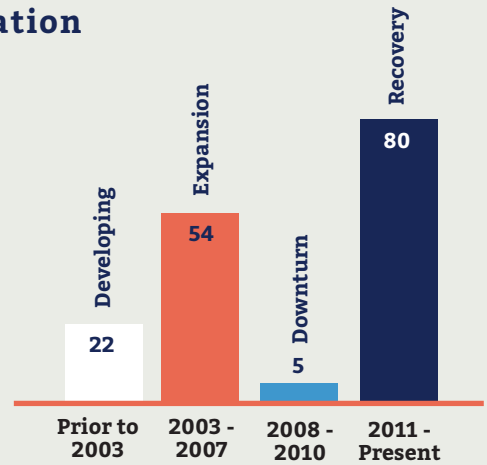
### NET INCOME (LOSS) PER DILUTED SHARE



KEY  
ACQUISITION  
TIMELINE

## We have a successful Acquisition Strategy with proven integration

Since 1999, we have successfully completed and integrated over 160 acquisitions, which has allowed us to generate significant scale and to diversify our product offerings while expanding into some of the most attractive new construction markets in the United States.



## Our Locations

**190+ Locations Across The United States.** We offer our portfolio of services from our national network serving all 48 continental states and the District of Columbia. Each of our branches has the capacity to serve all of our end markets. We believe we have the number one or two market position for new single-family insulation installation in more than half of the markets in which we operate based on permits issued in those markets. We are committed to delivering quality installation with a commitment to safety, corporate social responsibility and total customer satisfaction.



# To Our Stockholders

APRIL 2021

We could have never anticipated the unique challenges 2020 would bring and I am proud of how IBP's employees showed resilience in response to the rapidly evolving market and economic conditions caused by the COVID-19 pandemic. During this unprecedented period, we maintained our commitment to quality and our dedication to providing our customers unparalleled service, while protecting the health, safety, and well-being of our employees, customers, partners, and communities. Our record 2020 financial results reflect these core values, and demonstrate the hard work, dedication, and commitment of our nearly 9,000 team members nationwide.

## FINANCIAL REVIEW

For 2020, revenue increased 9.4% to a record \$1.7 billion and earnings increased 43.4% to a record \$3.27 per diluted share. 2020 was the seventh consecutive year of record revenue and earnings as a public company. In fact, since our IPO in 2014, the compound annual growth rates of revenue and net income from continuing operations have grown at 21% and 38%, respectively. Our consistent record performance reflects IBP's established business model, strong market position, and proven acquisition strategy.

## HISTORY OF CONSISTENT PERFORMANCE

IBP's business model is focused on providing best-in-class installation and outstanding service to our customers every day throughout more than 190 locations nationwide. Our service-oriented culture has allowed us to establish strong relationships with local, regional, and national homebuilders and our customers rely on IBP to install products accurately, efficiently, and on-time. As a result, IBP is one of the nation's largest new residential insulation installers.

## STRONG POSITION IN COMPELLING MARKETS

In fact, our market share continued increasing throughout 2020, as many of our end markets remained strong throughout the COVID-19 pandemic. For 2020, our same-branch sales growth of approximately 4.5% outpaced the growth in total U.S. residential completions of 2.5%. Single-family housing demand in 2020 benefited from low mortgage rates and favorable demographics as people moved out of urban centers in response to the COVID-19 pandemic. In addition, homebuilders' land positions improved throughout the year and many adjusted their communities to develop more affordably priced entry-level homes. We believe these trends will continue, supporting further growth as the industry approaches stabilization in the years to come.

## PROVEN ACQUISITION STRATEGY

We also continue to enhance our competitive position by focusing on acquiring strong installers with similar entrepreneurial cultures that support our diversification and growth strategies. Since our 2014 IPO, we have completed 65 acquisitions representing over \$675 million of annual revenues at the time of completion, which includes nine acquisitions in 2020 representing over \$107 million of annual revenues.

Acquisitions have successfully diversified our business by enhancing our geographic footprint, expanding our end markets, and increasing our service and product offerings. IBP's current geographic footprint provides us with access to approximately 65% of total residential permits, compared to approximately 50% six years ago. In addition, we have significantly increased our mix of revenue to commercial, and multi-family markets. The new single-family market represented 73% of IBP's annual revenue in 2014, compared to 63% in 2020. Finally, insulation installation service was 76% of IBP's annual revenue in 2014, compared to 64% in 2020 reflecting our growth of complementary building products.

Our pipeline of acquisitions remains robust. Many of our markets remain fragmented and we continue to actively pursue acquisitions of well-run residential and commercial installers. Over the past 20 years, our senior leadership team has been directing IBP's acquisition strategy. In addition, our solid and flexible capital structure and national scale provides us with a compelling platform to identify, complete, and integrate acquisition opportunities. We are targeting approximately \$100 million of acquired revenue in 2021 and we may exceed this target depending on the timing of acquisitions within our large and growing pipeline.





## **CAPITAL ALLOCATION STRATEGY FOCUSED ON GROWTH AND CREATING VALUE FOR SHAREHOLDERS**

We believe our acquisition strategy remains the best use of capital because acquisitions support our growth and diversification initiatives, while typically producing high returns and quickly contributing to profitability. We have been able to fund our acquisition strategy over the last few years through IBP's strong free cash flow, while simultaneously strengthening our balance sheet. As a result, we ended 2020 with considerable financial flexibility. At December 31, 2020, we had \$231.5 million of cash and cash equivalents, nothing drawn on our \$200 million revolving line of credit, staggered debt maturities, and limited financial covenants. In addition, our net debt leverage ratio was 1.4x at year end and well below our stated goal of maintaining a net debt leverage ratio under two times.

As you can see, we have significant financial and operating resources to support our business, invest in our growth initiatives, and return capital to shareholders. Since commencing our share repurchase program in 2018, we have repurchased a total of 2,734,922 shares of our common stock for \$123.3 million, at an average price of \$45.06. Reflecting our continued commitment to return value to shareholders, in February 2021 IBP's Board initiated a quarterly cash dividend of \$0.30 per share and increased our existing share repurchase program to \$100 million. In addition to our quarterly cash dividend, the Board will evaluate an additional variable dividend on an annual basis beginning in 2022. These programs are part of IBP's capital allocation strategies and reflect the Board's confidence in the direction we are headed as well as our focus on creating continual value for our shareholders.

## **SUPPORTING OUR EMPLOYEES AND COMMUNITIES**

I am extremely proud of our continued success, as well as our ability to successfully navigate the COVID-19 crisis during 2020. Throughout the year, we focused on protecting the health, safety, and well-being of our employees and customers. In addition, through the Installed Building Products Foundation we awarded 53 scholarships, committing \$345,000 over the next four years, awarded \$65,290 to 40 employees facing financial hardship due to an unexpected event in their lives, and made grants totaling \$820,000 to 19 nonprofit organizations, which build or renovate homes or provide shelter for those in need.

Many of our communities remain impacted by the pandemic and we are committed to continuing this support for our employees, customers, and communities.

## **CONCLUSION**

As we look to 2021, we believe most of our markets will remain strong and we expect 2021 will be another good year of growth and profitability for IBP, despite the continued effects of the COVID-19 pandemic. Throughout the year, we will continue to pursue our long-term diversification strategy through our proven acquisition program, while maintaining a strong balance sheet and returning excess capital to our shareholders. I am proud of our performance throughout 2020 and IBP's future opportunities to create continual value for our shareholders. We are off to a strong start to the year and 2021 is expected to be another successful year for IBP.

On behalf of everyone at IBP, thank you for your investment in us.

**JEFFREY W. EDWARDS**  
CHAIRMAN, PRESIDENT AND CEO

# ESG Report



## Environmental Highlights

Promote energy efficiency through insulating homes and commercial structures:

- Over half of the energy used in the average American home is for heating and cooling
- Inadequate insulation and air leakage are the leading cause of energy waste in most homes
- The most common type of insulation we install is fiberglass
- Some loosefill fiberglass insulation is made from scrap material, reducing landfill waste



### ENERGY EFFICIENCY

Our customers are creating homes in the houses we build with them, and that includes keeping their families safe and warm while also saving energy. We provide reliable insulation that homeowners can be proud of.

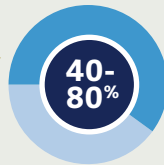


### RESPONSIBLE MATERIALS

Responsible material usage is something we consider in every insulation job. The most common type of insulation we install – over 80% of our sales – is fiberglass, which is comprised of up to 80% recycled material. We also install cellulose insulation, which is comprised of at least 75% recycled waste paper.

#### FIBERGLASS INSULATION

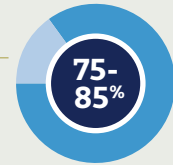
Fiberglass is comprised of **40-80%** recycled material



- Made of fibrous glass held together by a thermoset resin
- Contains average of 50% recycled content
- Available as blankets or loosefill
- Most widely used residential insulation material
- 83% of IBP insulation sales in 2020

#### CELLULOSE INSULATION

Cellulose insulation is comprised of **75-85%** recycled waste paper



- Made of paper and cardboard, has a very high recycled content
- Only available in loosefill form and is blown into the structure with specialized equipment
- 2% of IBP insulation sales in 2020

*Installation of insulation materials is our primary business model*

*Insulated homes and commercial structures reduces energy consumption and greenhouse gas emissions*





## Social and Governance Highlights



### COMMITMENT TO OUR EMPLOYEES

Maintaining turnover below industry average since the beginning of 2017.

#### EMPLOYEE BENEFITS

Medical Insurance  
401k  
Paid time-off benefits

#### EMPLOYEE PROGRAMS

Longevity-based stock awards  
Financial wellness program  
Installed Building Products Foundation

#### OPPORTUNITIES

Professional growth  
Career advancement

#### SAFETY WANTED 365

Year-round education and training focused on creating a safer working environment

#### COMMUNITY ENGAGEMENT

Encourage and offer opportunities for employees to volunteer and contribute to local organizations that serve our communities

#### BOARD LEADERSHIP

Broad diversity of backgrounds and experience comprised of 37% women and minorities

INSTALLED BUILDING PRODUCTS

## Foundation



### Community and Employee Engagement

*“The timing of the grant distribution came at a time when Habitat for Humanity affiliates, along with every nonprofit, were making difficult decisions to mitigate the effects of COVID-19. The funding helped us survive during the pandemic and to ensure families have a safe, decent place to call home.”*

— Ryan Miller, Executive Director Habitat for Humanity of Ohio

#### \$3.3 million contributed since founding in 2019

- Awarded 97 scholarships to employees and their families
- Over \$83,000 in Employee Financial Assistance grants to help with financial hardships due to unexpected life events
- Announced \$1.6 million in grants to nonprofit organizations dedicated to building or renovating houses or providing shelter for those in need
- IBP employees have volunteered thousands of hours to non-profit organizations in their communities nationwide, including: Habitat for Humanity, United Way, Goodwill, local foodbanks and homeless shelters

# Growth-Focused Capital Allocation Strategy

## CAPITAL AND CASH FLOW PRIORITIES

### ACQUISITIONS ARE MAIN USE OF CAPITAL

- Supports efficient and proven growth strategy
- Generates compelling IRR
- Acquisitions contribute to profitability in year 1

### DIVIDEND POLICY

- Announced first quarterly dividend initiated at \$0.30 per share on February 23, 2021
- Variable annual dividends to be evaluated by the Board beginning in 2022

### ASSET-LIGHT BUSINESS MODEL

- Primary capital requirement is to fund working capital
- Capital expenditures and finance capital leases as a percent of revenue were 2.1% at December 31, 2020

### OPPORTUNISTIC SHARE REPURCHASE

- \$100 million share repurchase program extended through March 1, 2022
- Over 2.7 million shares repurchased since 2018 at an average cost of \$45.06 per share

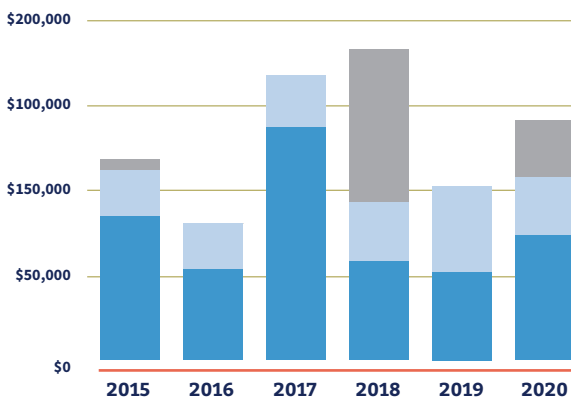
### MAINTAIN STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY

- Target net debt leverage ratio <2x
- Multiple funding sources and staggered maturities
- Maintain higher cash balances to support larger scale acquisitions
- Strong balance sheet, robust liquidity, and low leverage provide flexibility regardless of cycle



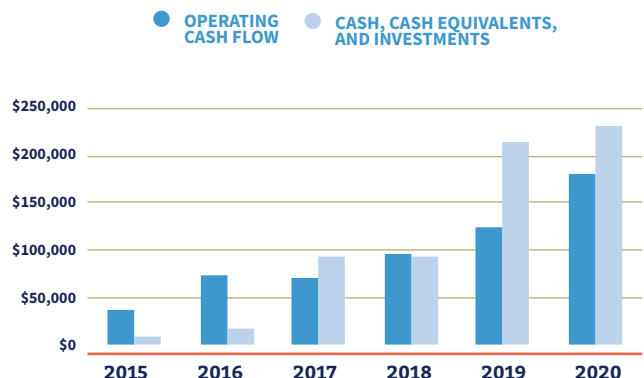
### CAPITAL ALLOCATION

(in thousands) ● ACQUISITION ● CAP EX ● SHARE REPURCHASE



### OPERATING CASH FLOW AND CASH BALANCE

(in thousands)





**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From                      To

Commission File Number: 001-36307

**Installed Building Products, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

495 South High Street, Suite 50

Columbus, Ohio

(Address of principal executive offices)

45-3707650

(I.R.S. Employer  
Identification No.)

43215

(Zip Code)

(614) 221-3399

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                      | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, \$0.01 par value per share | IBP               | The New York Stock Exchange               |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes   
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes   
No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2020 was \$1,558,925,593.

On February 17, 2021, the registrant had 29,622,998 shares of common stock, par value \$0.01 per share, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement relating to the 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2020.

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## Information Regarding Forward-Looking Statements and Risk Factors Summary

This Annual Report on Form 10-K (“Form 10-K”) contains forward-looking statements within the meaning of the federal securities laws, including with respect to the housing market and the commercial market, industry conditions, our financial and business model, payment of dividends, the impact of COVID-19 on our business and economy, our efforts to navigate the material pricing environment, our ability to increase selling prices, our access to supply, our material and labor costs, demand for our services and product offerings, expansion of our national footprint and diversification, our ability to grow and strengthen our market position, our ability to pursue and integrate value-enhancing acquisitions, our ability to improve sales and profitability and expectations for demand for our services and our earnings in 2021. Forward-looking statements may generally be identified by the use of words such as “anticipate,” “believe,” “estimate,” “project,” “predict,” “possible,” “forecast,” “may,” “could,” “would,” “should,” “expect,” “intends,” “plan,” and “will” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements that we make herein and in any future reports and statements are not guarantees of future performance, and actual results may differ materially from those expressed in or suggested by such forward-looking statements as a result of various factors, including, without limitation, the factors discussed in the “Risk Factors” section of this Form 10-K, as the same may be updated from time to time in our subsequent filings with the Securities and Exchange Commission (“SEC”). Any forward-looking statement made by the Company in this report speaks only as of the date hereof. New risks and uncertainties arise from time to time and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws.

Important factors that could cause our results to vary from expectations include, but are not limited to:

- our dependence on the economy, the housing market, the level of new residential and commercial construction activity and the credit markets;
- the cyclical and seasonal nature of our business;
- declines in the economy or slowing of the housing market recovery that could lead to significant impairment charges;
- the highly fragmented and competitive nature of our industry;
- product shortages or the loss of key suppliers;
- changes in the costs and availability of products;
- our reliance on key personnel;
- our ability to attract, train and retain qualified employees while controlling labor costs;
- the COVID-19 pandemic and its effect on our business;
- our exposure to severe weather conditions;
- disruptions in our information technology systems, including cybersecurity incidents;
- inability to continue to successfully expand into new products or geographic markets;
- inability to successfully acquire and integrate other businesses;
- inability to successfully expand into the commercial construction market;
- our exposure to claims arising from our operations;
- changes in employment and/or immigration laws or failure to properly verify the employment eligibility of our employees;
- our exposure to product liability, workmanship warranty, casualty, construction defect and other claims and legal proceedings;
- changes in, or failure to comply with, federal, state, local and other regulations;
- our ability to implement and maintain effective internal control over financial reporting;
- our indebtedness and the restrictions imposed on us by its terms and our exposure to interest rate changes;
- the reduction, suspension or elimination of dividend payments; and
- additional factors discussed under Item 1, Business; Item 1A, Risk Factors; and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.



## PART I

### Item 1. Business

#### OUR COMPANY

Installed Building Products, Inc. (“IBP”), a Delaware corporation formed on October 28, 2011, and its wholly-owned subsidiaries (collectively referred to as the “Company” and “we,” “us” and “our”) primarily install insulation, waterproofing, fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors and other products for residential and commercial builders located in the continental United States.

We offer our portfolio of services from our national network of over 190 branch locations serving all 48 continental states and the District of Columbia. Substantially all of our sales are derived from the service-based installation of various products in the residential new construction, repair and remodel and commercial construction end markets. Each of our branches has the capacity to serve all of our end markets. We believe we have the number one or two market position for new single-family insulation installation in more than half of the markets in which we operate based on permits issued in those markets. We are committed to delivering quality installation with a commitment to safety, corporate social responsibility and total customer satisfaction.

Our business began in 1977 with one location in Columbus, Ohio. In the late 1990s, we began our acquisition strategy with the goal of creating a national platform. Since 1999, we have successfully completed and integrated over 160 acquisitions, which has allowed us to generate significant scale and to diversify our product offerings while expanding into some of the most attractive new construction markets in the United States. We believe we are well positioned to continue to profitably grow our business due to our strong balance sheet, liquidity and acquisition strategy. For a further discussion of our industry and trends affecting our industry, please refer to "Item 7, Management’s Discussion and Analysis of Financial Condition, Key Factors Affecting our Operating Results" in this Form 10-K.

#### OUR OPERATIONS

We manage all aspects of the installation process for our customers, from our direct purchase and receipt of materials from national manufacturers to our timely supply of materials to job sites and quality installation. Installation of insulation is a critical phase in the construction process, as certain interior work cannot begin until the insulation phase passes inspection.

Our business model is differentiated and creates value by streamlining the typical value chain. In a typical building products value chain, manufacturers rely on multiple distributors to purchase in volume and stock product. Distributors serve multiple wholesale and retail accounts who in turn sell to local contractors that perform the installation. We buy most of the products that we install direct from manufacturers which are delivered to our local installation operations.

#### Insulation

##### *Overview*

We are one of the largest new residential insulation installers in the United States based on our internal estimates. Insulation installation comprised approximately 64% of our net revenue of \$1.7 billion, \$1.5 billion and \$1.3 billion for the years ended December 31, 2020, 2019 and 2018, respectively. We handle every stage of the installation process, including material procurement, project scheduling and logistics, multi-phase professional installation and quality inspection.

##### *Insulation Materials*

We offer a wide range of insulation materials consisting of:

- **Fiberglass and Cellulose Insulation** – Fiberglass insulation is made of fibrous glass that is held together by a thermoset resin creating insulating air pockets. It typically contains an average of 50% recycled content. It is primarily available in two forms: batts (also referred to as blankets) and loosefill (also referred to as blown in). Fiberglass is the most widely used residential insulation material in the United States. Cellulose insulation is made primarily of paper and cardboard and has a very high recycled content. Cellulose is only available in loosefill form and is blown into the structure with specialized equipment. Fiberglass and cellulose insulation accounted for approximately 85% of our insulation sales for the year ended December 31, 2020.

- Spray Foam Insulation – Spray foam insulation, which is generally a polyurethane foam, is applied at a job site by mixing two chemical components together in specialized application equipment. While typically having the highest insulating value per inch and sealing effectiveness of all insulation materials that we offer, spray foam is also typically the most expensive on an installed basis. Spray foam insulation accounted for approximately 15% of our insulation sales for the year ended December 31, 2020.

### *Insulation Installation Applications*

Local building codes typically require the installation of insulation in multiple areas of a structure. Each of these areas is frequently referred to as a phase of the insulation installation process and requires a separate trip to the job site by our installers at different points in the construction of a structure. Building practice and the inspection process differ geographically and require our involvement at different times during the construction process. We assist the builders with coordinating inspections. We install insulation and sealant materials in many areas of a structure, including:

- Basement and Crawl Space – These spaces often account for the second most energy loss in a residential structure.
- Building Envelope – We insulate the exterior walls of both residential and commercial structures by applying insulation on the wall or between the studs.
- Attic – We insulate the attics of new and existing residential structures. The attic is the area where the most energy may be lost in a home.
- Acoustical – Many builder or architect specifications call for acoustical insulation for sound reduction purposes in both residential and commercial structures. This product is generally installed in the interior walls to minimize sound transmission.
- In each of these applications, we typically use fiberglass batts, except in attic installations where we typically install loosefill fiberglass or cellulose.
- We also install a wide variety of advanced caulk and sealant products that control air infiltration in residential and commercial buildings to enhance energy efficiency, improve comfort and meet increasingly stringent energy code requirements.

### **Waterproofing**

Some of our locations install waterproofing, caulking and moisture protection systems for commercial and industrial construction projects. We offer a variety of waterproofing options, including, but not limited to, sheet and hot applied waterproofing membranes, deck coating systems, bentonite systems and air & vapor systems. The installation and service of waterproofing comprised approximately 7% of our net revenue for the year ended December 31, 2020.

### **Shower Doors, Closet Shelving and Mirrors**

Some of our locations install a variety of shower enclosures, ranging from basic sliding door designs to complex custom designs. We have the ability to meet our customers' diverse needs by customizing shower enclosures by size and style according to their specifications, including framing, hardware and glass options. We design and install closet shelving systems in select markets utilizing some of the highest quality products available from national brands. We also offer standard and custom designed mirrors for our customers. Shower doors, closet shelving and mirror installations comprised approximately 7% of our net revenue for the year ended December 31, 2020.

### **Garage Doors**

Some of our locations install and service garage doors and openers for new residential construction builders, homeowners and commercial customers. We offer a variety of options from some of the best-known garage door brands. We offer steel, aluminum, wood and vinyl garage doors as well as opener systems. Unlike the other products we install, the garage door business has an ongoing aftermarket service component, which represented approximately one-quarter of the net revenue resulting from garage doors for the year ended December 31, 2020. The installation and service of garage doors comprised approximately 6% of our net revenue for the year ended December 31, 2020.

## **Rain Gutters**

Some of our locations install a wide range of rain gutters, which direct water from a home's roof away from the structure and foundation. Rain gutters are typically constructed from aluminum or copper and are available in a wide variety of colors, shapes and widths. They are generally assembled on the job site using specialized equipment. The installation of rain gutters comprised approximately 4% of our net revenue for the year ended December 31, 2020.

## **Fire-stopping and Fireproofing**

Some of our locations install fire-stopping systems, including fire-rated joint assemblies, perimeter fire containment, and smoke and fire containment systems. Fire-stopping is a passive fire protection approach that relies on compartmentalization of various building components, including fire-rated walls, joints, and floors. The installation of these products collectively comprised approximately 3% of our net revenue for the year ended December 31, 2020.

## **Window Blinds**

Some of our locations install different types of window blinds, including cordless blinds, shades and shutters. The installation of window blinds comprised approximately 3% of our net revenue for the year ended December 31, 2020.

## **Other Building Products**

Some of our locations install other complementary building products, none of which is an individually significant percentage of net revenue. Installation of other building products comprised approximately 6% of our net revenue for the year ended December 31, 2020.

## **Sales and Marketing**

We seek to attract and retain customers through exceptional customer service, superior installation quality, broad service offerings and competitive pricing. Our strategy is centered on building and maintaining strong customer relationships. We also capitalize on cross-selling opportunities from existing customer relationships and identifying situations where customers may benefit from more than one of our installation service offerings. By executing this strategy, we believe we can continue to generate incremental sales volumes with new and existing customers.

Experienced sales and service professionals are important to our customer growth and increasing our profitability. Retaining and motivating local employees has been an important component of our acquisition and operating strategies. As of December 31, 2020, we employed approximately 650 sales professionals and our sales force has spent an average of approximately nine years with our operations. The local sales staff, which is generally led by the branch manager, is responsible for maintaining relationships with our customers. These local teams work diligently to increase sales by supporting our existing customers with excellent service and value while also pursuing new customers with competitive offerings. In addition to the efforts of our sales staff, we market our product and service offerings on the internet, in the local yellow pages, on the radio and through advertisements in trade journals. We primarily conduct our marketing using local trademarks and trade names.

## **COMPETITIVE ADVANTAGES**

We seek to differentiate ourselves in areas where we believe we have a competitive advantage, including:

***National scale with a strong local presence.*** Our national scale gives us access to the best products, training and innovation available, while our local teams provide best in class training and installation services and outstanding customer service. Our customers generally select their building products installer based on quality and timeliness of service, knowledge of local building codes, product application expertise, pricing, relationships and reputation in the market. For these reasons, we emphasize the importance of developing and maintaining strong customer relationships at the local level based on the knowledge and experience of our branch management and staff.

***Diversified product lines, end markets and geographies.*** Diversifying our product line offerings provides us opportunity to increase sales to end customers and leverage our branch costs to improve profitability. We continue to generate revenue synergies by taking advantage of cross-selling opportunities with our existing customers in markets where we install multiple products. We have successfully diversified our product offering from the year ended December 31, 2013, when insulation installation comprised approximately 74% of revenues, to the year ended December 31, 2020, where it comprised 64% of revenues. We service the residential new construction and repair and remodel markets, both of which consist of single-family

and multi-family dwellings, as well as the commercial construction market. We have diversified our end customer demographic from the year ended December 31, 2013, when revenue from the commercial end market comprised approximately 11% of revenues, to the year ended December 31, 2020 where it comprised 18% of revenues. Our growing exposure to commercial end markets diversifies our customer base and makes our business less dependent on residential new construction. Commercial construction is also driven by longer term projects which tends to provide greater revenue visibility. In periods of declining insulation installation volumes, our sales force is able to leverage our diversity of products and reduce the impact of lost insulation sales by growing sales of complementary building products, further enhancing our ability to perform. Our national geographic footprint provides us a balanced business not concentrated in any single region.

**Engaged employees.** We offer competitive benefits to our employees to ensure an engaged workforce. In addition to offering certain benefits to most employees, including medical insurance, 401k and paid time off benefits, we also offer longevity stock awards, financial wellness training and savings matching in order to recruit and retain employees. Our retention efforts have reduced our employee turnover to a level below industry averages. Opportunity for professional growth, training and advancement are strongly encouraged. Engaged, long-tenured employees benefit our business by being highly skilled and efficient, which drives profitability and encourages repeat business and customer loyalty. Higher employee retention also benefits our business through lower recruitment and training expense. We also consider safety and risk management to be a core business objective. Significant staffing, funding and other resources are allocated to our management systems that enhances safety and quality for our employees and our customers. Our branch managers are held accountable for the safety of employees and quality of workmanship at their locations. We provide our employees with ongoing training and development programs necessary to improve safety performance and work quality. Our regional managers, local branch managers and sales force have significant experience in the industry and have spent an average of more than 10 years with our operations. We also created the Installed Building Products Foundation in 2019 as a separate, not-for-profit organization to help support our employees for their education, financial and philanthropic needs.

**Financial strength, variable cost structure and strong free cash flow.** We believe that we are among the most financially sound companies in our industry. We place an emphasis on having a strong balance sheet which allows us to focus on our strategic initiatives and pursue growth opportunities, drive profitability and generate cash. We have a highly variable cost structure with a significant portion of operating expenses directly linked to volume. Our largest expenses are materials and labor and most of our installation employees are paid by completed job. Our minimal capital expenditure requirements support the generation of strong free cash flow.

**Execution excellence.** We believe that our ability to consistently complete our installations within a customer's production schedule is recognized by our customers and is a key component of our high level of service. We have a proven track record of customer satisfaction in managing all aspects of the installation process for our customers. Throughout the construction process, our branch sales and supervisory staff and installation teams make frequent site visits to ensure timely and proper installation and to provide general service support. We believe a high level of service is valued by our customers and generates customer loyalty.

**Broad and stable customer base.** We benefit from a diverse customer base that includes production and custom homebuilders, multi-family and commercial construction firms, homeowners and residential repair and remodeling contractors. We continue to enhance our long-standing relationships with some of the largest builders in the country. While we serve many national and regional builders across multiple markets, we compete for business at the local level. Given our emphasis on quality service, customer turnover is extremely low.

**Well established relationships with suppliers.** We have strong long-standing relationships with many of the manufacturers of the materials we install, including the largest manufacturers of fiberglass and spray foam. The fiberglass insulation manufacturing market is highly consolidated and primarily served by four major manufacturers. We buy significant volume from all four manufacturers and have relationships with each company spanning more than two decades. Our national scale allows us to purchase volumes that account for a meaningful portion of the production for these suppliers allowing them to better plan their production schedules. Our relationships and purchasing power often allow us to negotiate preferred material supply terms.

**Highly experienced and incentivized management team.** Our senior management team (Chief Executive Officer, Chief Financial Officer and Chief Operating Officer) have been directing our strategy for close to 20 years. This team has led us through multiple housing industry cycles, providing valuable continuity and a demonstrated ability to improve operations and grow our business both organically and through acquisitions.



## BUSINESS STRATEGY

We believe our geographic footprint, long-standing relationships with national insulation manufacturers, streamlined value chain and proven track record of successful acquisitions provides us with opportunities for continued growth in our existing markets and expansion into new markets. We believe our continued emphasis on expanding our product offering, further expansion into the commercial construction market, and targeting geographies where we look to grow market share will reduce potential future cyclicality of our operations. Our current strategic objectives include:

- capitalize on the new residential and large commercial construction markets;
- continue to strengthen our market share position by working with the best customers. We seek to work with the most profitable and efficient builders and commercial general contractors in our markets;
- recruit, develop and retain an exceptional workforce by investing in our employees and our communities and promoting a family-oriented culture;
- capitalize on our ability to cross-sell products through existing markets as well as new markets entered as a result of organic expansion and acquisitions. In addition to insulation and air infiltration products, we install garage doors, rain gutters, mirrors and shower doors, waterproofing, fireproofing and fire-stopping, window blinds and various other products;
- enhance profitability from our operating leverage and national scale;
- continue expansion in the multibillion-dollar commercial end market. This strategy includes acquiring more locations to serve the large commercial market and increasing overall commercial sales at our existing new residential locations;
- pursue value enhancing acquisitions by continuing our disciplined approach to valuations and pricing. We will continue to be selective in identifying acquisition targets at attractive multiples. We target profitable markets and companies with strong reputations and customer bases. As part of our acquisition strategy, we seek to maintain the management teams of the companies we acquire as well as retain their local branding, which further reduces associated risk; and
- we integrate new acquisitions quickly and seamlessly into our corporate infrastructure, including our accounting and employee systems. In addition, we utilize our internal software technology, jobCORE, to integrate acquired operations and provide in-depth branch-level operational and financial performance data. We realize near term margin enhancement and revenue growth at acquired branches by applying our national buying power and leveraging relationships with large national homebuilders.

One of our key areas of focus has been diversifying our product and service offerings, customer base, and end markets. We have accomplished this through organic growth as well as acquisitions. We believe the benefits of this diversification include:

- Margin enhancement by leveraging branch costs across multiple products
- Diversified end-market exposure
- A more diverse customer base
- Stronger established local relationships
- Reduced cyclicality

Product and end market diversification has been a primary strategic initiative throughout our history. In addition to acquisition and local market share growth, we typically experience an increased rate of product and end market diversification during periods of reduced demand growth rates in the residential end market. As such, our oldest and most established branches tend to exhibit the greatest diversity of service and product offerings. This diversity in turn contributes to enhanced profitability as compared to branches in our newer, less developed markets.

However, we can provide no assurance that the positive trends reflected in our recent financial and operating results will continue in 2021.

## **TRENDS IN THE MARKETPLACE**

Our business relies on various market factors, one of which is residential housing demand. Following the late 2000s recession in the U.S. economy, housing starts dropped well below historical averages. Rates have been increasing ever since but remain below the average number of annual starts, with 1.38 million starts in 2020, forecasted to rise to 1.47 million in 2021 according to Wolters Kluwer's Blue Chip Economic Indicators January 2021 forecast. We expect to benefit from the continued growth in single-family new residential construction as housing returns to historic stabilized levels. Commercial demand saw the largest decline of the end markets we serve due to impacts from the COVID-19 pandemic ("COVID-19"). However, we expect this sector to recover in 2021 with building starts, measured by investment dollars, forecast to increase 6% from 2020 according to Dodge Data & Analytics.

## **COVID-19 IMPACTS**

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China. Since then, the virus has spread globally, including to the United States. The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption. We saw a temporary but significant reduction in activity during portions of March, April and May of 2020 in our branches located in seven states and the Bay Area of California when these branches were forced to cease operations due to government-imposed shutdowns or limitations. Despite a decline in year-over-year U.S. housing starts in the second quarter of 2020, housing starts increased 11.4% and 11.7% in the third and fourth quarters of 2020 compared to 2019, respectively. This is evidence of the quick recovery in housing demand that should serve to help offset prolonged impacts of the pandemic already experienced. Any future branch closures due to the pandemic will negatively impact our business, but we cannot currently predict the extent of these impacts. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Key Factors Affecting Our Operating Results, COVID-19 Impacts" for more information.

## **SAFETY AND QUALITY CONTROL**

Our quality control process starts with the initial proposal. Our sales staff and managers are knowledgeable about our service offerings and scope of work. They are trained on manufacturers' guidelines as well as state and local building codes. Our quality control programs emphasize onsite inspections, training by manufacturers and various certification programs.

We consider safety and risk management to be a core business objective. Each year, we allocate significant staffing, funding and resources to our management systems that directly impact safety. We have strong workplace safety measures, including Safety Wanted 365, an initiative focused on creating a safer working environment for both our employees and other jobsite personnel through year-round education and training. Additionally, our branch managers are held accountable for the safety of employees and quality of workmanship at their locations.

## **CUSTOMERS**

We serve a broad group of national, regional and local homebuilders, multi-family and commercial construction firms, individual homeowners and repair and remodeling contractors. Our top ten customers, which are primarily a combination of national and regional builders, accounted for approximately 15% of net revenue for the year ended December 31, 2020. We install a variety of products in multiple markets for our largest customers, further diversifying our relationship with them. For example, our largest customer is independently serviced by 71 different IBP branches nationwide despite representing approximately 5% of net revenue for the year ended December 31, 2020. While our largest customers are homebuilders, our customer base is also diverse. We work on a range of commercial projects including office buildings, airports, sports complexes, museums, hospitals, hotels and educational facilities. Of our top 20 customers, 16 represent homebuilders and the remaining four represent commercial customers. We have long-term relationships with many of our customers and have served each of our top ten customers for more than a decade.

## **BACKLOG**

For contracts that are not complete at the reporting date, we recognize revenue over time utilizing a cost-to-cost input method. When this method is used, we estimate the costs to complete individual contracts and record as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Backlog represents the transaction price for contracts for which work has not been performed and excludes unexercised contract options and potential modifications. Backlog is not a guarantee of future revenues as contractual commitments may change. There can be no assurance that backlog will result in revenues within the expected

timeframe, if at all. We estimate backlog was \$78.5 million as of December 31, 2020 and we estimated it to be \$90.7 million as of December 31, 2019.

## **SUPPLIERS**

We have long-term relationships with many of our suppliers and have experienced only limited disruptions in the supply of any of the primary materials we purchase and install. As one of the largest purchasers of insulation in the United States, we believe that we maintain particularly strong relationships with the largest manufacturers of these products. The proximity of certain of our branch locations to insulation manufacturers' facilities provides additional mutual benefits, including opportunities for cost savings and joint planning regarding future production. Due to the limited number of large fiberglass insulation manufacturers, our three largest suppliers in the aggregate accounted for approximately 37% of all material purchases for the year ended December 31, 2020. We also believe that we maintain good relationships with suppliers of the non-insulation products we install. We have found that using multiple suppliers ensures a stable source of materials and favorable purchasing terms as suppliers compete to gain and maintain our business. In addition, our national purchasing volumes provide leverage with suppliers as we pursue additional purchasing synergies. The industry is currently experiencing manufacturer supply constraints for some of the insulation materials we install due to an unanticipated increase in demand as well as manufacturing curtailments due to COVID-19. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Key Factors Affecting our Operating Results" for more information.

## **SEASONALITY**

We tend to have higher sales during the second half of the year as our homebuilder customers complete construction of homes placed under contract for sale in the traditionally stronger spring selling season. In addition, some of our larger branches operate in states impacted by winter weather and, as such, experience a slowdown in construction activity during the first quarter of the calendar year. This winter slowdown contributes to traditionally lower sales and profitability in our first quarter.

The industry is currently experiencing manufacturer supply constraints for some of the insulation materials we install due to an unanticipated increase in demand as well as manufacturing curtailments due to COVID-19. As a result, some jobs may be temporarily delayed, resulting in lower revenue in the first and/or second quarters of 2021. While we anticipate this will not have a significant effect on our business, we cannot predict the full impact on our results of operations at this time. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Key Factors Affecting our Operating Results" for more information.

The composition and level of our working capital typically change during periods of increasing sales as we carry more inventory and receivables, although these changes are generally offset in part by higher trade payables to our suppliers. Working capital levels increase in the summer and fall seasons due to higher sales during the peak of residential construction activity. Typically, the subsequent collection of receivables and reduction in inventory levels during the winter months has positively impacted cash flow. In the past, we have from time to time utilized our borrowing availability under our credit facilities to cover short-term working capital needs.

## **COMPETITION**

We believe that competition in our industry is based on quality and timeliness of service, knowledge of local building codes, pricing, relationships and reputation in the market. The building products installation industry is highly fragmented. The markets for our non-insulation installation services are even more fragmented than the markets for insulation installation services. Our competitors include one other large national contractor, several large regional contractors and numerous local contractors. We expect to continue to effectively compete in our local markets given our long-standing customer relationships, access to capital, tenure and quality of local staff, quality installation reputation and competitive pricing.

## **HUMAN CAPITAL RESOURCES**

As of December 31, 2020, we had approximately 8,950 employees, consisting of approximately 6,350 installers, approximately 650 sales professionals, approximately 600 production personnel and approximately 1,350 administrative and management personnel. Less than 2% of our employees are covered under collective bargaining agreements. We have never experienced a work stoppage or strike, and we believe that we have good relationships with our employees.

Our employees are critical to our continued success and are our most important resource. We focus on attracting and retaining talented and experienced individuals to manage and support our operations. We consider retaining skilled employees to be a competitive advantage and employ various strategies to improve turnover metrics. In addition, we offer many benefits and

resources to most employees, some of which are above and beyond what others in our industry offer. See "Competitive Advantages, Engaged employees" above for further details on turnover metrics and the benefits we offer.

Our management team supports the development of our existing workforce by establishing a culture of employee engagement, employee appreciation and the opportunity for promotion from within for many leadership positions. We believe this provides increased retention and promotes a long-term focus to our operations.

We respect and support the inclusion and diversity of all people within our workforce. We are committed to equal opportunity, maintaining workplaces free from discrimination and harassment on the basis of race, color, age, religion, sex, national origin, ancestry, gender, sexual orientation, gender identification, disability, military status, veteran status, or any other status protected by law. We are committed in policy and practice to providing equal employment opportunities for all applicants and employees based upon their training, experience, and overall qualifications. We do not tolerate inappropriate behavior or harassment.

The health and safety of our employees is of primary importance. See "Safety and Quality Control" above for details on our policies and practices. Our policy is designed to protect against accidents, injuries, and illnesses, in compliance with applicable safety and health laws and regulations. During the COVID-19 pandemic, we implemented increased safety protocols to protect our employees' health and well-being, including increasing the frequency of regular cleaning and disinfecting processes at our facilities, adhering to social distancing protocols, limiting the number of workers on our jobsites, suspending non-essential air travel and encouraging employees to work remotely when possible. See "COVID-19 Impacts" above for more information.

## **INFORMATION TECHNOLOGY**

JobCORE is our web-enabled internal software technology used by the majority of our branches. The system is designed to operate our business in a highly efficient manner and manage our operations. The jobCORE software provides in-depth real-time job-level operational and financial performance data from each branch to the corporate office. JobCORE provides us, our branch managers and our sales personnel with an important operational tool for monitoring branch level performance. It assists management in assessing important business questions, including customer analysis, sales staff analysis, branch analysis and other operating activities.

## **INTELLECTUAL PROPERTY**

We possess intellectual property rights, including trademarks, trade names and know-how and other proprietary rights that are important to our business. In particular, we maintain registered trademarks and trade names, some of which are the trademarks and trade names under which many of our local branches operate and we own or have licensed rights to use jobCORE and other software used in the operation of our business. While we do not believe our business is dependent on any one of our trademarks or trade names, we believe that our trademarks and trade names are important to the development and conduct of our business as well as to the local marketing of our services. We also maintain domain name registrations for each of our local branch websites. We make efforts to protect our intellectual property rights, although the actions we take may be inadequate to prevent others from using similar intellectual property. In addition, third parties may assert claims against our use of intellectual property and we may be unable to successfully resolve such claims.

## **ENVIRONMENTAL, SOCIAL AND REGULATORY MATTERS**

The Department of Energy, or DOE, states that over half of the energy used in the average American home is for heating and cooling due to many homes not having proper insulation. Per an insulation fact sheet provided by the DOE, inadequate insulation and air leakage are leading causes of energy waste in most homes. Through insulating homes and commercial structures, our industry promotes energy efficiency. Our loose-fill cellulose insulation is manufactured from recycled waste paper and our fiberglass insulation is made from recycled glass which helps reuse resources and reduce our global footprint.

We are committed to socially responsible corporate practices. Through the Installed Building Products Foundation and other volunteer opportunities, we give back to the communities we serve. We also provide longevity stock awards and financial wellness training to our employees. We are subject to various federal, state and local laws and regulations applicable in the jurisdictions in which we operate, including laws and regulations relating to our relationships with our employees, public health and safety, workplace safety, transportation, zoning and fire codes. We strive to operate in accordance with applicable laws, codes and regulations.

We are responsible for adhering to several federal, state and local regulations covering building codes, compliance with COVID-19 restrictions, labor-related regulations covering minimum wage and employee safety, and transportation procedures. Our transportation operations are subject to the regulatory jurisdiction of the U.S. Department of Transportation, or DOT, which has broad administrative powers. We are also subject to safety requirements governing interstate operations prescribed



by the DOT. In addition, vehicle dimension and weight and driver hours of service are subject to both federal and state regulation. Our operations are also subject to the regulatory jurisdiction of the U.S. Department of Labor's Occupational Safety and Health Administration, or OSHA, which has broad administrative powers regarding workplace and jobsite safety.

Our operations and properties are subject to federal, state and local laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, release, discharge and disposal of hazardous or toxic materials, substances, waste and petroleum products and the investigation, remediation, removal and monitoring of the presence or release of such materials, substances, waste and petroleum products, including at currently or formerly owned or occupied premises and off-site disposal locations. We have not previously incurred material costs to comply with environmental laws and regulations. However, we could be subject to material costs, liabilities or claims relating to environmental compliance in the future, especially in the event of changes in existing laws and regulations or in their interpretation or enforcement.

As the nature of our business involves the use or handling of certain potentially hazardous or toxic substances, including spray foam applications and lead-based paint, we may be held liable for claims alleging injury or damage resulting from the release of or exposure to such substances, as well as claims relating to the presence of mold, fungal growth and moisture intrusion alleged in connection with our business activities. In addition, as owners and lessees of real property, we may be held liable for, among other things, releases of hazardous or toxic substances or petroleum products on, at, under or emanating from currently or formerly owned or operated properties, or any off-site disposal locations, or for any known or newly discovered environmental conditions at or relating to any of our properties, including those arising from activities conducted by previous occupants or at adjoining properties, without regard to whether we knew of or were responsible for such release. We may be required to investigate, remove, remediate or monitor the presence or release of such hazardous or toxic substances or petroleum products and may be held liable by a governmental entity for fines and penalties or to any third parties for damages, including for bodily injury, property damage and natural resource damage in connection with the presence or release of hazardous or toxic substances or petroleum products.

To date, costs to comply with applicable laws and regulations relating to pollution or the protection of human health and safety, the environment and natural resources have not had a material adverse effect on our financial condition or operating results, and we do not anticipate incurring material expenditures to comply with such laws and regulations in the current fiscal year.

In conjunction with our lease agreements and other transactions, we often provide reasonable and customary indemnities relating to various matters, including environmental issues. To date, we have not had to pay a material amount pursuant to any such indemnification obligations.

In addition, our suppliers are subject to various laws and regulations, including environmental laws and regulations. With our purchase of a cellulose manufacturer in November 2018, we are subject to similar laws and regulations that apply to our suppliers.

## **CORPORATE AND AVAILABLE INFORMATION**

Installed Building Products, Inc. is a holding company that derives all of its operating income from its subsidiaries. Our principal executive offices are located at 495 South High Street, Suite 50, Columbus, Ohio 43215. Our main telephone number is (614) 221-3399. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol "IBP."

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the SEC's website at [www.sec.gov](http://www.sec.gov). Our corporate website is located at [www.installdbuildingproducts.com](http://www.installdbuildingproducts.com), or [www.ibp.com](http://www.ibp.com), and our investor relations website is located at <http://investors.installdbuildingproducts.com>. Copies of our Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material with or furnish it electronically to the SEC.

We webcast our earnings calls and post the materials used in meetings with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events and press and earnings releases on our investor relations website. We have used, and intend to continue to use, our investor relations website as a means of disclosing material non-public information and for complying with disclosure obligations under Regulation FD. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters and code of business conduct and ethics, is also available on our investor relations website under the heading "Corporate Governance." The contents of our website are not incorporated by reference in, or otherwise made a part of, this Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

## Item 1A. Risk Factors

There are a number of business risks and uncertainties that affect our business. These risks and uncertainties could cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be most relevant to our business activities. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely impact our business, financial condition and results of operations. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this report.

For a summary of the following risks, please see "Information Regarding Forward-Looking Statements and Risk Factors Summary" which appears immediately prior to Part I, Item 1, Business, of this Form 10-K.

### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

**Our business and the industry in which we operate are highly dependent on general and local economic conditions, the housing market, the level of new residential and commercial construction activity and other important factors, all of which are beyond our control.**

Our business is cyclical, seasonal and highly sensitive to economic and housing market conditions over which we have no control, including:

- the number of new home and commercial building construction starts;
- short- and long-term interest rates;
- inflation;
- employment levels and job and personal income growth;
- housing demand from population growth, household formation and other demographic changes;
- housing affordability;
- rental housing demand;
- availability and cost of labor;
- availability and cost of land;
- changes in material prices;
- local zoning and permitting processes, including the length of building cycles from permit to completion, based on local economic or environmental factors;
- federal, state and local energy efficiency programs, regulations, codes and standards;
- availability and pricing of mortgage financing for homebuyers and commercial financing for developers of multi-family homes and commercial projects;
- foreclosure rates;
- consumer confidence generally and the confidence of potential homebuyers in particular;
- U.S. and global financial system and credit market stability;
- federal government economic, trade, and spending laws and policies;
- private party and government mortgage loan programs and federal and state regulation, oversight and legal action regarding lending, appraisal, foreclosure and short sale practices;
- federal and state personal income tax rates and provisions, including provisions for the deduction of mortgage loan interest payments, state and local income and real estate taxes and other expenses;
- general economic conditions, including in the markets in which we compete; and
- natural disasters, war, acts of terrorism and response to these events.

Unfavorable changes in any of the above conditions could adversely affect consumer spending, result in decreased demand for homes and adversely affect our business generally or be more prevalent or concentrated in particular markets in which we

operate. Any deterioration in economic or housing market conditions or continuation of uncertain economic or housing market conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

**A downturn in the housing market could materially and adversely affect our business and financial results.**

In 2020, the U.S. Census Bureau reported an estimated 1.38 million total housing starts, up from 1.29 million starts in 2019. Despite the increase, any future decline in new home construction and resulting product demand levels may materially adversely affect our business, financial condition, results of operations and cash flows. In particular, increases in mortgage interest rates and rising home prices, along with other economic factors, may lead to a decline in the home construction market. In addition, concerns over the affordability of housing may reduce demand in the markets we serve. The demand for residential construction could be negatively impacted if the number of renting households increases, as we have seen in the recent past, or by a shortage in the supply of affordable housing which could result in lower home ownership rates.

Other factors that might impact growth in the homebuilding industry include: uncertainty in financial, credit and consumer lending markets amid slow growth or recessionary conditions; levels of mortgage repayment; limited credit availability; federal and state personal income tax rates and changes to the deductibility of certain state and local taxes; Federal Reserve policy changes; shortages of suitable building lots in many regions; shortages of experienced labor; soft housing demand in certain markets; and rising materials prices. Given these factors, we can provide no assurance that present growth trends will continue, whether overall or in our markets, or whether the new single-family residential market will ever return to historical levels. The economic downturn in 2007-2010 severely affected our business. Another reduction in housing demand in the future could have a similar effect on our business.

**Our business relies on commercial construction activity, which has faced significant challenges and is dependent on business investment.**

A portion of the products we sell are for the commercial construction market. If the growth in this market does not continue or gain further momentum, the growth potential of our business, and our financial condition, results of operations and cash flows could be adversely affected.

According to Dodge Data & Analytics, commercial building starts in 2021, measured by investment dollars, are expected to increase 6% from 2020 while institutional building starts (a subset of the nonresidential construction market in which we participate) are expected to increase 1% from 2020.

The strength of the commercial construction market depends on business investment which is a function of many national, regional and local economic conditions beyond our control, including capital and credit availability for commercial construction projects, material costs, interest rates, employment rates, vacancy rates, labor and healthcare costs, fuel and other energy costs and changes in tax laws affecting the real estate industry. Adverse changes or continued uncertainty regarding these and other economic conditions could result in a decline or postponement in spending on commercial construction projects, which could adversely affect our financial condition, results of operations and cash flows.

Weakness in the commercial construction market would have a material adverse effect on our business, financial condition and operating results. Continued uncertainty about current economic conditions will continue to pose a risk to our businesses that serve the non-residential markets. If participants in these industries postpone spending in response to tighter credit, negative financial news and declines in income or asset values or other factors, this could have a material negative effect on the demand for our products and services and on our business, financial condition and results of operations.

**A decline in the economy and/or a deterioration in expectations regarding the housing market or the commercial construction market could cause us to record significant non-cash impairment charges, which could negatively affect our earnings and reduce stockholders' equity.**

We review our goodwill for impairment annually during the fourth quarter. We also review our goodwill and other intangible assets when events or changes in circumstances indicate the carrying value may not be recoverable. In doing so, we either assess qualitative factors or perform a detailed analysis to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We did not record any goodwill impairment charges in 2020, 2019, or 2018; however, a decline in the expectation of our future performance, a decline in our market capitalization, deterioration in expectations regarding the general economy and/or the timing and the extent of new home construction, home improvement and commercial construction activity may cause us to recognize non-cash, pre-tax impairment charges for goodwill or other long-lived assets, which are not determinable at this time. In addition, as a result of our acquisition strategy, we have recorded goodwill and may

incur impairment charges in connection with prior and future acquisitions. If the value of goodwill or other intangible assets is impaired, our earnings and stockholders' equity would be adversely affected. As of December 31, 2020, we had goodwill and other intangible assets in an aggregate amount of \$388.3 million, or approximately 33% of our total assets, which is in excess of our stockholders' equity.

**Our industry is highly fragmented and competitive, and increased competitive pressure may adversely affect our business, financial condition, results of operations and cash flows.**

The building products installation industry is highly fragmented and competitive. We face significant competition from other national, regional and local companies. Any of these competitors may: (i) foresee the course of market development more accurately than we do; (ii) offer services that are deemed superior to ours; (iii) install building products at a lower cost; (iv) develop stronger relationships with homebuilders and suppliers; (v) adapt more quickly to new technologies, new installation techniques or evolving customer requirements; or (vi) have access to financing on more favorable terms than we can obtain in the market. As a result, we may not be able to compete successfully with them. If we are unable to compete effectively, our business, financial condition, results of operations and cash flows may be adversely affected.

In the event that increased demand leads to higher prices for the products we install, we may have limited, if any, ability to pass on price increases in a timely manner or at all due to the fragmented and competitive nature of our industry. Residential homebuilders have, in the past, placed pressure on their suppliers to keep prices low, also contributing to the possibility of not being able to pass on price increases.

**Product shortages or the loss of key suppliers could affect our business, financial condition, results of operations and cash flows.**

Our ability to offer a wide variety of products to our customers depends on our ability to obtain adequate product supply from manufacturers. We do not typically enter into long-term agreements with our suppliers but have done so from time to time, including in 2018 when we entered into a contract to provide a portion of the insulation materials we utilize across our businesses during 2019, 2020 and 2021. We have certain agreements that do not qualify as supply agreements due to a lack of a fixed price and/or lack of a fixed and determinable purchase quantity, but nonetheless may require us to purchase certain of our products from certain vendors, depending on the specific circumstances. Generally, our products are available from various sources and in sufficient quantities to meet our operating needs. However, the loss of, or a substantial decrease in the availability of, products from our suppliers or the loss of key supplier arrangements could adversely impact our business, financial condition, results of operations and cash flows. Historically, unexpected events, such as incapacitation of supplier facilities due to extreme weather or fire, have temporarily reduced manufacturing capacity and production. The industry is currently experiencing manufacturer supply constraints for some of the insulation materials we install due to an unanticipated increase in demand as well as manufacturing curtailments due to COVID-19. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Key Factors Affecting our Operating Results" for more information. In addition, during prior economic downturns in the housing industry, manufacturers have reduced capacity by closing plants and production lines within plants. Even if such capacity reductions are not permanent, there may be a delay in manufacturers' ability to increase capacity in times of rising demand. If the demand for products from manufacturers and other suppliers exceeds the available supply, we may be unable to source additional products in sufficient quantity or quality in a timely manner and the prices for the products that we install could rise. These developments could affect our ability to take advantage of market opportunities and limit our growth prospects. We continually evaluate our supplier relationships and at any given time may move some or all of our purchases from one or more of our suppliers. There can be no assurance that any such action would have its intended effect.

Failure by our suppliers to continue to provide us with products on commercially favorable terms, or at all, could have a material adverse effect on our operating margins, financial condition, operating results and/or cash flows. Our inability to source materials in a timely manner could also damage our relationships with our customers.

## **Changes in the costs of the products we install, an inability to increase our selling prices or a delay in the timing of such increases can decrease our profit margins**

The principal building products we install have been subject to price changes in the past, some of which have been significant. For example, the industry supply of a portion of the insulation materials we install was disrupted due to a catastrophic failure at a manufacturer's facility during the fourth quarter of 2017, resulting in insulation material allocation throughout the industry and, as a result, increased market pricing which impacted our results of operations in 2018 and 2019. Increased market pricing, regardless of the catalyst, could impact our results of operations in the future to the extent that price increases cannot be passed on to our customers. While we continue to work with our customers to adjust selling prices to offset the aforementioned higher costs, there can be no assurance that any such action would have its intended effect. In addition, our results of operations for individual quarterly periods can be, and have been, adversely affected by a delay between when building product cost increases are implemented and when we are able to increase prices for our products and services, if at all. Our supplier purchase prices often depend on volume requirements. If we do not meet these volume requirements, our costs could increase and our margins may be adversely affected. In addition, while we have been able to achieve cost savings through volume purchasing and our relationships with suppliers, we may not be able to continue to receive advantageous pricing for the products that we install, which could have a material adverse effect on our financial condition, results of operations and cash flows.

## **Our success depends on our key personnel.**

Our business results depend largely upon the continued contributions of our senior management team. We do not have employment agreements with any of our executive officers other than Jeff Edwards, our Chief Executive Officer and President. Although Mr. Edwards' employment agreement requires him to devote the amount of time necessary to conduct our business and affairs, he is also permitted to engage in other business activities that do not create a conflict of interest or substantially interfere with his service to us, including non-competitive operational activities for his real estate development business. If we lose members of our management team, our business, financial condition and results of operations, as well as the market price of our securities, could be adversely affected.

Our business results also depend upon our branch managers and sales personnel, including those of companies recently acquired. While we customarily sign non-competition agreements, which typically continue for two years following the termination of employment, with our branch managers and sales personnel in order to maintain key customer relationships in our markets, such agreements do not protect us fully against competition from former employees.

## **We are dependent on attracting, training and retaining qualified employees while controlling labor costs.**

The labor market for the construction industry is competitive, including within the sector in which we operate. We must attract, train and retain a large number of qualified employees to install our products while controlling related labor costs. We face significant competition for these employees from our industry as well as from other industries. Tighter labor markets may make it even more difficult for us to hire and retain installers and control labor costs. Our ability to attract qualified employees and control labor costs is subject to numerous external factors, including competitive wage rates and health and other insurance and benefit costs. A significant increase in competition, minimum wage or overtime rates in localities where we have employees could have a significant impact on our operating costs and may require that we take steps to mitigate such increases, all of which may cause us to incur additional costs, expend resources responding to such increases and lower our margins.

## **Higher labor and health care costs could adversely affect our business.**

Our labor costs have increased in recent years and may continue to increase as a result of competition, health and other insurance and benefit costs. In addition, health care coverage requirements, changes in workplace regulations and any future legislation could cause us to experience higher health care and labor costs in the future. Increased labor, health care and insurance costs could have an adverse effect on our business, financial condition and results of operations.

## **Variability in self-insurance liability estimates could adversely impact our results of operations.**

We carry insurance for risks including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. In most cases, these risks are insured under high deductible and/or high-retention programs that require us to carry highly subjective liability reserves on our balance sheet. We estimate these insurance liabilities by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions, and periodically analyzing our historical trends with the assistance of external actuarial consultants. Our accruals for insurance reserves reflect these estimates and other management judgments, which are subject to variability. If our



claim experience differs significantly from historical trends and actuarial assumptions and we then need to increase our reserves, our financial condition and results of operations could be adversely affected.

**Increases in union organizing activity and/or work stoppages could delay or reduce availability of products that we install and increase our costs.**

Currently, less than 2% percent of our employees are covered by collective bargaining or other similar labor agreements. However, if a larger number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, or if we acquire an entity with a unionized workforce in the future, our business could be negatively affected. Any inability by us to negotiate collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other employees become represented by a union, we could experience a disruption of our operations and higher labor costs.

We participate in various multiemployer pension plans under collective bargaining agreements in Washington, Oregon and Illinois with other companies in the construction industry. We also participate in various multiemployer health and welfare plans that cover both active and retired participants. These plans cover most of our union-represented employees. If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers. In addition, if a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans a withdrawal liability based upon the underfunded status of the plan.

In addition, certain of our suppliers have unionized workforces and certain of our products are transported by unionized truckers. Strikes or work stoppages could result in slowdowns or closures of facilities where the products that we install are manufactured or could affect the ability of our suppliers to deliver such products to us. Any interruption in the production or delivery of these products could delay or reduce availability of these products and increase our costs.

**Increases in fuel costs could adversely affect our results of operations.**

The price of oil has fluctuated over the last few years, creating volatility in our fuel costs. We do not currently hedge our fuel costs. Increases in fuel costs can negatively impact our cost to deliver our products to our customers and thus increase our cost of sales. If we are unable to increase the selling price of our products to our customers to cover any increases in fuel costs, net income may be adversely affected.

**Because we operate our business through highly dispersed locations across the United States, our operations may be materially adversely affected by inconsistent practices and the operating results of individual branches may vary.**

We operate our business through a network of highly dispersed locations throughout the United States, supported by executives and services at our corporate office, with local branch management retaining responsibility for day-to-day operations and adherence to applicable local laws. Our operating structure can make it difficult for us to coordinate procedures across our operations in a timely manner or at all. In addition, our branches may require significant oversight and coordination from our corporate office to support their growth. Inconsistent implementation of corporate strategy and policies at the local level could materially and adversely affect our overall profitability, business, results of operations, financial condition and prospects.

In addition, the operating results of an individual branch may differ from those of another branch for a variety of reasons, including market size, management practices, competitive landscape, regulatory requirements, state and local taxes and local economic conditions. As a result, certain of our branches may experience higher or lower levels of growth than other branches. Therefore, our overall financial performance and results of operations may not be indicative of the performance and results of operations of any individual branch.

**In the ordinary course of business, we are required to obtain performance bonds and licensing bonds, the unavailability of which could adversely affect our business, financial condition, results of operations and/or cash flows.**

We are often required to obtain performance bonds and licensing bonds to secure our performance under certain contracts and other arrangements. In addition, the commercial construction end market also requires higher levels of performance bonding.

Our ability to obtain performance bonds and licensing bonds primarily depends on our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain performance bonds and licensing bonds can also be impacted by the willingness of insurance companies to issue performance bonds and licensing bonds. If we are unable to obtain

performance bonds and licensing bonds when required, our business, financial condition, results of operations and/or cash flows could be adversely impacted.

## **RISKS TO OUR BUSINESS FROM EXTERNAL THREATS**

### **The COVID-19 pandemic could have a material adverse effect on our business, financial condition, operating results and cash flows.**

According to the World Health Organization (“WHO”), in December 2019 China reported a cluster of cases of pneumonia in Wuhan, Hubei Province later identified as a novel strain of coronavirus. In response, the WHO declared the situation a pandemic and the U.S. Secretary of Health and Human Services has declared a public health emergency. The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption. Many public health organizations and international, federal, state and local governments implemented measures to combat the spread of COVID-19 during 2020 with some of these restrictions still in place as of the date of filing of this Form 10-K. Some of these measures included restrictions on movement such as quarantines, “stay-at-home” orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. While portions of the economy have begun to reopen, there is still significant uncertainty surrounding the duration and scope of the pandemic, as well as its impact on the economy. We cannot predict if federal, state and local governments will implement additional restrictions, when restrictions currently in place will expire or whether restrictions currently in place will become more restrictive.

The continued spread of COVID-19 has adversely affected many industries as well as the economies and financial markets of many countries, including the United States, causing a significant deceleration of economic activity during a portion of 2020. This slowdown reduced production, decreased the level of trade, and led to widespread corporate downsizing, causing a sharp increase in unemployment in 2020 from which the economy is still recovering. There has also been significant disruption of and extreme volatility in the global capital markets, which could increase the cost of, or entirely restrict access to, capital in the future. The impact of this pandemic on the U.S. and world economies is uncertain and, unless the pandemic is contained, these adverse impacts could worsen, impacting all segments of the global economy, and result in a significant recession or worse.

Our business could be materially adversely affected by the COVID-19 pandemic and the global response. The Company and its customers’ businesses have generally been classified as “essential” businesses in most of the jurisdictions in which we operate, permitting us to continue operations in most of our markets. However, there can be no assurance that our operations will continue to be classified as “essential” in the future, or that we will not voluntarily limit or cease operations in one or more of our markets if we believe it is in our best interest. For example, during portions of March, April and May of 2020, we saw a temporary but significant reduction in activity in our branches located in seven states and the Bay Area of California, which collectively accounted for 10% of our net revenue during the year ended December 31, 2019. The reduced activity in these areas was attributable to construction being temporarily deemed non-essential during that time period. While operations have resumed to normal levels in all of these areas as of the date of filing of this Form 10-K, future mandatory shutdowns or reductions in operations could have a material adverse effect on our business. During 2020, we laid off or furloughed approximately 600 employees in areas where construction was not deemed “essential.” We have since rehired or brought back substantially all of those employees, but we may need to layoff or furlough other employees in the future. Any employee layoffs or furloughs associated with future branch closures or slowdowns are assumed to be temporary in nature but could result in long-term labor shortages in certain markets if we cannot rehire these employees once operations resume.

Further, the COVID-19 pandemic may have a material adverse impact on our customers and the homebuilding industry in general, as it has reduced employment levels and may adversely affect consumer spending or consumer confidence, which would decrease demand for homes. Based on the normal lag between starts and completions within the home building industry, we anticipate that a market decline could have an adverse impact on our business into 2021. In the commercial sector, certain large-scale infrastructure programs may be at risk if the need for such structures decline, project funding declines or as consumer behaviors change in the wake of COVID-19 disruptions to the economy and changes to our general ways of life. For example, reduced demand for office buildings, decreased airport traffic or decreased usage of sports arenas could impact our commercial end market.

The industry is currently experiencing manufacturer supply constraints for some of the insulation materials we install due to an unanticipated increase in demand as well as manufacturing curtailments due to COVID-19. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Key Factors Affecting our Operating Results" for more information.

Our management is focused on mitigating the impact of COVID-19 on our business and the risk to our employees, which has partially diverted management's attention away from normal business operations. Additionally, we have taken a number of precautionary measures intended to mitigate the impact of COVID-19 on our business and the risk to our employees, including increasing the frequency of regular cleaning and disinfecting processes at our facilities, adhering to social distancing protocols, limiting the number of workers on jobsites, suspending non-essential air travel and encouraging employees to work remotely when possible, which could adversely affect our business. Despite these measures, our key management personnel and/or a portion of our installer base could become temporarily or permanently incapacitated by COVID-19 or related complications. This could result in a material adverse impact on our business, financial condition, operating results and cash flows. While these and other measures we may take are believed to be temporary, they may continue until the pandemic is contained or indefinitely and could increase costs and amplify existing risks or introduce new risks that could adversely affect our business, including, but not limited to, internal controls and cybersecurity risks.

Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on a local, national and global level. To date, vaccines have been developed and treatments have improved, but it is too soon to know if they will protect against a worsening of the pandemic or to prevent COVID-19 from becoming endemic. While we expect the COVID-19 pandemic and related events may have a negative effect on us in the future, the full extent and scope of the impact on our business and industry, as well as national, regional and global markets and economies, depends on numerous evolving factors that we may not be able to accurately predict, including the duration and scope of the pandemic, additional government actions taken in response to the pandemic, the impact on construction activity and demand for homes (based on employment levels, consumer spending and consumer confidence). Accordingly, our ability to conduct our business in the manner previously or currently expected could be materially and negatively affected, any of which could have a material adverse impact on our business, financial condition, operating results and cash flows.

**Our business is seasonal and may be affected by adverse weather conditions, natural disasters or other catastrophic events.**

We tend to have higher sales during the second half of the year as our homebuilder customers complete construction of homes placed under contract for sale in the traditionally stronger spring selling season. In addition, some of our larger branches operate in states impacted by winter weather and, as such, experience a slowdown in construction activity during inclement months. This winter slowdown contributes to traditionally lower sales and profitability in our first quarter.

In addition, adverse weather conditions, such as unusually prolonged cold conditions, rain, blizzards, hurricanes, earthquakes, fires, other natural disasters, epidemics or other catastrophic events could accelerate, delay or halt construction or installation activity or impact our suppliers. For example, the recent extreme cold and snow storms in Texas have significantly impacted our operations across the entire state of Texas. The temporary closure of our Texas branches and delays in completing jobs will negatively impact our results for February 2021, although we are not able to predict the impact on the first quarter of 2021 at this time. In addition, we may be subject to significant future claims related to frozen pipes in homes across Texas. The impact of these types of events on our business may adversely impact quarterly or annual net revenue, cash flows from operations and results of operations. For example, weather is the main reason for annual seasonality cycles of our business, and any adverse weather conditions can enhance this seasonality.

**We may be adversely affected by disruptions in our information technology systems.**

Our operations are dependent upon our information technology systems, including our web-enabled internal software technology, jobCORE. The jobCORE software provides in-depth operational and financial performance data from individual branch locations to the corporate office. We rely upon such information technology systems to manage customer orders on a timely basis, coordinate our sales and installation activities across locations and manage invoicing. As a result, the proper functioning of our information technology systems is critical to the successful operation of our business. Although our information technology systems are protected through physical and software safeguards, our information technology systems are still vulnerable to natural disasters, power losses, unauthorized access, delays and outages in our service, system capacity limits from unexpected increases in our volume of business, telecommunication failures, computer viruses and other problems. A substantial disruption in our information technology systems for any prolonged time period could result in delays in receiving inventory and supplies or installing our products on a timely basis for our customers, which could adversely affect our reputation and customer relationships.

**In the event of a cybersecurity incident, we could experience operational interruptions, incur substantial additional costs, become subject to legal or regulatory proceedings or suffer damage to our reputation.**

In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation or corruption of our information technology systems and information and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by unauthorized access, malicious software, computer viruses, undetected intrusion, hardware failures or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experiences any similar events that disrupt their business operations or damage their reputation.

As cyberattacks become more sophisticated generally, we may be required to incur significant costs to strengthen our systems to protect against outside intrusions and/or continue to maintain insurance coverage related to the threat of such attacks. While we have invested in industry appropriate protections and monitoring practices of our data and information technology to reduce these risks and test our systems on an ongoing basis for any current or potential threats, there can be no assurance that our efforts will prevent breakdowns or breaches of our or our third-party providers' databases or systems that could adversely affect our business.

We carry cybersecurity insurance to help mitigate the financial exposure and related notification procedures in the event of intentional intrusion. The measures that we implement to reduce and mitigate these risks may not be effective. While to date these threats have not had a material impact on our business or operations, if such an event occurred, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**Terrorist attacks or acts of war against the United States or increased domestic or international instability could have an adverse effect on our operations.**

Adverse developments in the war on terrorism, terrorist attacks against the United States or any outbreak or escalation of hostilities between the United States and any foreign power may cause disruption to the economy. Since our business is dependent on the housing and construction industries, such adverse effects on the economy could negatively affect these industries and, therefore, our business, our employees and our customers, which could negatively impact our financial condition and results of operations.

## **RISKS ASSOCIATED WITH OUR GROWTH STRATEGY**

**We may not be able to continue to successfully expand into new products or geographic markets and further diversify our business, which could negatively impact our future sales and results of operations.**

Generally, we seek to acquire businesses that will complement, enhance, or expand our current business or product offerings, or that might otherwise offer us growth opportunities, including the expansion of our national footprint and end markets. Our business depends in part on our ability to diversify and grow our business and expand the types of complementary building products that we install. Our product and geographic expansion may not be successful and may not deliver expected results, which could negatively impact our future sales and results of operations.

Our expansion into new geographic markets may present competitive, local market and other challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Expansion into new geographic markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we rely upon expansion into new geographic markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be adversely affected.

**We may be unable to successfully acquire and integrate other businesses and realize the anticipated benefits of acquisitions.**

Acquisitions are a core part of our strategy and we may be unable to continue to grow our business through acquisitions. In addition, acquired businesses may not perform in accordance with expectations, and our business judgments concerning the value, strengths and weaknesses of acquired businesses may not prove to be correct. We may also be unable to achieve expected improvements or achievements in businesses that we acquire. The value of our common stock following the completion of an acquisition could be adversely affected if we are unable to realize the expected benefits from the acquisition on a timely basis or at all. Future acquisitions may result in the incurrence of debt and contingent liabilities, legal liabilities, goodwill impairments, increased interest expense and amortization expense and significant integration costs. In addition, future acquisitions could result in dilution of existing stockholders if we issue shares of common stock as consideration.

Acquisitions involve a number of special risks, including:

- our inability to manage acquired businesses or control integration costs and other costs relating to acquisitions;
- potential adverse short-term effects on operating results from increased costs, business disruption or otherwise;
- diversion of management's attention;
- loss of suppliers, customers or other significant business partners of the acquired business;
- failure to retain existing key personnel of the acquired business and recruit qualified new employees at the location;
- failure to successfully implement infrastructure, logistics and systems integration;
- potential impairment of goodwill and other intangible assets;
- risks associated with the internal controls of acquired businesses;
- exposure to legal claims for activities of the acquired business prior to acquisition and inability to realize on any indemnification claims, including with respect to environmental and immigration claims;
- the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities; and
- our inability to obtain financing necessary to complete acquisitions on attractive terms or at all.

Our strategy could be impeded if we do not identify, or face increased competition for, suitable acquisition candidates and our business, financial condition, results of operations and cash flows could be adversely affected if any of the foregoing factors were to occur.

**Our continued expansion into the commercial construction end market could affect our revenue, margins, financial condition, operating results and cash flows.**

Our commercial construction end market business involves competitive, operational, financial and accounting challenges and other risks that differ from our traditional residential end market business. For example, the typical contractual terms and arrangements and billing cycle for the commercial construction end market are different than the residential new construction end market. In addition, our expansion may include opening new branches that have higher start-up costs compared to our acquired branches. These factors and any other challenges we encounter could adversely affect our margins, financial condition, operating results and cash flows.

As of December 31, 2020, our estimated backlog was approximately \$78.5 million. In accordance with industry practice, many of our contracts are subject to cancellation, reduction, termination or suspension at the discretion of the customer in respect of work that has not yet been performed. In the event of a project cancellation, we would generally have no contractual right to the total revenue reflected in our backlog but instead would collect revenues in respect of all work performed at the time of cancellation as well as all other costs and expenses incurred by us through such date. Projects can remain in backlog for extended periods of time because of the nature of the project, delays in execution of the project and the timing of the particular services required by the project. Additionally, the risk of contracts in backlog being canceled, terminated or suspended generally increases at times, including as a result of periods of widespread macroeconomic and industry slowdown, weather, seasonality and many of the other factors impacting our business. Many of the contracts in our backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the contracts. The revenue for certain contracts included in backlog are based on estimates. Therefore, the timing of performance on our individual contracts can



affect our margins and future profitability. There can be no assurance that backlog will result in revenues within the expected timeframe, if at all.

**We may be subject to claims arising from the operations of our various businesses for periods prior to the dates we acquired them.**

We have consummated over 160 acquisitions. From time to time we are subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related and other liabilities and claims not covered by insurance. Any future claims or liabilities could be significant. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims. In addition, insurance companies may be unwilling to cover claims that have arisen from acquired businesses or locations, or claims may exceed the coverage limits that our acquired businesses had in effect prior to the date of acquisition. If we are unable to successfully obtain insurance coverage of third-party claims or enforce our indemnification rights against the former owners, or if the former owners are unable to satisfy their obligations for any reason, including because of their financial position, we could be held liable for the costs or obligations associated with such claims or liabilities, which could adversely affect our financial condition and results of operations.

## **LEGAL AND REGULATORY RISKS**

**Changes in employment laws may adversely affect our business.**

Various federal and state labor laws govern the relationship with our employees and impact operating costs. These laws include:

- employee classification as exempt or non-exempt for overtime and other purposes;
- workers' compensation rates;
- immigration status;
- mandatory health benefits;
- tax reporting; and
- other wage and benefit requirements.

We have significant exposure to changes in laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which likely would have a direct impact on our operating costs. Significant additional government-imposed increases in the preceding areas could have a material adverse effect on our business, financial condition and results of operations.

**Our business could be adversely affected by changes in immigration laws or failure to properly verify the employment eligibility of our employees.**

Some states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the federal government from time to time considers and implements changes to federal immigration laws, regulations or enforcement programs. These changes may increase our compliance and oversight obligations, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we verify the employment eligibility status of all our employees, including through participation in the "E-Verify" program in the states that require it, some of our employees may, without our knowledge, be unauthorized workers. In addition, use of the "E-Verify" program does not guarantee that we will properly identify all applicants who are ineligible for employment.

Unauthorized workers are subject to deportation and may subject us to fines or penalties and, if any of our workers are found to be unauthorized, we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and retain qualified employees. Termination of a significant number of employees due to work authorization or other regulatory issues may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration laws. These factors could have a material adverse effect on our reputation, business, financial condition and results of operations.

Furthermore, immigration laws have been an area of considerable political focus in recent years, and the U.S. Congress, Department of Homeland Security and the Executive Branch of the U.S. government from time to time consider or implement changes to federal immigration laws, regulations or enforcement programs. Changes in immigration or work authorization laws may increase our obligations for compliance and oversight, which could subject us to additional costs and potential liability and make our hiring process more cumbersome, or reduce the availability of potential employees. We are subject to regulations of U.S. Immigration and Customs Enforcement, or ICE, and Department of Labor, and we are audited from time to time by these parties for compliance with work authentication requirements. While we believe we are in compliance with applicable laws and regulations, if we are found not to be in compliance as a result of any audits, we may be subject to fines or other remedial actions.

**Our results of operations, financial condition and cash flows could be adversely affected if pending or future legal claims against us are not resolved in our favor.**

We are subject to various claims and lawsuits arising in the ordinary course of business, including wage and hour lawsuits. The ultimate resolution of these matters is subject to inherent uncertainties. It is possible that the costs to resolve these matters could have a material adverse effect on our results of operations, financial condition or cash flows for the periods in which the matters are resolved. Similarly, if additional claims are filed against us in the future, the negative outcome of one or more of such matters could have a material adverse effect on our results, financial condition and cash flows.

**The nature of our business exposes us to product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings.**

We are subject to product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings relating to the products we install or manufacture that, if adversely determined, could adversely affect our financial condition, results of operations and cash flows. We rely on manufacturers and other suppliers to provide us with most of the products we install. Other than for our recently acquired manufacturer of cellulose insulation, we do not have direct control over the quality of such products manufactured or supplied by such third-party suppliers. As such, we are exposed to risks relating to the quality of such products.

In addition, we are exposed to potential claims arising from the conduct of our employees, homebuilders and other subcontractors, for which we may be contractually liable. We have in the past been, and may in the future be, subject to fines, penalties and other liabilities in connection with injury or damage incurred in conjunction with the installation of our products. The nature and extent to which we use hazardous or flammable materials in our manufacturing processes creates risk of damage to persons and property that, if realized, could be material. Although we currently maintain what we believe to be suitable and adequate insurance, we may be unable to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities. In addition, some liabilities may not be covered by our insurance.

The recent extreme cold and snow storms in Texas may subject the Company to significant future claims related to frozen pipes in homes across Texas. Any liabilities assessed against us may not be covered by our insurance. Given the severity of the situation in Texas at the time of filing of this Form 10-K and the uncertain nature of any future claims, we cannot predict the impact on the Company at this time.

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services. Current or future claims could have a material adverse effect on our reputation, business, financial condition and results of operations. For additional information, see Note 16, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

**Federal, state, local and other laws and regulations could impose substantial costs and/or restrictions on our operations and could adversely affect our business.**

We are subject to various federal, state, local and other laws and regulations, including, among other things, worker and workplace health and safety regulations promulgated by the OSHA, employment regulations promulgated by the U.S. Equal Employment Opportunity Commission and tax regulations promulgated by the Internal Revenue Service and various other state and local tax authorities. Our primary manufacturing facility is also subject to additional laws and regulations which may increase our exposure to health and safety liabilities. In addition, we are subject to increased regulation of data privacy and information security, including the adoption of more stringent state laws, such as the California Consumer Privacy Act which

went into effect in January 2020. These types of data privacy and security laws, which continue to evolve, create a range of new compliance obligations for us and increase financial penalties for non-compliance. Additional or more burdensome regulatory requirements in these or other areas may increase our expenses, reduce demand for our services or restrict our ability to offer services in certain geographies, all of which could adversely affect our business, financial condition, results of operations and cash flows. Moreover, our failure to comply with any of the regulatory requirements applicable to our business could subject us to substantial fines and penalties that could adversely affect our business, financial condition, results of operations and cash flows.

Our transportation operations, which we depend on to transport materials from our locations to job sites, are subject to the regulatory jurisdiction of the DOT. The DOT has broad administrative powers with respect to our transportation operations. More restrictive limitations on vehicle weight and size, trailer length and configuration or driver hours of service would increase our costs, which may increase our expenses and adversely affect our financial condition, operating results and/or cash flows. If we fail to comply with DOT regulations or the regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action, including imposing fines or shutting down our operations, and we could be subject to increased audit and compliance costs. We organize our transportation operations as a separate legal entity in certain states, including Ohio and Indiana, to take advantage of sales tax exemptions relating to vehicle operating costs. If legislation is enacted that modifies or eliminates these exemptions, our costs may increase. If any of these events were to occur, our financial condition, results of operations and cash flows may be adversely affected.

In addition, the residential construction and commercial construction industries are subject to various federal, state and local statutes, ordinances, rules and regulations concerning zoning, building design and safety, construction, contractors' licensing, energy conservation and similar matters, including regulations that impose restrictive zoning and density requirements on the residential new construction industry or that limit the number of homes that can be built within the boundaries of a particular area. Regulatory restrictions and industry standards may require us to alter our installation processes and our sourcing, increase our operating expenses and limit the availability of suitable building lots for our customers, any of which could negatively affect our business, financial condition and results of operations.

#### **We are subject to environmental regulation and potential exposure to environmental liabilities.**

We are subject to various federal, state and local environmental laws and regulations. Although we believe that we operate our business, including each of our locations, in compliance with applicable laws and regulations and maintain all material permits required under such laws and regulations to operate our business, we may be held liable or incur fines or penalties in connection with such requirements. In addition, environmental laws and regulations, including those related to energy use and climate change, may become more stringent over time, and any future laws and regulations could have a material impact on our operations or require us to incur material additional expenses to comply with any such future laws and regulations.

Our primary manufacturing facility is also subject to additional laws and regulations which may increase our exposure to environmental liabilities. Despite providing a benefit to the environment by making structures more energy efficient, certain types of insulation, particularly spray foam applications, require our employees to handle potentially hazardous or toxic substances. While our employees who handle these and other potentially hazardous or toxic materials, including lead-based paint, receive specialized training and wear protective clothing, there is still a risk that they, or others, may be exposed to these substances. Exposure to these substances could result in significant injury to our employees and others, including site occupants, and damage to our property or the property of others, including natural resource damage. Our personnel and others at our work sites are also at risk for other workplace-related injuries, including slips and falls.

In addition, as owners and lessees of real property, we may be held liable for, among other things, hazardous or toxic substances, including asbestos or petroleum products on, at, under or emanating from currently or formerly owned or operated properties, or any off-site disposal locations, or for any known or newly discovered environmental conditions at or relating to any of our properties, including those arising from activities conducted by previous occupants or at adjoining properties, without regard to whether we knew of or were responsible for such release. We may be required to investigate, remove, remediate or monitor the presence or release of such hazardous or toxic substances or petroleum products. We may also be held liable for fines, penalties or damages, including for bodily injury, property damage and natural resource damage in connection with the presence or release of hazardous or toxic substances or petroleum products. In addition, expenditures may be required in the future as a result of releases of, or exposure to, hazardous or toxic substances or petroleum products, the discovery of currently unknown environmental conditions or changes in environmental laws and regulations or their interpretation or enforcement and, in certain instances, such expenditures may be material.

## RISKS RELATED TO OUR INDEBTEDNESS

**We have debt principal and interest payment requirements that may restrict our future operations and impair our ability to meet our obligations.**

Our degree of leverage and level of interest expense may have important consequences, including:

- our leverage may place us at a competitive disadvantage as compared with our less leveraged competitors and make us more vulnerable in the event of a downturn in general economic conditions or in any of our businesses;
- our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate may be limited;
- a substantial portion of our cash flow from operations will be dedicated to the payment of interest and principal on our indebtedness, thereby reducing the funds available to us for operations, capital expenditures, acquisitions, future business opportunities or obligations to pay rent in respect of our operating leases; and

Our ability to service our debt and other obligations will depend on our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategies. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, Credit Facilities."

**Restrictions in our existing credit facilities and any future facilities or any other indebtedness we may incur in the future, limit our ability to take certain actions and could adversely affect our business, financial condition, results of operations, and the value of our common stock.**

Our credit facilities, or any future facilities we enter into or other indebtedness we incur, impose certain restrictions and obligations on us. Under certain of these instruments, we must comply with defined covenants that limit our ability to, among other things:

- incur or guarantee additional debt and issue preferred stock;
- make distributions or dividends on or redeem or repurchase shares of common stock;
- make certain investments and acquisitions;
- make capital expenditures;
- incur certain liens or permit them to exist;
- enter into certain types of transactions with affiliates;
- acquire, merge or consolidate with another company; or
- transfer, sell or otherwise dispose of all or substantially all of our assets.

Our credit facilities contain, and any future facilities or other debt instruments we may enter into may contain, covenants requiring us to maintain certain financial ratios and meet certain tests, such as an excess cash flow test, fixed charge coverage ratio, leverage ratio or debt to earnings ratio. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, Credit Facilities." Our ability to comply with those financial ratios and tests can be affected by events beyond our control, and we may not be able to comply with those ratios and tests when required to do so under the applicable debt instruments.

The provisions of our credit facilities, or other debt instruments, may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our credit facilities, any future credit facility or other debt instruments could result in a default or an event of default that could enable our lenders or other debt holders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and our stockholders could experience a partial or total loss of their investment.

**Our use of interest rate hedging instruments could expose us to risks and financial losses that may adversely affect our financial condition, liquidity and results of operations.**

From time to time, we utilize interest rate derivatives to hedge the cash flows associated with existing variable-rate debt. The purpose of these instruments is to substantially reduce exposure to market risks on our Term Loan. We designated our forward interest rate swap in existence at the time of this Form 10-K as a cash flow hedge in accordance with Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging. However, in the future, we may fail to qualify for hedge accounting treatment under these standards for a number of reasons, including if we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or if our derivative instrument is not highly effective. If we fail to qualify for hedge accounting treatment, losses on the swap caused by the change in its fair value would be recognized as part of net income, rather than being recognized as part of other comprehensive income. Any such adverse developments could result in material liabilities and expense and could have a material adverse effect on our business.

Interest rate derivative instruments can be expensive and we could incur significant costs associated with the settlement or early termination of the agreements. For example, on August 4, 2020, we terminated our existing three interest swaps for an aggregate cash payment of \$17.8 million and simultaneously entered into a new forward interest rate swap. In addition, our hedging transactions may expose us to certain risks and financial losses, including, among other things:

- the risk that the other parties to the agreements would not perform;
- the risk that the duration or amount of the hedge may not match the duration or amount of the related liability;
- the risk that the hedging instruments and the related liabilities do not transition to the same LIBOR replacement rate or that the timing or mechanics of such transition do not match between the hedging instruments and the related liabilities, in which case any such differences could decrease the effectiveness of the hedging instruments and increase our net liability;
- the risk that hedging transactions may be adjusted from time to time in accordance with accounting rules to reflect changes in fair values including downward adjustments which would affect our stockholders’ equity; and
- the risk that we may not be able to meet the terms and conditions of the hedging instruments, in which case we may be required to settle the instruments prior to maturity with cash payments that could significantly affect our liquidity.

**If we default on our obligations under the instruments governing our indebtedness, we may not be able to make payments on the notes.**

A failure by us to comply with the agreements governing our indebtedness, including, without limitation, our existing credit facilities or any future facilities, the indenture governing the notes offered hereby and our other contractual obligations (including restrictive, financial and other covenants included therein), to pay our indebtedness and fixed costs or to post collateral (including under hedging arrangements) could result in a variety of material adverse consequences, including a default under our indebtedness and the exercise of remedies by our creditors, lessors and other contracting parties, and such defaults could trigger additional defaults under other indebtedness or agreements.

Any such default under the agreements governing our existing or future indebtedness and the remedies sought by the holders of such indebtedness could make us unable to make payments to pay principal of, or premium, if any, and interest on the notes, substantially decrease the market value of the notes and result in a cross-default under the notes. In the event of a default under our existing credit facilities or any future facilities or in respect of other indebtedness, the holders of such indebtedness may be able to cause all of our available cash flow to be used to pay such indebtedness, may be able to terminate outstanding credit commitments and/or may be able to cease making loans to us and, in any event, could elect to declare all of the funds borrowed under the applicable agreement to be immediately due and payable, together with accrued and unpaid interest, and we could be forced into bankruptcy or liquidation.

If our operating performance declines, we may need to seek waivers from the holders of our indebtedness to avoid being in default under the instruments governing such indebtedness. If we breach our covenants under our indebtedness, we may not be able to obtain a waiver from the holders of such indebtedness on terms acceptable to us or at all. If this occurs, we would be in default under such indebtedness, the holders of such indebtedness and other lenders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation.



**Adverse credit ratings could increase our costs of borrowing money and limit our access to capital markets and commercial credit.**

Moody's Investor Service and Standard & Poor's routinely evaluate our credit profile on an ongoing basis and have assigned ratings for our long-term debt. If these rating agencies downgrade any of our current credit ratings, our borrowing costs could increase and our access to the capital and commercial credit markets could be adversely affected.

**Our indebtedness exposes us to interest expense increases if interest rates increase.**

If interest rates increase, our debt service obligations on our variable rate indebtedness, if any exists at the balance sheet date, would increase even though the amount borrowed would remain the same, and our net income and cash flows would correspondingly decrease. Specifically, we had no outstanding borrowings on our Revolver, as hereinafter defined, as of December 31, 2020, but should we have a balance in the future, we would incur interest based on a rate that varies per the conditions set forth in our agreement.

In addition, advances under our credit facilities generally bear interest based on, at our election, either the Eurodollar rate ("LIBOR") or the base rate (which approximated the prime rate) plus a margin based on the type of rate applied and leverage ratio. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. The Intercontinental Exchange Benchmark Administration, the administrator of LIBOR, announced in November 2020 a consultation regarding its intention to extend the publication of certain LIBOR settings, including the setting we use as a reference rate, to June 2023. Our Term Loan Agreement, as hereinafter defined, includes a mechanism to establish an alternative Eurodollar rate if certain circumstances arise such that LIBOR may no longer be used. Additionally, our ABL Credit Agreement, as hereinafter defined, includes a provision related to the potential discontinuance of LIBOR to be replaced with one or more Secured Overnight Financing Rate ("SOFR") values or another alternate benchmark rate. However, if LIBOR ceases to exist after June 2023, the interest rates under the alternative rate could be higher than LIBOR. To the extent that these interest rates are higher, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

Our term loan bears interest at a variable rate, however interest rate hedges in place mitigate the risk of interest rate fluctuations associated with a portion of the outstanding debt balance. These derivative instruments are indexed to LIBOR, the value of which could also be impacted if LIBOR is limited or discontinued. For some instruments, the method of transitioning to an alternative reference rate may be challenging, especially if we cannot agree with the respective counterparty about how to make the transition. If a contract is not transitioned to an alternative reference rate and LIBOR is discontinued, the impact on our contracts is likely to vary by contract. If LIBOR is discontinued or if the methods of calculating LIBOR change from their current form, interest rates on our current or future indebtedness may be adversely affected. While we currently expect LIBOR to be available to us as a reference rate in substantially its current form until June 2023, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified.

**We may require additional capital in the future, which may not be available on favorable terms or at all.**

Our future capital requirements will depend on many factors, including industry and market conditions, our ability to successfully complete future business combinations and expansion of our existing operations. We anticipate that we may need to raise additional funds in order to grow our business and implement our business strategy. We anticipate that any such additional funds may be raised through equity or debt financings. Any equity or debt financing, if available at all, may be on terms that are not favorable to us and will be subject to changes in interest rates and the capital markets environment. Even if we are able to raise capital through equity or debt financings, as to which there can be no assurance, the interest of existing stockholders in our company may be diluted, and the securities we issue may have rights, preferences and privileges that are senior to those of our common stock or may otherwise materially and adversely affect the holdings or rights of our existing stockholders. If we cannot obtain adequate capital, we may not be able to fully implement our business strategy and our business, results of operations and financial condition could be adversely affected.

## **RISKS RELATED TO OUR SECURITIES**

### **The price of our common stock may fluctuate substantially and your investment may decline in value.**

The market price of our common stock may be significantly affected by factors, such as:

- market conditions affecting the residential construction, commercial construction and building products industries;
- quarterly variations in our results of operations;
- changes in government regulations;
- the announcement of acquisitions by us or our competitors;
- changes in general economic and political conditions;
- volatility in the financial markets;
- results of our operations and the operations of others in our industry;
- changes in interest rates;
- the reduction, suspension or elimination of dividend payments;
- threatened or actual litigation and government investigations;
- the addition or departure of key personnel;
- actions taken by our stockholders, including the sale or disposition of their shares of our common stock;
- the extent of short-selling of shares of our common stock and the stock of our competitors; and
- differences between our actual financial and operating results and those expected by investors and analysts and changes in analysts' recommendations or projections.

These and other factors may lower the market price of our common stock, regardless of our actual operating performance.

Furthermore, in recent years the stock market and the price of our common stock has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the price of our common stock and materially affect the value of your investment.

### **Our internal controls over financial reporting may not be effective, which could have a significant and adverse effect on our business and reputation.**

As a public company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting.

To comply with the requirements of being a public company, we may undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff.

Testing and maintaining internal controls can divert our management's attention from other matters that are important to the operation of our business. If we identify material weaknesses in our internal controls over financial reporting or are unable to comply with the requirements of Section 404 or are unable to assert that our internal controls over financial reporting are effective, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the SEC or other regulatory authorities, which could require additional financial and management resources.

**Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.**

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock. These sales, or the perception that these sales might occur, could depress the market price of our common stock or make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We have approximately 29.6 million shares of common stock outstanding as of December 31, 2020. The shares of common stock are freely tradable, except for any shares of common stock that may be held or acquired by our directors, executive officers and other affiliates, the sale of which will be restricted under the Securities Act of 1933, as amended. As of December 31, 2020, approximately 2.0 million of the 3.0 million shares of common stock authorized for issuance under the 2014 Omnibus Incentive Plan were available for issuance. These shares will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

**Jeff Edwards has significant ownership of our common stock and may have interests that conflict with those of our other stockholders.**

As of December 31, 2020, Jeff Edwards beneficially owns approximately 20.7% of our outstanding common stock. As a result of his beneficial ownership of our common stock, he has sufficient voting power to significantly influence all matters requiring stockholder approval, including the election of directors, amendment of our amended and restated certificate of incorporation and approval of significant corporate transactions, and he has significant influence over our management and policies. This concentration of voting power may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares of common stock, which could prevent stockholders from receiving a premium for their shares of common stock. These actions may be taken even if other stockholders oppose them. The interests of Jeff Edwards may not always coincide with the interests of other stockholders, and he may act in a manner that advances his best interests and not necessarily those of our other stockholders. In addition, under our amended and restated certificate of incorporation, Jeff Edwards is permitted to pursue corporate opportunities for himself, rather than for us.

**Provisions of our charter documents and Delaware law could delay, discourage or prevent an acquisition of us, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for our stockholders to change our management.**

Our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares of our common stock. In addition, these provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove members of our board of directors. These provisions include a classified board of directors with three-year staggered terms; no cumulative voting in director elections; the exclusive right of our board of directors to fill vacancies on our board; the ability of our board to authorize the issuance of shares of preferred stock and to determine the price and other terms without stockholder approval; a prohibition on stockholder action by written consent; a requirement that a special meeting of stockholders be called only by a resolution duly adopted by our board; and advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prohibits a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired 15% or more of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

**We recently declared our first dividend to stockholders of our common stock, but may reduce, suspend, or eliminate dividend payments in the future.**

We recently announced that our Board of Directors has approved the initiation of a quarterly cash dividend program and declared our first quarterly dividend, payable on March 31, 2021 at a rate of \$0.30 per common share. We also announced that our Board of Directors will consider an annual variable dividend for the first quarter of each year commencing in 2022.

However, part of our business strategy includes retaining our future earnings, if any, in order to reinvest in the development and growth of our business, including our continued growth by acquisition strategy, and, therefore, we may reduce, suspend or eliminate dividend payments in the future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, the limits imposed by the terms of our credit facilities, or any then-existing debt instruments, and such other factors as our board of directors deems relevant. Accordingly, investors in our common stock may need to sell their shares to realize a return on their investment in our common stock, and investors may not be able to sell their shares at or above the prices paid for them.

**If securities analysts do not publish favorable reports about us or if we, or our industry, are the subject of unfavorable commentary, the price of our common stock could decline.**

The trading price for our common stock depends in part on the research and reports about us that are published by analysts in the financial industry. Analysts could issue negative commentary about us or our industry, or they could downgrade our common stock. We may also not receive sufficient research coverage or visibility in the market. Any of these factors could result in the decline of the trading price of our common stock, causing investors in our common stock to lose all or a portion of their investment.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

### Real Property

We lease office and warehouse space in 37 states, including our corporate office in Columbus, Ohio. Our leases are typically short in duration with customary extensions at our option. We believe suitable alternative space is available in all of our markets. We also own our cellulose manufacturing facility in Bucyrus, Ohio. The table below summarizes our locations as of December 31, 2020.

| State         | Number of Locations | Approximate Total Square Footage | State          | Number of Locations | Approximate Total Square Footage |
|---------------|---------------------|----------------------------------|----------------|---------------------|----------------------------------|
| Alabama       | 3                   | 29,150                           | Nebraska       | 1                   | 12,741                           |
| Arizona       | 2                   | 26,159                           | Nevada         | 1                   | 15,350                           |
| California    | 15                  | 169,972                          | New Hampshire  | 7                   | 72,524                           |
| Colorado      | 9                   | 80,162                           | New Jersey     | 4                   | 38,100                           |
| Connecticut   | 2                   | 31,292                           | New York       | 10                  | 100,900                          |
| Delaware      | 4                   | 31,175                           | North Carolina | 15                  | 155,401                          |
| Florida       | 25                  | 203,303                          | Ohio           | 11                  | 439,300                          |
| Georgia       | 13                  | 190,890                          | Oklahoma       | 4                   | 42,208                           |
| Idaho         | 3                   | 43,000                           | Oregon         | 1                   | 30,013                           |
| Illinois      | 6                   | 71,739                           | Pennsylvania   | 2                   | 34,373                           |
| Indiana       | 13                  | 237,676                          | South Carolina | 9                   | 116,111                          |
| Kansas        | 1                   | 14,206                           | Tennessee      | 6                   | 91,482                           |
| Kentucky      | 4                   | 46,330                           | Texas          | 18                  | 308,121                          |
| Louisiana     | 1                   | 10,000                           | Utah           | 4                   | 77,955                           |
| Maine         | 3                   | 38,750                           | Vermont        | 1                   | 31,020                           |
| Maryland      | 4                   | 42,310                           | Virginia       | 6                   | 73,941                           |
| Massachusetts | 4                   | 45,303                           | Washington     | 6                   | 102,533                          |
| Michigan      | 1                   | 34,800                           | Wisconsin      | 9                   | 187,131                          |
| Minnesota     | 6                   | 114,890                          |                |                     |                                  |

### Our Fleet

As of December 31, 2020, our fleet consisted of approximately 4,800 total vehicles that we either leased or owned, including approximately 4,600 installation vehicles, which our installers use to deliver and install products from our locations to job sites, and approximately 200 other vehicles that are utilized by our sales staff, branch managers and various senior management personnel. For additional information, see Note 8, Long-Term Debt, and Note 16, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

## Item 3. Legal Proceedings

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course, including wage and hour lawsuits. We carry insurance coverage that we believe to be reasonable under the circumstances, although insurance may or may not cover any or all of our liabilities in respect to claims and lawsuits. While management currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows, such matters are subject to inherent uncertainties. See Note 16, Commitments and Contingencies, within Item 8 of this Form 10-K for additional information on significant legal proceedings.

## Item 4. Mine Safety Disclosures

Not applicable.



## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information for Common Stock

Our common stock is traded on the NYSE under the symbol “IBP.”

#### Holders of Record

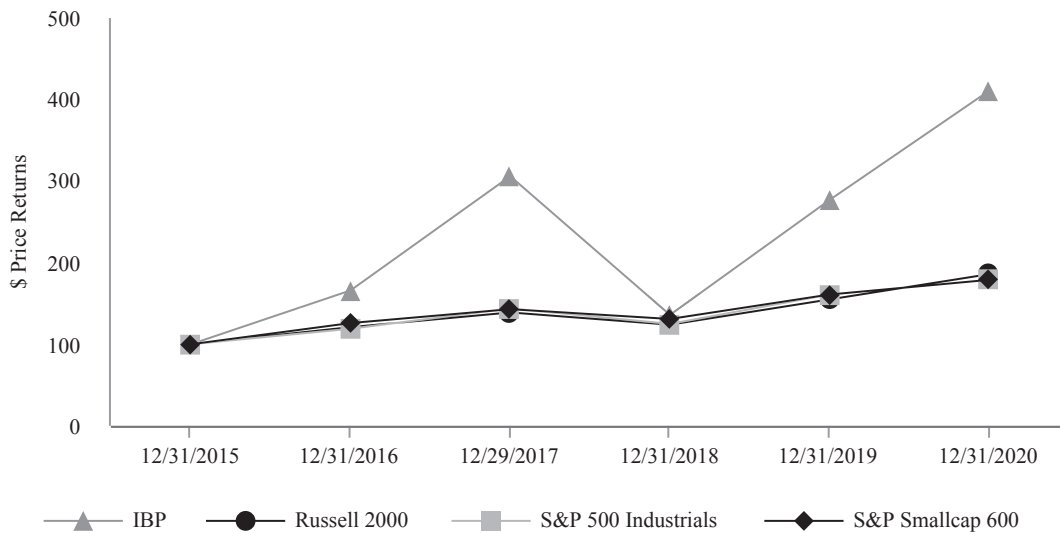
As of February 17, 2021, there were 896 holders of record of our common stock, one of which was Cede & Co., which is the holder of shares held through the Depository Trust Company.

#### Dividend Policy

During the years ended December 31, 2020, 2019 and 2018, we did not declare or pay any cash dividends on our capital stock. We recently announced that our board of directors approved the initiation of a quarterly cash dividend program and declared our first quarterly dividend, payable on March 31, 2021 at a rate of \$0.30 per common share. In addition to the quarterly cash dividend, the Board of Directors will consider an annual variable dividend to be paid in the first quarter of each year commencing in 2022. However, future determinations relating to payments of dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

#### Stock Performance Graph

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Russell 2000 Index (“Russell 2000”), (ii) the Standard & Poor’s Industrials Index (“S&P 500 Industrials”) and (iii) the S&P Smallcap 600 Index (“S&P Smallcap 600”). The graph assumes investments of \$100 in our common stock and in each of the three indices and the reinvestment of dividends for the last five fiscal years through December 31, 2020.



|                                | 12/31/2015 | 12/31/2016 | 12/29/2017 | 12/31/2018 | 12/31/2019 | 12/31/2020 |
|--------------------------------|------------|------------|------------|------------|------------|------------|
| <b>IBP</b>                     | 100        | 166        | 306        | 136        | 277        | 411        |
| <b>Russell 2000</b>            | 100        | 121        | 139        | 124        | 155        | 186        |
| <b>S&amp;P 500 Industrials</b> | 100        | 119        | 114        | 125        | 161        | 179        |
| <b>S&amp;P Smallcap 600</b>    | 100        | 126        | 143        | 131        | 161        | 179        |

## Purchases of Equity Securities by the Issuer

The following table shows the stock repurchase activity for the three months ended December 31, 2020:

|                       | Total Number of<br>Shares Purchased | Average Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>under the Plans or<br>Programs <sup>(1)</sup> |
|-----------------------|-------------------------------------|---------------------------------|--|--|
| October 1 - 31, 2020  | —                                   | —                               | —  | —  |
| November 1 - 30, 2020 | 190,678                             | \$ 95.26                        | 190,678  | \$ 26.7 million  |
| December 1 - 31, 2020 | —                                   | —                               | —  | —  |
|                       | <u>190,678</u>                      | <u>\$ 95.26</u>                 | <u>190,678</u>   | <u>\$ 26.7 million</u>   |

- (1) On February 26, 2018, our board of directors authorized a \$50.0 million stock repurchase program effective March 2, 2018 and on October 31, 2018, our board of directors approved an additional stock repurchase program, effective November 6, 2018, pursuant to which we may purchase up to an additional \$100.0 million of our outstanding common stock. In February 2020, our board of directors approved extending the current stock repurchase program to March 1, 2021 and in February 2021, our board of directors extended the share repurchase plan to March 1, 2022 while simultaneously approving us to purchase up to \$100.0 million of our outstanding common stock. During the year ended December 31, 2020, we repurchased approximately 0.6 million shares of our common stock with an aggregate price of approximately \$33.9 million, or \$53.57 average price per share, under our stock repurchase program.

## Item 6. Selected Financial Data

The selected financial data previously required by Item 301 of Regulation S-K has been omitted in reliance on SEC Release No. 33-10890.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following in conjunction with the consolidated financial statements and related notes thereto included in Item 8, Financial Statements and Supplemental Data, of Part II of this Form 10-K. This discussion contains forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section captioned "Risk Factors" and elsewhere in this Form 10-K.*

## OVERVIEW

We are one of the nation's largest insulation installers for the residential new construction market and are also a diversified installer of complementary building products, including waterproofing, fire-stopping and fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving, mirrors and other products throughout the United States. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects in all 48 continental states and the District of Columbia from our national network of over 190 branch locations. Substantially all of our net revenue comes from service-based installation of these products in the residential new construction, repair and remodel and commercial construction end markets. We believe our business is well positioned to continue to profitably grow due to our strong balance sheet, liquidity and our continuing acquisition strategy.

A large portion of our net revenue comes from the U.S. residential new construction market, which depends upon a number of economic factors, including demographic trends, interest rates, consumer confidence, employment rates, housing inventory levels, foreclosure rates, the health of the economy and availability of mortgage financing. The strategic acquisitions of multiple companies over the last several years contributed meaningfully to our 9.4% increase in net revenue during the year ended December 31, 2020 compared to 2019.

The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption throughout the world. We estimate the pandemic had a negative effect on our net revenue for the year ended December 31, 2020 compared to the same period in 2019, potentially delaying the completion of some of our jobs. However, the single family residential housing market

rebounded quickly and we do not believe the impact on our overall business was significant during 2020. For a detailed discussion of impacts on our business, see "Key Factors Affecting our Operating Results, COVID-19 Impacts" below.

We have omitted discussion of 2018 results in the sections that follow where it would be redundant to the discussion previously included in Part II, Item 7, of our Form 10-K for the year ended December 31, 2019.

### *2020 Highlights*

Net revenues increased 9.4%, or \$141.6 million, while gross profit increased 17.3% to \$510.0 million during the year ended December 31, 2020 compared to 2019. We also generated approximately \$180.8 million of cash from operating activities, and at December 31, 2020 we had \$231.5 million of cash and cash equivalents. We have not drawn on our existing \$200 million revolving line of credit. The increase in net revenue and gross profit was primarily driven by selling price increases, the contribution of our recent acquisitions, lower fuel costs and increased sales volume of complementary products. We experienced sales growth year-over-year as reflected in the sales and relative performance metrics detailed below.

The highest level of growth occurred in our multi-family end market which grew by 37.5% for the year ended December 31, 2020 compared to 2019. We grew our largest end market, the single family subset of the residential new construction market, by 5.0% despite the effects of temporary business interruptions earlier in 2020 due to federal, state and local requirements in response to COVID-19. All of our locations serving the residential new construction end market were operating at December 31, 2020, although some continued to experience limitations depending on their local market. The large commercial end market experienced sales growth of 15.3% during the year ended December 31, 2020 primarily through acquisitions as same branch sales growth lagged resulting from certain production inefficiencies due to COVID-19 social distancing requirements as well as project delays due to macroeconomic concerns surrounding the pandemic. These fluctuations are shown in further detail in the "Key Measures of Performance" section below, and impacts from COVID-19 are discussed further in the sections that follow.

We were successful at realizing selling price increases during the year to offset previous cost increases on the material we install. We will continue to proactively work with customers and suppliers to manage the impacts of material inflation in 2021.

We believe there are several trends that should drive long-term growth in the housing market, even if there are temporary periods of slowed growth. These long-term trends include an aging housing stock, population growth, household formation growth and the fact that housing starts are currently below long-term historic averages. We expect that our net revenue, gross profit and operating income will benefit from this growth.

### *2019 Highlights*

Net revenues increased 13.1%, or \$175.2 million, during 2019 compared to 2018, primarily driven by increased selling prices, the continued recovery of housing markets, the contributions of our recent acquisitions and growth across our end markets and products. We experienced strong sales growth year-over-year of approximately 10.8% in our combined residential new construction and repair and remodel end markets and approximately 24.7% in our total commercial end-market. Gross margin of 28.8% benefited from selling price increases in 2019 resulting from significant insulation materials price increases in 2018.

In September 2019, we modified our debt structure in order to take advantage of the attractive market conditions. We issued \$300.0 million aggregate principal amount at maturity of senior unsecured notes (the "Senior Notes") with interest payable semi-annually in cash in arrears on February 1 and August 1, commencing on February 1, 2020. The net proceeds from the Senior Notes offering were \$295.0 million after debt issuance costs, a portion of which we used to partially repay our outstanding obligations (including accrued and unpaid interest) under our term loan credit agreement (the "Term Loan Agreement") and pay fees and expenses related to entry into the ABL Credit Agreement as defined below. In September 2019, we also entered into a new asset-based lending credit agreement (the "ABL Credit Agreement"). The ABL Credit Agreement provides for an asset-based lending credit facility (the "ABL Revolver") of up to \$200.0 million with a five-year maturity, which replaced our previous revolving credit facility of up to \$150.0 million. In December 2019, we amended and restated our Term Loan. The amended Term Loan (i) effects a repricing of the interest rate applicable to the term loans thereunder from LIBOR plus 2.50% to LIBOR plus 2.25% and (ii) replaces Royal Bank of Canada with Bank of America, N.A. as the administrative agent and collateral agent thereunder. See "Liquidity and Capital Resources" below for further information about our debt.

## Key Measures of Performance

The following table shows additional key measures of performance we utilize to evaluate our results:

|   | Years ended December 31, |        |        |
|---|--------------------------|--------|--------|
|   | 2020                     | 2019   | 2018   |
| <b><u>Period-over-Period Growth</u></b>                     |                          |        |        |
| Sales Growth  | 9.4 %                    | 13.1 % | 18.0 % |
| Same Branch Sales Growth <sup>(1)</sup>                     | 4.5 %                    | 8.6 %  | 11.5 % |
| Single-Family Sales Growth <sup>(2)</sup>                   | 5.0 %                    | 10.5 % | 20.0 % |
| Single-Family Same Branch Sales Growth <sup>(1)(2)</sup>    | 0.4 %                    | 4.8 %  | 12.1 % |
| Multi-Family Sales Growth <sup>(3)</sup>                    | 37.5 %                   | 13.5 % | 8.7 %  |
| Multi-Family Same Branch Sales Growth <sup>(1)(3)</sup>     | 33.2 %                   | 13.2 % | 7.3 %  |
| Residential Sales Growth <sup>(4)</sup>                     | 9.2 %                    | 10.9 % | 18.4 % |
| Residential Same Branch Sales Growth <sup>(1)(4)</sup>      | 4.7 %                    | 5.9 %  | 11.4 % |
| Large Commercial Sales Growth <sup>(5)</sup>                | 15.3 %                   | 14.3 % | 11.5 % |
| Large Commercial Same Branch Sales Growth <sup>(1)(5)</sup> | 2.8 %                    | 14.3 % | 11.5 % |
| <b><u>Same Branch Sales Growth</u></b>                      |                          |        |        |
| Volume Growth <sup>(1)(6)</sup>                             | 1.9 %                    | 2.6 %  | 6.1 %  |
| Price/Mix Growth <sup>(1)(7)</sup>                          | 2.8 %                    | 5.4 %  | 5.4 %  |
| <b><u>U.S. Housing Market</u></b> <sup>(8)</sup>            |                          |        |        |
| Total Completions Growth                                    | 2.5 %                    | 5.9 %  | 2.8 %  |
| Single-Family Completions Growth <sup>(2)</sup>             | 0.9 %                    | 7.5 %  | 5.6 %  |
| Multi-Family Completions Growth <sup>(3)</sup>              | 6.6 %                    | 2.2 %  | (3.6)% |

- (1) Same-branch basis represents period-over-period growth for branch locations owned greater than 12 months as of each financial statement date.
- (2) Calculated based on period-over-period growth in the single-family subset of the residential new construction end market.
- (3) Calculated based on period-over-period growth in the multi-family subset of the residential new construction end market.
- (4) Calculated based on period-over-period growth in the residential new construction end market.
- (5) Calculated based on period-over-period growth in the large commercial end market.
- (6) Excludes the large commercial end market; calculated as period-over-period change in the number of completed same-branch residential new construction and repair and remodel jobs.
- (7) Excludes the large commercial end market; defined as change in the mix of products sold and related pricing changes and calculated as the change in period-over-period average selling price per same-branch residential new construction and repair and remodel jobs multiplied by total current year jobs. The mix of end customer and product would have an impact on the year-over-year price per job.
- (8) U.S. Census Bureau data, as revised.

We believe the revenue growth measures are important indicators of how our business is performing, however, we may rely on different metrics in the future. We also utilize gross profit percentage as shown in the following section to monitor our most significant variable costs and to evaluate labor efficiency and success at passing increasing costs of materials to customers.

### Net revenue, cost of sales and gross profit

The components of gross profit for 2020, 2019 and 2018 were as follows (dollars in thousands):

|                         | 2020         | Change | 2019         | Change | 2018         |
|-------------------------|--------------|--------|--------------|--------|--------------|
| Net revenue             | \$ 1,653,225 | 9.4 %  | \$ 1,511,629 | 13.1%  | \$ 1,336,432 |
| Cost of sales           | 1,143,251    | 6.2 %  | 1,076,809    | 11.6%  | 964,841      |
| Gross profit            | \$ 509,974   | 17.3 % | \$ 434,820   | 17.0%  | \$ 371,591   |
| Gross profit percentage | 30.8%        |        | 28.8%        |        | 27.8%        |

Net revenues increased during the year ended December 31, 2020 compared to the year ended December 31, 2019, primarily driven by acquisitions, increased sales volume of complimentary products, and increased selling prices. We estimate net revenue for the year ended December 31, 2020 was negatively impacted by temporary branch closures as a result of COVID-19 by a range of approximately \$12.0 million to \$14.5 million. As a percentage of net revenues, gross profit increased during the year ended December 31, 2020 compared to the year ended December 31, 2019 attributable primarily to lower fuel costs and achieving higher selling prices on relatively stable material costs, as evidenced by our 2.8% improvement in pricing and customer and product mix, based on all of our combined markets excluding the large commercial end market. Labor utilization improved, in part, as a result of leverage on selling price increases and efficiencies gained through a tighter geographic concentration of housing in certain markets due to higher demand. However, restrictions limiting the number of laborers on a jobsite and our internal standards for social distancing practices impacted the number of completed jobs and operational efficiencies across our end markets during portions of 2020. See "Key Factors Affecting Our Operating Results, COVID-19 Impacts" below for further information.

### Operating Expenses

Operating expenses for 2020, 2019 and 2018 were as follows (dollars in thousands):

|                                 | 2020       | Change | 2019       | Change | 2018       |
|---------------------------------|------------|--------|------------|--------|------------|
| Selling                         | \$ 81,613  | 8.8%   | \$ 75,016  | 11.8%  | \$ 67,105  |
| Percentage of total net revenue | 4.9%       |        | 5.0%       |        | 5.0%       |
| Administrative                  | \$ 237,959 | 11.1%  | \$ 214,134 | 15.2%  | \$ 185,850 |
| Percentage of total net revenue | 14.4%      |        | 14.2%      |        | 13.9%      |
| Amortization                    | \$ 28,535  | 16.4%  | \$ 24,510  | -3.6%  | \$ 25,419  |
| Percentage of total net revenue | 1.7%       |        | 1.6%       |        | 1.9%       |

### Selling

The dollar increase in selling expenses in 2020 was primarily driven by a year-over-year increase in selling wages, benefits and commissions of \$6.6 million, or 10.1%, which supported our increased net revenue of 9.4%. Selling expense decreased slightly as a percentage of sales as we maintained our selling leverage as we increased sales.

### Administrative

The increase in administrative expenses in 2020 was primarily due to an increase in wages and benefits in the amount of \$19.4 million, which was attributable to both acquisitions and organic growth as well as company performance. During 2020, we saw our costs related to liability insurance increase \$2.1 million and our costs related to facilities increase \$2.9 million due to both acquisitions and organic growth. This increase was offset by lower travel costs due to travel restrictions caused by the COVID-19 pandemic.

### Amortization

Our intangible assets include non-competes, customer relationships, trade names and backlog. Amortization of intangibles attributable to acquisitions increased by \$4.0 million in 2020 resulting from new intangible assets from 2020 acquisitions. See

Note 17, Business Combinations, in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K for information on our acquisitions.

*Other Expense*

Other expense, net for 2020, 2019 and 2018 was as follows (dollars in thousands):

|                       | <u>2020</u>      | <u>Change</u> | <u>2019</u>      | <u>Change</u> | <u>2018</u>      |
|-----------------------|------------------|---------------|------------------|---------------|------------------|
| Interest expense, net | \$ 30,291        | 7.8%          | \$ 28,104        | 37.1%         | \$ 20,496        |
| Other                 | 399              | -11.5%        | 451              | -15.7%        | 535              |
| Total other expense   | <u>\$ 30,690</u> | 7.5%          | <u>\$ 28,555</u> | 35.8%         | <u>\$ 21,031</u> |

The year-over-year increase in other expense, net during 2020 and 2019 was primarily a result of increased debt levels associated with our debt-related financing transactions. Interest expense, net also increased during 2020 due to amortization of our realized loss on our terminated interest rate swap derivatives. See Note 8 and Note 11 to our audited consolidated financial statements included in this Form 10-K for further information regarding debt balances and derivatives.

*Income Tax Provision*

Income tax provision and effective tax rates for 2020, 2019 and 2018 were as follows (dollars in thousands):

|                      | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|----------------------|-------------|-------------|-------------|
| Income tax provision | \$ 33,938   | \$ 24,446   | \$ 17,438   |
| Effective tax rate   | 25.9%       | 26.4%       | 24.2%       |

During the year ended December 31, 2020, our tax rate was favorably impacted by the release of a valuation allowance for a tax filing entity. This favorability was offset by the tax effect of losses incurred by separate companies to which no benefit can be recognized due to a full valuation allowance against the losses as well as a tax shortfall from equity vesting.

During the year ended December 31, 2019, our tax rate was unfavorably impacted by the tax effect of losses incurred by separate companies to which no benefit can be recognized due to a full valuation allowance against the losses and various permanent items.

*Other comprehensive loss, net of tax*

Other comprehensive loss, net of tax was as follows (in thousands):

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|
| Unrealized loss on cash flow hedge, net of taxes | \$ (1,620)  | \$ (6,712)  | \$ (1,050)  |

During the year ended December 31, 2020, we terminated our two existing interest rate swaps and our forward interest rate swap. We will amortize the realized loss at the time of termination over the course of the originally scheduled settlement dates of the terminated swaps. During the year ended December 31, 2020, unrealized loss on cash flow hedge, net of taxes included \$1.3 million of such amortization. In addition, prior to termination of the swaps, we recorded unrealized losses, net of taxes on our now-terminated cash flow hedges primarily due to interest rate declines and market responses to the COVID-19 pandemic of \$6.3 million. Upon termination of our existing swaps, we simultaneously entered into a new forward interest rate swap. During the year ended December 31, 2020, we recorded an unrealized gain, net of taxes of \$3.4 million on our new forward cash flow hedge due to favorable market conditions. In 2019, our cash flow hedge position decreased primarily due to unexpected declines in interest rates. For more information on our cash flow hedges, see "Liquidity and Capital Resources, Derivative Instruments" below.



## KEY FACTORS AFFECTING OUR OPERATING RESULTS

### *Trends in the Construction Industry*

Our operating results may vary based on the amount and type of products we install and the mix of our end markets among new single-family, multi-family and commercial builders and owners of existing homes. We expect to benefit from the continued growth in single-family new residential construction as housing returns to historic stabilized levels. We maintain a mix of business among all types of homebuilders ranging from small custom builders to large regional and national homebuilders as well as a wide range of commercial builders. Net revenue derived from our ten largest homebuilder customers in the United States was approximately 15% for the year ended December 31, 2020. The residential new construction and repair and remodel markets represented approximately 82% of our total net revenue for the years ended December 31, 2020 and 2019, with the remaining portion attributable to the commercial construction end market.

The industry experienced signs of manufacturer supply constraints for some of the insulation materials we install during the fourth quarter of 2020 due to an unanticipated increase in demand as well as manufacturing curtailments due to COVID-19. We anticipate these shortages will continue into 2021 but will not last as long as the shortages we experienced after the 2017 incident. Our results of operations in 2021 may be temporarily impacted by the current supply constraints as we may be unable to complete jobs at our preferred pace, but we expect supply to catch up to our demand by the end of 2021. This outlook may change depending on continued increased housing demand and the ability of manufacturers to produce adequate supply.

### *Cost of Materials*

We typically purchase the materials we install directly from manufacturers. The industry supply of these materials has experienced disruptions in the past. For example, the industry supply of a portion of the insulation materials we install was disrupted due to a catastrophic failure at a manufacturer's facility during the fourth quarter of 2017. This resulted in the need for manufacturers to allocate materials across the industry which affected the pricing of those materials.

In addition, we experience price increases from our suppliers from time to time, including multiple increases in the last two years. We have also experienced increased pricing for fiberglass insulation materials in 2021, and expect manufacturers to seek additional price increases during the year. Increased market pricing, regardless of the catalyst, has and could continue to impact our results of operations in 2021, to the extent that price increases cannot be passed on to our customers. For example, after the events of the fourth quarter of 2017, selling price increases lagged materials cost increases. We began to see improvement in our selling prices in the second quarter of 2019, and this continued into 2020 as evidenced by our 2.0% improvement in gross profit as a percentage of sales during the year ended December 31, 2020 compared to 2019. We will continue to work with our customers to adjust selling prices to offset higher costs as they occur. See "COVID-19 Impacts" below for a discussion of the short-term impacts of the current economic climate on the availability of the materials we install.

### *Cost of Labor*

Our business is labor intensive. As of December 31, 2020, we had approximately 8,950 employees, most of whom work as installers on local construction sites. We expect to spend more to hire, train and retain installers to support our growing business in 2021, as tight labor availability continues within the construction industry. We offer a comprehensive benefits package, which many of our local competitors are not able to provide, which will increase costs as we hire additional personnel. Our workers' compensation costs also continue to increase as we increase our coverage for additional personnel.

Despite temporary layoffs and furloughs driven by branch closures during portions of the first and second quarters as a response to the effects of COVID-19, we experienced strong employee retention, turnover and labor efficiency rates in the year ended December 31, 2020. We believe this is partially a result of various programs meant to benefit our employees, including our financial wellness plan, longevity stock compensation plan for employees and assistance from the Installed Building Products Foundation meant to benefit our employees, their families and their communities. While improved retention drives lower costs to recruit and train new employees, resulting in greater installer productivity, these improvements are somewhat offset by the additional costs of these incentives. See "COVID-19 Impacts" below for a discussion of the short-term impacts of the current economic climate on our workforce. In 2020, we contributed \$1.9 million to the Foundation. These contributions were primarily funded by our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, who agreed in advance to waive their performance-based cash awards to assist with our Foundation programs. For 2021, we currently expect that contributions to the Foundation will be funded in full by the Company.

## *COVID-19 Impacts*

In December 2019, a novel strain of coronavirus ("COVID-19") surfaced in Wuhan, China. Since then, the virus has spread globally, including to the United States. In response, the World Health Organization declared the situation a pandemic and the U.S. Secretary of Health and Human Services declared a public health emergency. The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption. Many public health organizations and international, federal, state and local governments implemented measures to combat the spread of COVID-19 during portions of 2020 with some of these restrictions still in place as of the date of filing of this Form 10-K. Some of these measures include restrictions on movement such as quarantines, "stay-at-home" orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. While portions of the economy have since reopened, there is still significant uncertainty surrounding the duration and scope of the pandemic, as well as its impact on the economy. We cannot predict if federal, state and local governments will implement additional restrictions, when restrictions currently in place will expire or whether restrictions currently in place will become more limiting.

Due to these limitations, we saw a temporary but significant reduction in activity during portions of March, April and May of 2020 in our branches located in seven states and the Bay Area of California, which collectively accounted for 10% of our net revenue during the year ended December 31, 2019. The reduced activity in these areas was attributable to construction being temporarily deemed non-essential during that time period. While we estimate net revenue for the year ended December 31, 2020 compared to the same period in 2019 was reduced as a result of these interruptions, we do not believe the various orders and restrictions, or COVID-19 itself, significantly impacted our business in the year ended December 31, 2020 as construction was deemed "essential" in other states.

While we expect the COVID-19 pandemic and related events could have a negative effect on us in 2021, the full extent and scope of the impact on our business and industry, as well as national, regional and global markets and economies, depends on numerous evolving factors that we may not be able to accurately predict, including the duration and scope of the pandemic, additional government actions taken in response to the pandemic, the impact on construction activity and demand for homes (based on employment levels, consumer spending and consumer confidence). The U.S. housing market was robust in the latter months of 2019 and experienced a strong start in 2020. Despite a decline in year-over-year U.S. housing starts in the second quarter of 2020, housing starts increased 11.2% and 11.7% in the third and fourth quarters of 2020 compared to 2019, respectively. This is evidence of the quick recovery in housing demand that should serve to help offset prolonged impacts of the pandemic already experienced. In addition, we believe there remains a sizable industry backlog for the residential end market which we expect will provide us short-term relief from the volatility in industry housing starts experienced earlier in 2020. However, due to the normal lag between housing starts and completions, we began to see an impact from this decline in housing starts, and other market disruptions that occurred in the early stages of the pandemic, in the fourth quarter of 2020 and expect to continue to see this trend into 2021. Specifically, we anticipate revenue, net income and cash from operations were, and could be, impacted during these periods. Given the considerable uncertainty created by the COVID-19 pandemic and its potential effects, it is not possible to estimate the full, adverse impact to our full year 2020 or 2021 sales or other financial results at this time.

We expect any future branch closures, as well as any broader impacts to the housing industry that might occur, will negatively impact our business. Industry information has indicated that new home orders at some of the nation's larger builders slowed dramatically during the second quarter of 2020 but have rebounded quickly. Most industry experts currently forecast 2021 housing starts will continue to improve over 2020, with total 2021 housing starts estimated at 1.47 million units per Wolters Kluwer's Blue Chip Economic Indicators January 2021 forecast compared to 1.38 million starts in 2020 per the U.S. Census Bureau. In the commercial sector, we have experienced some impact to our large commercial business, mainly in the form of project start delays and inefficiencies due to social distancing requirements in some areas. In the future, certain large-scale infrastructure programs may be at risk if the need for such structures decline, project funding declines or as consumer behaviors change in the wake of COVID-19 disruptions to the economy and changes to our general ways of life. For example, reduced demand for office buildings and/or educational facilities, decreased airport traffic, or decreased usage of sports arenas or similar large commercial structures could impact our commercial end market.

Our management remains focused on mitigating the impact of COVID-19 on our business and the risk to our employees and customers. We have taken a number of precautionary measures intended to mitigate these risks, including increasing the frequency of regular cleaning and disinfecting processes at our facilities, adhering to social distancing protocols, limiting the number of workers on our jobsites, suspending non-essential air travel and encouraging employees to work remotely when possible. As is common practice in our industry, installers are required to wear protective equipment in the process of completing their work and this practice has been extended to employees at our facilities and within general office spaces. We are prepared to take additional actions if necessary as suggested or required by various health agencies.

We continue to evaluate the nature and extent of the COVID-19 pandemic's impact on our financial condition, results of operations and cash flows. Specific impacts of branch closures to date, as well as potential future impacts include, but are not limited to, the following:

- Other than branches that serve states where construction was not deemed "essential" during portions of 2020, we have experienced limited business disruptions to date and therefore have not needed to implement significant continuity measures and have not incurred significant expenditures to do so. Assuming a significant number of additional states or markets in which we operate do not reverse their current positions about construction being an "essential" business, we do not anticipate having to implement any additional measures in the future.
- The industry experienced signs of manufacturer supply constraints for some of the insulation materials we install during the fourth quarter of 2020 and continuing into 2021 due, in part, to effects of COVID-19 on some manufacturers. However, some are taking measures to address the reduced supply and we have not yet experienced a significant disruption in the supply of the various insulation products we install. All insulation manufacturers from which we purchase operate facilities in the continental U.S. We are monitoring suppliers of our other products and, to date, have had no issues acquiring the inventory we need to operate our business. We currently do not anticipate the pandemic to cause any significant issues with securing these other products in the future.
- During the first half of 2020, we laid off or furloughed approximately 600 employees in areas where construction was not deemed "essential." We are pleased to report we have rehired or brought back substantially all of those employees.
- Our corporate office is fully operational, even though many employees are working remotely. As such, we have made no modifications to internal controls over financial reporting and have confidence controls are operating as designed. We have enhanced our efforts to mitigate cyber threats and phishing, given the number of employees working remotely. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact of their design and operating effectiveness.
- We continue to expect some impact to our earnings, financial position and cash flows in 2021, however there is much uncertainty surrounding the estimated magnitude of these impacts. We estimate limited impact to our Consolidated Balance Sheets other than a potential reduction in working capital due to the possibility of reduced net revenue and net income. This impact was mitigated somewhat in 2020 by actions taken by management to limit spending during portions of the year including temporarily suspending our stock repurchase program and temporarily suspending acquisition activities. Trade accounts receivable may also be reduced somewhat by lower net revenue and a higher allowance for credit losses due to enhanced risk of uncollectibility from some customers, although we have not seen a significant impact to date. We anticipate revenue and net income may be negatively impacted in 2021. While our cash from operations may decline over recent performance due to a decrease in expected net income driven by lower net revenue, we do not anticipate any issues meeting debt obligations or making timely payments to vendors given our strong liquidity and large cash reserves. See discussion of impacts to our liquidity within the Liquidity and Capital Resources section below.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES Act") was signed into law. The CARES Act provides numerous tax provision and other stimulus measures. We have benefited from the temporary suspension of certain payment requirements for the employer portion of Social Security taxes. As of December 31, 2020, we deferred \$20.7 million of payments, depending on the number of employees, that would have been paid during 2020, such that under the CARES Act, 50% of the amount will now be paid on December 31, 2021 and the remaining 50% will be paid on December 31, 2022. It is important to note that this does not impact the timing of the expense, only the timing of the payment. We also benefited from the creation of certain refundable employee retention credits and the technical correction for qualified leasehold improvements, which provides for tax bonus depreciation.

In addition, we were adhering to the Families First Coronavirus Response Act ("FFCRA") which required employers to provide their employees with paid sick leave and extended family and medical leave for specified reasons related to COVID-19. Qualifying reasons for leave related to COVID-19 include when an employee is quarantined, is experiencing COVID-19 symptoms and is seeking a medical diagnosis, is being advised by a healthcare provider to self-quarantine, is caring for an individual subject to a quarantine order or self-quarantine situation, is caring for a child whose school or place of care is closed, or is experiencing any other substantially similar condition specified by the U.S. Department of Health and Human Services. These provisions were in effect until December 31, 2020.

## *Other Factors*

We expect our selling and administrative expenses to continue to increase as our business grows, which could impact our future operating profitability.

## **INFLATION**

Our performance is dependent to a significant extent upon the levels of U.S. residential new construction spending, which is affected by factors such as interest rates, inflation, consumer confidence and unemployment. We do not believe that inflation had a material impact on our business, financial condition or results of operations in 2020.

## **SEASONALITY**

We tend to have higher sales during the second half of the year as our homebuilder customers complete construction of homes placed under contract for sale in the traditionally stronger spring selling season. In addition, some of our larger branches operate in states impacted by winter weather and as such experience a slowdown in construction activity during the first quarter of the calendar year. This winter slowdown contributes to traditionally lower sales and profitability in our first quarter. See Item 1, Business, for further information.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our capital resources primarily consist of cash from operations and borrowings under our various debt agreements and capital equipment leases and loans. Our primary capital requirements are to fund working capital needs, operating expenses, acquisitions and capital expenditures and to meet required principal and interest payments. We may also use our resources to fund our optional stock repurchase program and recently announced quarterly dividend program. As discussed above, our cash reserves may also be used to fund payroll and other short-term requirements if our business is affected significantly by COVID-19. Our investments consisted of highly liquid instruments primarily including corporate bonds and commercial paper as of December 31, 2019. As of December 31, 2020, we had no outstanding borrowings under our asset-based lending credit facility (as defined below).

We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures and working capital for at least the next 12 months as evidenced by our net positive cash flows from operations for the years ended December 31, 2020, 2019 and 2018. We believe that we have access to additional funds, if needed, through the capital markets to obtain further debt financing under the current market conditions.

While the general economic environment within the United States and most markets around the world have been significantly impacted by the spread of COVID-19, prompting governmental and health agencies to issue unprecedented orders to close businesses not deemed “essential” during portions of the year ended December 31, 2020, we believe we have robust capital resources at our immediate disposal to meet our needs. We have cash reserves and short-term investments of \$231.5 million as of December 31, 2020 as well as access to \$200.0 million under our ABL Revolver, less \$38.8 million of outstanding letters of credit. This amount available to us is based on eligible collateral, which may be reduced over time. While our cash from operations may decline in 2021 due to factors described above, we believe it will remain at a level to fund our operations and not require us to draw on our ABL Revolver. However, as necessary or desirable, we may adjust or amend the terms of our credit facilities. With the uncertainty surrounding COVID-19, our ability to engage in such transactions may be constrained by volatile credit market conditions.

In response to COVID-19, we took a number of proactive steps during the year ended December 31, 2020 to preserve cash and maximize our financial flexibility in order to efficiently manage through the COVID-19 pandemic. These actions included:

- temporarily suspending stock repurchases under our share repurchase program (reinstated in November 2020);
- deferring employer portion of Social Security taxes under the CARES Act and adhering to the FFCRA Act. See "COVID-19 Impacts" above.
- delaying acquisition closings during portions of the first and second quarters (activity resumed in late June 2020 after our industry stabilized);
- temporarily suspending pay increases for our executive officers until the third quarter of 2020; and
- eliminating non-essential travel.

See Part II, Item 1A, Risk Factors, for more information on the potential impacts from the COVID-19 pandemic and resulting economic strain.

LIBOR is used as a reference rate for our Term Loan and our interest rate swap agreements we use to hedge our interest rate exposure. In 2017, the Financial Conduct Authority (“FCA”), the authority that regulates LIBOR, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. The Intercontinental Exchange Benchmark Administration, the administrator of LIBOR, announced in November 2020 a consultation regarding its intention to extend the publication of certain LIBOR settings, including the setting we use as a reference rate, to June 2023. Our Term Loan Agreement, as hereinafter defined, was amended to include a mechanism to establish an alternative Eurodollar rate if certain circumstances arise such that LIBOR may no longer be used. Additionally, our ABL Credit Agreement includes a provision related to the potential discontinuance of LIBOR to be replaced with one or more Secured Overnight Financing Rate values or another alternate benchmark rate. However, if LIBOR ceases to exist after June 2023, the interest rates under the alternative rate could be higher than LIBOR. In addition, LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During the year ended December 31, 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation.

The following table summarizes our liquidity as of December 31 (in thousands):

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Cash and cash equivalents                               | \$ 231,520        | \$ 177,889        |
| Short-term investments                                  | —                 | 37,961            |
| ABL Revolver  | 200,000           | 200,000           |
| Less: outstanding letters of credit and cash collateral | (38,772)          | (38,672)          |
| Total liquidity <sup>(1)</sup>                          | <u>\$ 392,748</u> | <u>\$ 377,178</u> |

- (1) Total liquidity reflects full borrowing base capacity under our asset-based lending credit facility (as defined below) and may be limited by certain cash collateral limitations depending upon the status of our borrowing base availability. These potential deductions would lower our available cash and cash equivalents balance shown in the table above. As of December 31, 2020, total liquidity would be reduced by \$15.5 million due to these cash collateral limitations. In addition, total liquidity is further reduced by \$5.3 million within cash and cash equivalents above which was deposited into a trust to serve as additional collateral for our workers’ compensation and general liability policies. This amount can be converted to a letter of credit at our discretion and would reduce the availability on our asset-based lending credit facility (as defined below) included in the table above.

## Debt

### *5.75% Senior Notes due 2028*

In September 2019, we issued \$300.0 million in aggregate principal amount of 5.75% senior unsecured notes (the “Senior Notes”). The Senior Notes will mature on February 1, 2028 and interest will be payable semi-annually in cash in arrears on February 1 and August 1, commencing on February 1, 2020. The net proceeds from the Senior Notes offering were \$295.0 million after debt issuance costs. We used some of the net proceeds to repay a portion of our outstanding obligations (including accrued and unpaid interest) under our term loan credit agreement (as defined below) and to pay fees and expenses related to the entry into a new revolving credit facility described below.

The indenture covering the Senior Notes contains restrictive covenants that, among other things, limit the ability of the Company and certain of our subsidiaries (subject to certain exceptions) to: (i) incur additional debt and issue preferred stock; (ii) pay dividends on, redeem or repurchase stock in an aggregate amount exceeding 2.0% of market capitalization per fiscal year, or in an aggregate amount exceeding certain applicable restricted payment baskets; (iii) prepay subordinated debt; (iv) create liens; (v) make specified types of investments; (vi) apply net proceeds from certain asset sales; (vii) engage in

transactions with affiliates; (viii) merge, consolidate or sell substantially all of our assets; and (ix) pay dividends and make other distributions from subsidiaries.

### *Credit Facilities*

In December 2019, we amended and restated our \$400 million, seven-year term loan facility due April 2025 (the “Term Loan”) under our credit agreement (the “Term Loan Agreement”), dated as of April 13, 2017 (as previously amended by the First Amendment thereto dated November 30, 2017 and by the Second Amendment thereto dated June 19, 2018). The amended Term Loan (i) effects a repricing of the interest rate applicable to the term loans thereunder from LIBOR plus 2.50% to LIBOR plus 2.25% and (ii) replaces Royal Bank of Canada with Bank of America, N.A. as the administrative agent and collateral agent thereunder. As of December 31, 2020, we had \$198.7 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.25% in the case of base rate loans.

In September 2019, we entered into a new asset-based lending credit agreement (the “ABL Credit Agreement”). The ABL Credit Agreement provides for an asset-based lending credit facility (the “ABL Revolver”) of up to \$200.0 million with a five-year maturity, which replaced the Company’s previous revolving credit facility. Borrowing availability under the ABL Revolver is based on a percentage of the value of certain assets securing the Company’s obligations and those of the subsidiary guarantors thereunder. In connection with the Amended and Restated Term Loan, we entered into a Second Amendment (the “Second Amendment”) to the ABL/Term Loan Intercreditor Agreement with Bank of America, N.A., as ABL Agent for the lenders under the ABL Credit Agreement, and Bank of America, N.A., as Term Loan Agent for the lenders under the Term Loan. Including outstanding letters of credit, our remaining availability under the ABL Revolver as of December 31, 2020 was \$161.2 million.

The ABL Revolver bears interest at either the Eurodollar rate or the base rate (which approximated the prime rate), at the Company’s election, plus a margin of (A) 1.25% or 1.50% in the case of Eurodollar rate loans (based on a measure of availability under the ABL Credit Agreement) and (B) 0.25% or 0.50% in the case of base rate loans (based on a measure of availability under the ABL Credit Agreement).

The ABL Revolver also provides incremental revolving credit facility commitments of up to \$50.0 million. The terms and conditions of any incremental revolving credit facility commitments must be no more favorable than the terms of the ABL Revolver. The ABL Revolver also allows for the issuance of letters of credit of up to \$75.0 million in aggregate and borrowing of swingline loans of up to \$20.0 million in aggregate.

The ABL Credit Agreement contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.0x in the event that we do not meet a minimum measure of availability under the ABL Revolver. The ABL Credit Agreement and the Term Loan Agreement contain restrictive covenants that, among other things, limit the ability of the Company and certain of our subsidiaries (subject to certain exceptions) to: (i) incur additional debt and issue preferred stock; (ii) pay dividends on, redeem or repurchase stock in an aggregate amount exceeding 2.0% of market capitalization per fiscal year, or in an aggregate amount exceeding certain applicable restricted payment baskets; (iii) prepay subordinated debt; (iv) create liens; (v) make specified types of investments; (vi) apply net proceeds from certain asset sales; (vii) engage in transactions with affiliates; (viii) merge, consolidate or sell substantially all of our assets; and (ix) pay dividends and make other distributions from subsidiaries.

All of the obligations under the Term Loan and ABL Revolver are guaranteed by all of the Company’s existing restricted subsidiaries and will be guaranteed by the Company’s future restricted subsidiaries. Additionally, all obligations under the Term Loan and ABL Revolver, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the guarantors, subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute ABL Priority Collateral, as defined in the ABL Credit Agreement, and a second-priority security interest in such assets that constitute Term Loan Priority Collateral, as defined in the Term Loan Agreement.

At December 31, 2020, we were in compliance with all applicable covenants under the Term Loan Agreement, ABL Credit Agreement and the Senior Notes.

### *Derivative Instruments*

During the year ended December 31, 2020, we terminated our two existing interest rate swaps and our forward interest rate swap and simultaneously entered into a new forward interest rate swap beginning July 30, 2021. The purpose of terminating our then existing derivative contracts in favor of a new contract was to take advantage of better available market rates. We settled the terminated swaps by making a cash payment of \$17.8 million. The unrealized loss included in accumulated other comprehensive loss associated with the terminated swaps of \$17.8 million at the time of termination will be amortized to



interest expense over the course of the originally scheduled settlement dates of the terminated swaps. During the year ended December 31, 2020, we amortized \$1.3 million of the unrealized loss to interest expense, net. The new forward interest rate swap has a beginning notional amount of \$200.0 million, a fixed rate of 0.51% and a maturity date of April 15, 2030. Upon commencement, this forward swap will serve to hedge substantially all of the variable cash flows on our Term Loan until its maturity and if extended. The assets and liabilities associated with the forward interest rate swap are included in other long-term assets and other current liabilities on the Consolidated Balance Sheets at their fair value amounts as described in Note 10, Fair Value Measurements.

#### *Vehicle and Equipment Notes*

We have financing loan agreements with various lenders to provide financing for the purpose of purchasing or leasing vehicles and equipment used in the normal course of business. Vehicles and equipment purchased or leased under each financing arrangement serve as collateral for the note applicable to such financing arrangement. Regular payments are due under each note for a period of typically 60 consecutive months after the incurrence of the obligation.

Total gross assets and respective outstanding loan balances relating to our master loan and equipment agreements were \$132.2 million and \$67.5 million as of December 31, 2020, respectively, and \$130.2 million and \$72.7 million as of December 31, 2019, respectively. See Note 8 to our audited consolidated financial statements included in this Form 10-K for more information regarding our Master Loan and Security Agreement, Master Equipment Lease Agreement and Master Loan Agreements.

#### *Letters of Credit and Bonds*

We may use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. In addition, we occasionally use letters of credit and cash to secure our performance under our general liability and workers' compensation insurance programs. Permit and license bonds are typically issued for one year and are required by certain municipalities when we obtain licenses and permits to perform work in their jurisdictions. The following table summarizes our outstanding bonds, letters of credit and cash-collateral (in thousands):

|   | <u>As of December 31, 2020</u> |
|---|--------------------------------|
| Performance bonds                               | \$ 37,335                      |
| Insurance letters of credit and cash collateral | 45,216                         |
| Permit and license bonds                        | 7,948                          |
| Total bonds and letters of credit               | <u>\$ 90,499</u>               |

In 2020, we posted \$5.3 million into a trust to serve as additional collateral for our workers' compensation and general liability policies. This collateral can be converted to a letter of credit at our discretion and is therefore not considered to be restricted cash.

### **Historical cash flow information**

#### *Working Capital*

We carefully manage our working capital and operating expenses. As of December 31, 2020, and 2019, our working capital, including cash, was \$387.5 million, or 23.4% of net revenue, and \$367.8 million, or 24.3% of net revenue, respectively. The increase in working capital year-over-year in 2020 was driven primarily by a \$15.7 million increase in cash and cash equivalents and investments resulting from positive operating cash flows, and an increase in accounts receivable of \$22.0 million resulting from our increased net revenue. These increases were offset by an increase of \$12.2 million in accrued compensation primarily due to the current portion of payroll tax deferrals due under the CARES Act as of December 31, 2020. We continue to look for opportunities to reduce our working capital as a percentage of net revenue.

#### *Cash Flows from Operating Activities*

Net cash provided by operating activities was \$180.8 million and \$123.1 million for the years ended December 31, 2020 and 2019, respectively. Generally, the primary drivers of our cash flow from operations are operating income, adjusted for certain non-cash items, offset by cash payments for taxes and interest on our outstanding debt. Our cash flows from operations can be

impacted by the timing of our cash collections on sales and collection of retainage amounts. During the year ended December 31, 2020, we saw a significant increase in cash from operations primarily due to higher net income from improved results as described above, as well as payroll tax deferrals under the CARES Act. These increases during the year ended December 31, 2020 were offset by a \$17.8 million cash payment to settle our previous cash flow hedges.

While COVID-19 only minimally impacted our net revenue during 2020, primarily during portions of the first and second quarters of 2020, it has not impacted our cash collections to date. Historically, cash flows tend to be seasonally stronger in the third and fourth quarters as a result of increased construction activity. However, we may see a reduction in cash inflows in any future quarter, depending on continued pandemic impacts on housing starts and large commercial projects as well as potential future government-mandated branch closures. See “Key Factors Affecting our Operating Results, COVID-19 Impacts” above for further information on short-term impacts to our cash from operations.

#### *Cash Flows from Investing Activities*

**Business Combinations.** In 2020 and 2019, we made cash payments, net of cash acquired, of \$76.4 million and \$51.7 million, respectively, on business combinations. The amount of cash paid is dependent on various factors, including the size and determined value of the business being acquired. Due to the potential impacts of COVID-19, we had temporarily delayed acquisition closings until June 2020 when we resumed our acquisition strategy. See Note 17, Business Combinations, to our audited consolidated financial statements included in this Form 10-K for more information regarding our business acquisitions in 2020, 2019 and 2018.

**Capital Expenditures.** Total cash paid for property and equipment was \$33.6 million and \$50.2 million for the years ended December 31, 2020 and 2019, respectively, and primarily related to purchases of vehicles and various equipment to support our growing operations and increased net revenue. We expect to continue to support any increases in future net revenue through further capital expenditures. A majority of these capital expenditures were subsequently reimbursed via various vehicle and equipment notes payable, with related cash inflows shown in cash flows from financing activities.

**Other.** In 2020 and 2019, we invested \$0.8 million and \$52.8 million, respectively, in short-term investments consisting primarily of corporate bonds and commercial paper and had \$38.7 million and \$25.1 million in short-term investments mature in 2020 and 2019, respectively. We have recently slowed the rate of investment purchases due to the relatively low returns provided from current interest rates associated with traditional investments.

#### *Cash Flows from Financing Activities*

We utilize our credit facilities and Senior Notes to support our operations and continuing acquisitions. To support those initiatives, we received \$300.0 million in proceeds from issuance of our Senior Notes, paid off \$195.8 million of our Term Loan balance and paid \$6.7 million in debt issuance costs during the year ended December 31, 2019, resulting in a net cash inflow of \$97.5 million. During the years ended December 31, 2020 and 2019, we also received proceeds of \$21.3 million and \$33.1 million, respectively, from our fixed asset loans which serve to offset a significant portion of the capital expenditures included in cash outflows from investing activities as described above. We made payments on these fixed asset loans and various other notes payable of \$26.7 million and \$21.3 million during the years ended December 31, 2020 and 2019, respectively. In addition, we made \$2.6 million and \$4.2 million in principal payments on our finance leases during the years ended December 31, 2020 and 2019, respectively. Lastly, we repurchased approximately 0.6 million shares of our common stock for \$33.9 million during the year ended December 31, 2020 as part of our stock repurchase plan. We did not repurchase any shares under our stock repurchase plan during the year ended December 31, 2019. See Note 12, Stockholders’ Equity, for more information surrounding our stock repurchase plan.

#### **Contractual Obligations**

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2020. Some of the amounts included in the table are based on management’s estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, our actual payments may vary from those reflected in the table. In addition, certain other long-term liabilities included on the Consolidated Balance Sheets as well as our unrecognized tax benefits under Accounting Standards Codification (“ASC”) 740, “Income Taxes,” have been excluded from the contractual obligations table because of the inherent uncertainty and the inability to reasonably estimate the timing of cash outflows.

|  | Payments due by period (in thousands) |           |           |           |           |            |            |
|--|---------------------------------------|-----------|-----------|-----------|-----------|------------|------------|
|  | Total                                 | 2021      | 2022      | 2023      | 2024      | 2025       | Thereafter |
| Long-term debt obligations <sup>(1)</sup>  | \$ 726,506                            | \$ 47,379 | \$ 42,876 | \$ 37,052 | \$ 30,750 | \$ 225,324 | \$ 343,125 |
| Finance lease obligations <sup>(2)</sup>   | 4,948                                 | 2,315     | 1,228     | 867       | 453       | 85         | —          |
| Operating lease obligations <sup>(3)</sup> | 57,536                                | 20,357    | 14,915    | 9,164     | 4,558     | 2,919      | 5,623      |
| Purchase obligations <sup>(4)</sup>        | 14,979                                | 14,979    | —         | —         | —         | —          | —          |

- (1) Long-term debt obligations include interest payments on our Senior Notes, Term Loan, our notes payable to sellers of acquisitions, and vehicles purchased under the Master Loan and Security Agreement, the Master Equipment Agreement and the Master Loan Agreements. Long-term debt obligations do not include commitment fees on the unused portion of the ABL Revolver since those fees are subject to change based on the factors described in the ABL Credit Agreement. Interest on seller obligations maturing through March 2025 is estimated using current market rates. For additional information, see Note 8, Long-Term Debt, to our audited consolidated financial statements included in this Form 10-K.
- (2) We maintain certain production vehicles under a finance lease structure. The leases expire on various dates through December 2025. Finance lease obligations, as disclosed above, include estimated interest expense payments. In determining expected interest expense payments, we utilize the rates embedded in the lease documentation.
- (3) We lease certain locations, vehicles and equipment under operating lease agreements, including, but not limited to, corporate offices, branch locations and various office and operating equipment. In some instances, these lease agreements exist with related parties. For additional information, see Note 15, Related Party Transactions and Note 9, Leases, to our audited consolidated financial statements included in this Form 10-K.
- (4) As of December 31, 2020, we had a product supply agreement extending through December 31, 2021. For additional information, see Note 16, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

### Off-Balance Sheet Arrangements

As of December 31, 2020 and 2019, other than letters of credit issued under our ABL Revolver and performance and license bonds, we had no material off-balance sheet arrangements with unconsolidated entities.

### Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported using different assumptions or under different conditions. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our consolidated financial statements. We provide discussion of our more significant accounting policies, estimates, assumptions and judgments used in preparation of our consolidated financial statements below.

#### *Revenue Recognition*

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. An insignificant portion of our sales, primarily retail sales, is accounted for on a point-in-time basis when the sale occurs, adjusted accordingly for any return

provisions. We do offer assurance-type warranties on certain of our installed products and services that do not represent a separate performance obligation and, as such, do not impact the timing or extent of revenue recognition.

For contracts that are not complete at the reporting date, we recognize revenue over time utilizing a cost-to-cost input method as we believe this represents the best measure of when goods and services are transferred to the customer. When this method is used, we estimate the costs to complete individual contracts and record as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs. Under the cost-to-cost method, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue, requires significant judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Our long-term contracts can be subject to modification to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Billing on our long-term contracts occurs primarily on a monthly basis throughout the contract period whereby we submit invoices for customer payment based on actual or estimated costs incurred during the billing period. On certain of our long-term contracts the customer may withhold payment on an invoice equal to a percentage of the invoice amount, which will be subsequently paid after satisfactory completion of each installation project.

This amount is referred to as retainage and is common practice in the construction industry, as it allows for customers to ensure the quality of the service performed prior to full payment. Retainage receivables are classified as current or long-term assets based on the expected time to project completion.

We disaggregate our revenue from contracts with customers by end market and product, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

#### *Accounts Receivable*

We account for trade receivables based on amounts billed to customers. Past due receivables are determined based on contractual terms. We do not accrue interest on any of our trade receivables.

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were \$41.7 million and \$33.4 million as of December 31, 2020 and 2019, respectively.

## *Goodwill*

Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. On January 1, 2020, we adopted Accounting Standards Update ("ASU") 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU addresses concerns over the cost and complexity of the two-step goodwill impairment test and removes the second step. Annually, on October 1, or if conditions indicate an earlier review is necessary, we perform a one-step quantitative test to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The estimate of the reporting unit's fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management's plans, business trends, prospects, market and economic conditions and market-participant considerations. An impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

## *Leases*

On January 1, 2019, we adopted ASC 842, "Leases," which requires substantially all leases, with the exception of leases with a term of one year or less, to be recorded on the Condensed Balance Sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. ASC 842 also requires disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows.

We determine if an arrangement is a lease at inception. Most of our operating leases do not provide an implicit rate so we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Leases with an initial term of 12 months or less are not recorded on the balance sheet as we recognize lease expense for these leases on a straight-line basis over the lease term.

We elected the package of practical expedients for the adoption of ASC 842 available for expired or existing contracts, which allowed us to carryforward our historical assessments of whether contracts are or contain leases, lease classification tests and treatment of initial direct costs. We also elected to not separate lease components from non-lease components for all fixed payments, and we exclude variable lease payments in the measurement of right-of-use assets and lease obligations.

Most lease agreements include one or more renewal options, all of which are at our sole discretion. Generally, future renewal options that have not been executed as of the balance sheet date are excluded from right-of-use assets and related lease liabilities. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Some of our vehicle lease agreements include provisions for residual value guarantees and any expected payment is included in our lease liability.

## *Derivatives and Hedging Activities*

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 11, Derivatives and Hedging, to our audited consolidated financial statements included in this Form 10-K for additional information on our accounting policy for derivative instruments and hedging activities.

## *Share-Based Compensation*

Our share-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of our stockholders. Restricted stock awards are periodically granted to certain employees, officers and non-employee members of our board of directors under the stockholder-approved 2014 Omnibus Incentive Plan.

Certain of our stock awards are deemed to be equity-based with a service condition and do not contain a market or performance condition with the exception of performance-based awards granted to certain officers and performance-based stock units. Fair

value of the non-performance-based awards to employees and officers is measured at the grant date and amortized to expense over the vesting period of the awards using the straight-line attribution method for all service-based awards with a graded vesting feature. This fair value is reduced by assumed forfeitures and adjusted for actual forfeitures until vesting. We also issue performance-based stock awards to certain officers under our 2014 Omnibus Incentive Plan. The performance-based compensation expense is recorded over the requisite service period using the graded-vesting method for the entire award. Performance-based stock awards are accounted for at fair value at date of grant. We also periodically grant performance-based stock units to certain employees under the stockholder-approved 2014 Omnibus Incentive Plan. These units convert to shares upon meeting time- and performance-based requirements.

Compensation expense for performance-based stock units is recorded based on an assessment each reporting period of the probability that certain performance goals will be met during the contingent vesting period. If performance goals are not probable of occurrence, no compensation expense will be recognized. If performance goals that were previously deemed probable are not or are not expected to be met, the previously recognized compensation cost related to such performance goals will be reversed. Employees and officers are subject to tax at the vesting date based on the market price of the shares on that date, or on the grant date if an election is made.

### *Business Combinations*

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs classified as Level 3 inputs. These inputs include projected sales, margin and tax rate. At times, the total purchase price for a business combination could be less than the estimated fair values of acquired tangible and intangible assets. In these cases, we record a gain on bargain purchase within Other Expenses in the Consolidated Statements of Operations and Comprehensive Income rather than goodwill in accordance with generally accepted accounting principles.

### *Insurance Liabilities*

We carry insurance for a number of risks, including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. Liabilities relating to claims associated with these risks are estimated by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions. In estimating our liability for such claims, we periodically analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims with the assistance of external actuarial consultants. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our reserves and corresponding expenses could be affected if future claim experience differs significantly from historical trends and actuarial assumptions.

### *Taxes*

We account for income taxes using the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, the ability to produce future taxable income, tax planning strategies available and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions, including the amount of future federal and state pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available.

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the United States, which includes numerous state and local jurisdictions. Significant judgments and estimates are required in determining the income tax expense.

#### *Estimated Fair Value of Financial Instruments*

Accounts receivable, accounts payable and accrued liabilities as of December 31, 2020 and 2019 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of our long-term debt, including the Term Loan and our ABL Revolver as of December 31, 2020 and 2019, approximate fair value due to the variable rate nature of the agreements. The carrying amounts of the obligations associated with our operating and finance leases as well as our vehicle and equipment notes approximate fair value as of December 31, 2020 and 2019. Our Senior Notes are not recorded at fair value in the Consolidated Balance Sheets. See Note 10, Fair Value Measurements, for estimated fair value of the Senior Notes, assessed by utilizing third-party quotes derived from market pricing. All debt classifications represent Level 2 fair value measurements.

Derivative financial instruments are measured at fair value based on observable market information and appropriate valuation methods. Contingent consideration liabilities arise from future earnout payments to the sellers associated with certain acquisitions and are based on predetermined calculations of certain future results. These future payments are estimated by considering various factors, including business risk and projections. The contingent consideration liabilities are measured at fair value by discounting estimated future payments, calculated based on a weighted average of various future forecast scenarios, to their net present value.

#### **Recent Accounting Pronouncements**

For a description of recently issued and/or adopted accounting pronouncements, see Note 2, Significant Accounting Policies, to our audited consolidated financial statements included in this Form 10-K.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. As of December 31, 2020, we had \$198.7 million outstanding on the Term Loan, net of unamortized debt issuance costs, no outstanding borrowings on the ABL Revolver and no outstanding borrowings under finance leases subject to variable interest rates. Our interest rate swap is a forward rate swap that begins July 30, 2021 and does not reduce exposure to market risks on our Term Loan as of December 31, 2020. As a result, total variable rate debt of \$200.0 million was exposed to market risks as of December 31, 2020 through the effective date of the forward rate swap. A hypothetical one percentage point increase (decrease) in interest rates on our variable rate debt would increase (decrease) our annual interest expense by approximately \$2.0 million. Our Senior Notes accrued interest at a fixed rate of 5.75%.

For variable rate debt, interest rate changes generally do not affect the fair value of the debt instrument, but do impact future earnings and cash flows, assuming other factors are held constant. We have not entered into and currently do not hold derivatives for trading or speculative purposes.

LIBOR is used as a reference rate for our Term Loan and our interest rate swap agreements we use to hedge our interest rate exposure. In 2017, the FCA announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. The Intercontinental Exchange Benchmark Administration, the administrator of LIBOR, announced in November 2020 a consultation regarding its intention to extend the publication of certain LIBOR settings, including the setting we use as a reference rate, to June 2023. Our Term Loan Agreement was amended to include a mechanism to establish an alternative Eurodollar rate if certain circumstances arise such that LIBOR may no longer be used. Additionally, our ABL Credit Agreement includes a provision related to the potential discontinuance of LIBOR to be replaced with one or more Secured Overnight Financing Rate values or another alternate benchmark rate. However, if LIBOR ceases to exist after 2023, the interest rates under the alternative rate could be higher than LIBOR. In addition, LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to



impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation.

**Item 8. Financial Statements and Supplementary Data**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Installed Building Products, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Installed Building Products, Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive income, stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, using the modified retrospective approach.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Revenue on certain contracts recognized over time – Refer to Notes 2 and 3 to the financial statements***

##### *Critical Audit Matter Description*

The Company recognizes revenue from the majority of its installation contracts when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For contracts that are not complete at the reporting date (“uncompleted contracts”), the Company recognizes revenue over time utilizing a cost-to-cost input method, as the Company believes this represents the best measure of when goods and services are transferred to the customer. When this method is used, the Company estimates the costs to complete individual contracts and records as revenue that portion of the total contract price that is considered complete based on

the relationship of costs incurred to date to total anticipated costs. Under the cost-to-cost method, the estimated cost to complete each contract requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs related to earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs.

The Company's estimation process for determining revenues for uncompleted contracts accounted for under the cost-to-cost method is based upon historical experience, the professional judgment and knowledge of the Company's project management, operational and financial professionals, and an assessment of the key underlying factors, such as the value of executed contracts, change orders, and related contract costs, that may impact the revenues and costs of uncompleted contracts.

Given the judgments necessary to estimate the relationship between executed contract value and contract costs, auditing the amount of revenue recognized for uncompleted contracts involves a high degree of auditor judgment.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to estimated revenue recognized on uncompleted contracts included the following, among others:

- We tested the effectiveness of the Company's controls over the determination of uncompleted contract revenue, including those over estimated total costs and revenues recognized through performance obligations.
- We inquired of project managers and evaluated the reasonableness of management's ability to accurately estimate costs by comparing incurred contract costs on uncompleted contracts to management's projections.
- We compared accounting records to executed contracts and change orders to verify accuracy of contract values in the Company's estimates.
- We considered the impact of change orders and other related contract costs that may impact the determination of revenue and estimated costs to completion.
- We tested the mathematical accuracy of the Company's calculation of revenue recognized over time.
- We selected a sample of contract costs incurred as of December 31, 2020, agreed the costs to supplier invoices or other supporting documents, and evaluated whether the costs were properly allocated to the contracts included in management's calculation of revenue recognized over time.
- We developed an expectation of revenue for uncompleted contracts with remaining performance obligations as of December 31, 2020 based on (1) consideration of incurred contract costs and (2) results realized by the Company on completed contracts. We compared this expectation to the Company's revenue recognized on uncompleted contracts at December 31, 2020.

*/s/ Deloitte & Touche LLP*

Columbus, Ohio  
February 24, 2021

We have served as the Company's auditor since 2013.

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share amounts)

|   | As of December 31,  |                     |
|---|---------------------|---------------------|
|   | 2020                | 2019                |
| <b>ASSETS</b>   |                     |                     |
| Current assets  |                     |                     |
| Cash and cash equivalents   | \$ 231,520          | \$ 177,889          |
| Investments   | —                   | 37,961              |
| Accounts receivable (less allowance for credit losses of \$8,789 and \$6,878 at December 31, 2020 and 2019, respectively)   | 266,566             | 244,519             |
| Inventories   | 77,179              | 74,606              |
| Prepaid expenses and other current assets   | 48,678              | 46,974              |
| Total current assets  | <u>623,943</u>      | <u>581,949</u>      |
| Property and equipment, net   | 104,022             | 106,410             |
| Operating lease right-of-use assets   | 53,766              | 45,691              |
| Goodwill  | 216,870             | 195,652             |
| Customer relationships, net   | 108,504             | 99,946              |
| Other intangibles, net  | 62,889              | 53,616              |
| Other non-current assets  | 17,682              | 16,215              |
| Total assets  | <u>\$ 1,187,676</u> | <u>\$ 1,099,479</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities   |                     |                     |
| Current maturities of long-term debt  | \$ 23,355           | \$ 24,164           |
| Current maturities of operating lease obligations   | 18,758              | 15,459              |
| Current maturities of finance lease obligations   | 2,073               | 2,747               |
| Accounts payable  | 101,462             | 98,871              |
| Accrued compensation  | 45,876              | 33,636              |
| Other current liabilities   | 44,951              | 39,272              |
| Total current liabilities   | <u>236,475</u>      | <u>214,149</u>      |
| Long-term debt  | 541,957             | 545,031             |
| Operating lease obligations   | 34,413              | 29,785              |
| Finance lease obligations   | 2,430               | 3,597               |
| Deferred income taxes   | 35                  | 9,175               |
| Other long-term liabilities   | 53,184              | 47,711              |
| Total liabilities   | <u>868,494</u>      | <u>849,448</u>      |
| Commitments and contingencies (Note 16)   |                     |                     |
| Stockholders' equity  |                     |                     |
| Preferred Stock; \$0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at December 31, 2020 and 2019, respectively   | —                   | —                   |
| Common stock; \$0.01 par value: 100,000,000 authorized, 33,141,879 and 32,871,504 issued and 29,623,272 and 30,016,340 shares outstanding at December 31, 2020 and 2019, respectively | 331                 | 329                 |
| Additional paid in capital  | 199,847             | 190,230             |
| Retained earnings   | 269,420             | 173,371             |
| Treasury stock; at cost: 3,518,607 and 2,855,164 shares at December 31, 2020 and 2019, respectively   | (141,653)           | (106,756)           |
| Accumulated other comprehensive loss  | (8,763)             | (7,143)             |
| Total stockholders' equity  | <u>319,182</u>      | <u>250,031</u>      |
| Total liabilities and stockholders' equity  | <u>\$ 1,187,676</u> | <u>\$ 1,099,479</u> |

See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(in thousands, except share and per share amounts)

|   | Years ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2020                     | 2019             | 2018             |
| Net revenue   | \$ 1,653,225             | \$ 1,511,629     | \$ 1,336,432     |
| Cost of sales   | 1,143,251                | 1,076,809        | 964,841          |
| Gross profit  | 509,974                  | 434,820          | 371,591          |
| Operating expenses  |                          |                  |                  |
| Selling   | 81,613                   | 75,016           | 67,105           |
| Administrative  | 237,959                  | 214,134          | 185,850          |
| Amortization  | 28,535                   | 24,510           | 25,419           |
| Operating income  | 161,867                  | 121,160          | 93,217           |
| Other expense   |                          |                  |                  |
| Interest expense, net   | 30,291                   | 28,104           | 20,496           |
| Other   | 399                      | 451              | 535              |
| Income before income taxes  | 131,177                  | 92,605           | 72,186           |
| Income tax provision  | 33,938                   | 24,446           | 17,438           |
| Net income  | <u>\$ 97,239</u>         | <u>\$ 68,159</u> | <u>\$ 54,748</u> |
| Other comprehensive loss, net of tax:   |                          |                  |                  |
| Net change on cash flow hedges, net of tax benefit of \$550, \$2,225 and \$284 for the twelve months ended December 31, 2020, 2019 and 2018, respectively | (1,620)                  | (6,712)          | (1,050)          |
| Comprehensive income  | <u>\$ 95,619</u>         | <u>\$ 61,447</u> | <u>\$ 53,698</u> |
| Basic net income per share  | <u>\$ 3.30</u>           | <u>\$ 2.29</u>   | <u>\$ 1.76</u>   |
| Diluted net income per share  | <u>\$ 3.27</u>           | <u>\$ 2.28</u>   | <u>\$ 1.75</u>   |
| Weighted average shares outstanding:  |                          |                  |                  |
| Basic   | 29,504,115               | 29,752,644       | 31,107,231       |
| Diluted   | 29,717,609               | 29,873,106       | 31,229,558       |

See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except share amounts)

|   | Common Stock |        | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Treasury Stock |             | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Stockholders'<br>Equity |
|---|--------------|--------|----------------------------------|----------------------|----------------|-------------|--|-------------------------|
|   | Shares       | Amount |                                  |                      | Shares         | Amount      |  |                         |
| BALANCE—January 1, 2018                             | 32,524,934   | \$ 325 | \$ 174,043                       | \$ 48,434            | (662,788)      | \$ (12,781) | \$ 507   | \$ 210,528              |
| Net income  |              |        |                                  | 54,748               |                |             |  | 54,748                  |
| Cumulative effect of accounting changes, net of tax |              |        |                                  | 2,030                |                |             | 112  | 2,142                   |
| Issuance of common stock awards to employees        | 194,093      | 2      | (2)                              |                      |                |             |  | —                       |
| Surrender of common stock awards                    |              |        |                                  |                      | (43,871)       | (2,282)     |  | (2,282)                 |
| Share-based compensation expense                    |              |        | 7,598                            |                      |                |             |  | 7,598                   |
| Share-based compensation issued to directors        | 4,945        |        | 176                              |                      |                |             |  | 176                     |
| Common stock repurchase                             |              |        |                                  |                      | (2,101,702)    | (89,362)    |  | (89,362)                |
| Net change in cash flow hedges, net of tax          |              |        |                                  |                      |                |             | (1,050)  | (1,050)                 |
| BALANCE—January 1, 2019                             | 32,723,972   | \$ 327 | \$ 181,815                       | \$ 105,212           | (2,808,361)    | \$(104,425) | \$ (431)   | \$ 182,498              |
| Net income  |              |        |                                  | 68,159               |                |             |  | 68,159                  |
| Issuance of common stock awards to employees        | 139,862      | 2      | (2)                              |                      |                |             |  | —                       |
| Surrender of common stock awards                    |              |        |                                  |                      | (46,803)       | (2,331)     |  | (2,331)                 |
| Share-based compensation expense                    |              |        | 8,057                            |                      |                |             |  | 8,057                   |
| Share-based compensation issued to directors        | 7,670        |        | 360                              |                      |                |             |  | 360                     |
| Net change in cash flow hedges, net of tax          |              |        |                                  |                      |                |             | (6,712)  | (6,712)                 |
| BALANCE—January 1, 2020                             | 32,871,504   | \$ 329 | \$ 190,230                       | \$ 173,371           | (2,855,164)    | \$(106,756) | \$ (7,143)   | \$ 250,031              |
| Net income  |              |        |                                  | 97,239               |                |             |  | 97,239                  |
| Cumulative effect of accounting change              |              |        |                                  | (1,190)              |                |             |  | (1,190)                 |
| Issuance of common stock awards to employees        | 264,004      | 2      | (2)                              |                      |                |             |  | —                       |
| Surrender of common stock awards                    |              |        |                                  |                      | (30,223)       | (973)       |  | (973)                   |
| Share-based compensation expense                    |              |        | 9,286                            |                      |                |             |  | 9,286                   |
| Share-based compensation issued to directors        | 6,371        |        | 333                              |                      |                |             |  | 333                     |
| Common stock repurchase                             |              |        |                                  |                      | (633,220)      | (33,924)    |  | (33,924)                |
| Net change in cash flow hedges, net of tax          |              |        |                                  |                      |                |             | (1,620)  | (1,620)                 |
| BALANCE—December 31, 2020                           | 33,141,879   | \$ 331 | \$ 199,847                       | \$ 269,420           | (3,518,607)    | \$(141,653) | \$ (8,763)   | \$ 319,182              |

See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

|   | Years ended December 31, |                   |                  |
|---|--------------------------|-------------------|------------------|
|   | 2020                     | 2019              | 2018             |
| <b>Cash flows from operating activities</b>   |                          |                   |                  |
| Net income  | \$ 97,239                | \$ 68,159         | \$ 54,748        |
| Adjustments to reconcile net income to net cash provided by operating activities                            |                          |                   |                  |
| Depreciation and amortization of property and equipment   | 41,339                   | 38,862            | 33,306           |
| Amortization of operating lease right-of-use assets   | 18,122                   | 15,691            | —                |
| Amortization of intangibles   | 28,535                   | 24,510            | 25,419           |
| Amortization of deferred financing costs and debt discount  | 1,332                    | 1,184             | 1,164            |
| Provision for credit losses   | 4,444                    | 4,312             | 2,630            |
| Write-off of debt issuance costs  | —                        | 3,725             | 1,164            |
| Gain on sale of property and equipment  | (786)                    | (140)             | (1,098)          |
| Noncash stock compensation  | 10,826                   | 8,727             | 7,839            |
| Deferred income taxes   | (8,475)                  | 5,341             | 470              |
| Amortization of terminated interest rate swap   | 1,326                    | —                 | —                |
| Changes in assets and liabilities, excluding effects of acquisitions  |                          |                   |                  |
| Accounts receivable   | (10,489)                 | (29,582)          | (30,166)         |
| Inventories   | 187                      | (10,597)          | (15,717)         |
| Other assets  | (870)                    | (16,959)          | (4,552)          |
| Accounts payable  | (203)                    | 947               | 8,146            |
| Income taxes receivable/payable   | 4,296                    | (3,944)           | 10,273           |
| Other liabilities   | (6,034)                  | 12,831            | 3,007            |
| Net cash provided by operating activities   | <u>180,789</u>           | <u>123,067</u>    | <u>96,633</u>    |
| <b>Cash flows from investing activities</b>   |                          |                   |                  |
| Purchases of investments  | (776)                    | (52,795)          | (22,818)         |
| Maturities of short term investments  | 38,693                   | 25,061            | 42,782           |
| Purchases of property and equipment   | (33,587)                 | (50,167)          | (35,232)         |
| Acquisitions of businesses, net of cash acquired of \$0, \$334 and \$0 in 2020, 2019 and 2018, respectively | (76,446)                 | (51,706)          | (57,740)         |
| Proceeds from sale of property and equipment  | 1,187                    | 761               | 1,958            |
| Other   | (6,865)                  | (2,887)           | (3,019)          |
| Net cash used in investing activities   | <u>(77,794)</u>          | <u>(131,733)</u>  | <u>(74,069)</u>  |
| <b>Cash flows from financing activities</b>   |                          |                   |                  |
| Proceeds from senior notes (Note 8)   | —                        | 300,000           | —                |
| Proceeds from term loan (Note 8)  | —                        | —                 | 100,000          |
| Payments on term loan (Note 8)  | —                        | (195,750)         | (2,750)          |
| Proceeds from vehicle and equipment notes payable   | 21,290                   | 33,090            | 25,443           |
| Debt issuance costs   | (157)                    | (6,691)           | (1,992)          |
| Principal payments on long-term debt  | (26,685)                 | (21,316)          | (14,130)         |
| Principal payments on finance lease obligations   | (2,632)                  | (4,157)           | (5,604)          |
| Acquisition-related obligations   | (6,283)                  | (6,732)           | (3,954)          |
| Repurchase of common stock  | (33,924)                 | —                 | (89,363)         |
| Surrender of common stock awards by employees   | (973)                    | (2,331)           | (2,282)          |
| Net cash (used in) provided by financing activities   | <u>(49,364)</u>          | <u>96,113</u>     | <u>5,368</u>     |
| Net change in cash and cash equivalents   | 53,631                   | 87,447            | 27,932           |
| Cash and cash equivalents at beginning of period  | 177,889                  | 90,442            | 62,510           |
| Cash and cash equivalents at end of period  | <u>\$ 231,520</u>        | <u>\$ 177,889</u> | <u>\$ 90,442</u> |
| <b>Supplemental disclosures of cash flow information</b>  |                          |                   |                  |
| Net cash paid during the period for:  |                          |                   |                  |
| Interest  | \$ 26,324                | \$ 20,943         | \$ 20,075        |
| Income taxes, net of refunds  | 37,072                   | 22,633            | 4,950            |
| <b>Supplemental disclosure of noncash activities</b>  |                          |                   |                  |
| Right-of-use assets obtained in exchange for operating lease obligations                                    | 26,001                   | 18,907            | —                |
| Termination of operating lease obligations and right-of-use assets  | —                        | (2,946)           | —                |
| Property and equipment obtained in exchange for finance lease obligations                                   | 1,000                    | 2,809             | 2,208            |
| Seller obligations in connection with acquisition of businesses   | 14,086                   | 7,543             | 7,540            |
| Unpaid purchases of property and equipment included in accounts payable                                     | 1,013                    | 1,903             | 1,773            |

See accompanying notes to consolidated financial statements



INSTALLED BUILDING PRODUCTS, INC.  
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**NOTE 1 – ORGANIZATION**

Installed Building Products (“IBP”), a Delaware corporation formed on October 28, 2011, and its wholly-owned subsidiaries (collectively referred to as the “Company,” and “we,” “us” and “our”) primarily install insulation, waterproofing, fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors and other products for residential and commercial builders located in the continental United States. The Company operates in over 190 locations and its corporate office is located in Columbus, Ohio.

We have one operating segment and a single reportable segment. Substantially all of our sales are derived from the service-based installation of various products in the residential new construction, repair and remodel and commercial construction end markets from our national network of branch locations.

Each of our branches has the capacity to serve all of our end markets. See Note 3, Revenue Recognition, for information on our revenues by product and end market.

The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption. Many public health organizations and international, federal, state and local governments implemented measures to combat the spread of COVID-19 during portions of the year ended December 31, 2020 with some of these restrictions still in place as of the date of filing of this Annual Report on Form 10-K (“Form 10-K”). Some of these measures include restrictions on movement such as quarantines, “stay-at-home” orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. We do not believe the various orders and restrictions or COVID-19 itself significantly impacted our business during the year ended December 31, 2020.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Principles of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying consolidated financial statements include all of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated. We elected to early adopt the Securities and Exchange Commission’s (“SEC”) amendments to Item 302(a) to replace the requirement for quarterly tabular disclosure with a principles-based requirement for material retrospective changes. There were no such retrospective changes affecting the Consolidated Income Statements for the years ended December 31, 2020 or 2019, respectively. We expanded the presentation of our intangibles, net to separately present our customer relationships intangible asset on the Consolidated Balance Sheets in this Form 10-K. This expansion resulted in the presentation of our \$99.9 million balance within Customer relationships, net at December 31, 2019 and a corresponding decrease in Other intangibles, net as compared to our previous 10-K.

Use of Estimates

Preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgements and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual amounts could differ from such estimates.

Cash and Cash Equivalents

We consider all highly-liquid investments purchased with original term to maturity of three months or less to be cash equivalents. Substantially all cash is held in banks providing FDIC coverage of \$0.25 million per depositor.

Revenue and Cost Recognition

Revenue is measured according to Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers.” Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We

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account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. An insignificant portion of our sales, primarily retail sales, is accounted for on a point-in-time basis when the sale occurs, adjusted accordingly for any return provisions. We do offer assurance-type warranties on certain of our installed products and services that do not represent a separate performance obligation and, as such, do not impact the timing or extent of revenue recognition.

For contracts that are not complete at the reporting date, we recognize revenue over time utilizing a cost-to-cost input method as we believe this represents the best measure of when goods and services are transferred to the customer. When this method is used, we estimate the costs to complete individual contracts and record as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs. Under the cost-to-cost method, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue, requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Our long-term contracts can be subject to modification to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Payment terms typically do not exceed 30 days for short-term contracts and typically do not exceed 60 days for long-term contracts with customers. All contracts are billed either contractually or as work is performed. Billing on our long-term contracts occurs primarily on a monthly basis throughout the contract period whereby we submit invoices for customer payment based on actual or estimated costs incurred during the billing period. On certain of our long-term contracts the customer may withhold payment on an invoice equal to a percentage of the invoice amount, which will be subsequently paid after satisfactory completion of each installation project. This amount is referred to as retainage and is common practice in the construction industry, as it allows for customers to ensure the quality of the service performed prior to full payment. Retainage receivables are classified as current or long-term assets based on the expected time to project completion. See "Accounts Receivable" below for further discussion of our retainage receivables.

We generally expense sales commissions and other incremental costs of obtaining a contract when incurred because the amortization period is usually one year or less. Sales commissions are recorded within selling expenses on the Consolidated Statements of Operations and Comprehensive Income.

We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

#### Derivative Instruments and Hedging Activities

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 11, Derivatives and Hedging Activities, for additional information on our accounting policy for derivative instruments and hedging activities.

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Investment Policy

Marketable securities with original maturities longer than three months but less than one year from the settlement date are classified as investments within current assets. These investments would consist of highly liquid investment grade instruments primarily including corporate bonds and commercial paper. Investments for which we have the ability and positive intent to hold to maturity are carried at amortized cost. The difference between the acquisition costs and face values of held-to-maturity investments is amortized over the remaining term of the investments and added to or subtracted from the acquisition cost and interest income. As of December 31, 2020, we held no such investments.

Business Combinations

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, backlog and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin and tax rate.

At times, the total purchase price for a business combination could be less than the estimated fair values of acquired tangible and intangible assets. In these cases, we record a gain on bargain purchase within other expenses in the Consolidated Statements of Operations and Comprehensive Income rather than goodwill in accordance with U.S. GAAP.

Accounts Receivable

We account for trade receivables based on amounts billed to customers. Past due receivables are determined based on contractual terms. We do not accrue interest on any of our trade receivables.

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were \$41.7 million and \$33.4 million as of December 31, 2020 and 2019, respectively. In addition, as of December 31, 2020, \$0.3 million of retainage receivables were recorded in other long-term assets.

On January 1, 2020, we adopted the new accounting standard ASC 326, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments," using the modified retrospective approach. ASC 326 replaces the incurred loss impairment model with an expected credit loss impairment model for financial instruments, including trade receivables, retainage receivables and contract assets (unbilled receivables). See Note 4, Credit Losses, for the detailed credit loss policy.

Concentration of Credit Risk

Credit risk is our risk of financial loss from the non-performance of a contractual obligation on the part of our counterparty. Such risk arises principally from our receivables from customers and cash and bank balances. Substantially all of our trade accounts receivable are from entities engaged in residential and commercial construction. We perform periodic credit evaluations of our customers' financial condition. The general credit risk of our counterparties is not considered to be significant. In addition, no individual customer made up more than 3% of accounts receivable or 5% of net revenue for the years ended December 31, 2020, 2019 and 2018.

Inventories

Inventories consist of insulation, waterproofing materials, fireproofing and fire-stopping materials, garage doors, rain gutters, window blinds, shower doors, mirrors, closet shelving and other products. We value inventory at each balance sheet date to ensure that it is carried at the lower of cost or net realizable value with cost determined using the first-in, first-out ("FIFO") method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. As of December 31, 2020 and 2019, substantially all inventory was finished goods. Inventory provisions are recorded to reduce inventory to the lower of cost or net realizable value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions,

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inventory levels and turns, product spoilage, and specific identification of items such as product discontinuance, engineering/material changes, or regulatory-related changes.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. We provide for depreciation and amortization of property and equipment using the straight-line method over the expected useful lives of the assets. Expected useful lives of property and equipment vary but generally are the shorter of lease life or five years for vehicles and leasehold improvements, three to five years for furniture, fixtures and equipment and 30 years for buildings.

Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

Goodwill

Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. On January 1, 2020, we adopted ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU addresses concerns over the cost and complexity of the two-step goodwill impairment test and removes the second step. Annually, on October 1, or if conditions indicate an earlier review is necessary, we perform a one-step quantitative test to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The estimate of the reporting unit's fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management's plans, business trends, prospects, market and economic conditions and market-participant considerations. An impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Impairment of Other Intangible and Long-Lived Assets

Other intangible assets consist of customer relationships, backlog, non-competition agreements and business trademarks and trade names. Amortization of finite lived intangible assets is recorded to reflect the pattern of economic benefits based on projected revenues over their respective estimated useful lives (customer relationships – eight to 15 years, non-competition agreements – one to five years and business trademarks and trade names – two to 15 years). We do not have any indefinite-lived intangible assets other than goodwill.

We review long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair net realizable value less cost to sell at the date management commits to a plan of disposal. There was no impairment loss for the years ended December 31, 2020, 2019, and 2018 .

Other Liabilities

Our workers' compensation insurance program, for a significant portion of our business, is considered a high deductible program whereby we are responsible for the cost of claims under approximately \$0.8 million. Our general liability insurance program is considered a high retention program whereby we are responsible for the cost of claims up to approximately \$2.0 million, subject to an aggregate cap of \$8.0 million. Our vehicle liability insurance program is considered a high deductible program whereby we are responsible for the cost of claims under approximately \$1.0 million. In each case, if we do not pay these claims, our insurance carriers are required to make these payments to the claimants on our behalf. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through December 31, 2020 and 2019. We establish case reserves for reported claims using case-basis evaluation of the underlying claims data and we update as information becomes

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known. We regularly monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

The assumptions underlying the ultimate costs of existing claim losses are subject to a high degree of unpredictability, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in workers' compensation claims can affect the ultimate costs. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled, can affect ultimate costs. Our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables and any changes could have a considerable effect on future claim costs and currently recorded liabilities.

We carry insurance for a number of risks, including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. Liabilities relating to claims associated with these risks are estimated by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions. In estimating our liability for such claims, we periodically analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims with the assistance of external actuarial consultants. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our reserves and corresponding expenses could be affected if future claim experience differs significantly from historical trends and actuarial assumptions.

#### Advertising Costs

Advertising costs are generally expensed as incurred. Advertising expense was approximately \$3.9 million, \$3.9 million and \$3.8 million for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in selling expense on the Consolidated Statements of Operations and Comprehensive Income.

#### Deferred Financing Costs

Deferred financing costs and debt issuance costs combined, totaling \$7.0 million and \$8.2 million, net of accumulated amortization as of December 31, 2020 and 2019, respectively, are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method. The deferred financing costs are included in other non-current assets while the debt issuance costs are included in long-term debt on the Consolidated Balance Sheets as of December 31, 2020 and 2019, respectively. The related amortization expense of these costs combined was \$1.3 million, \$1.2 million and \$1.2 million and is included in interest expense, net on the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2020, 2019 and 2018, respectively.

We wrote off \$3.3 million in previously capitalized loan costs during the year ended December 31, 2019. In addition, we expensed loan costs of approximately \$0.4 million and \$1.1 million for the years ended December 31, 2019 and 2018, respectively, associated with our credit facilities because they did not meet the requirements for capitalization. We had no such write offs or expenses during the year ended December 31, 2020. These amounts are included in interest expense, net on the Consolidated Statements of Operations and Comprehensive Income. We also had \$0.2 million in new costs incurred during the year ended December 31, 2020 associated with the debt-related financing transactions that occurred in December 2019. The deferred financing costs are included in other non-current assets while the debt issuance costs are included in long-term debt on the Consolidated Balance Sheets. These costs are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method.

For additional information on our debt instruments, see Note 8, Long-Term Debt.

#### Leases

On January 1, 2019, we adopted ASC 842, "Leases," using the modified retrospective approach which requires substantially all leases, with the exception of leases with a term of one year or less, to be recorded on the Condensed Balance Sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. ASC 842 also requires disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows.

We determine if an arrangement is a lease at inception. Most of our operating leases do not provide an implicit rate so we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of

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future payments. Leases with an initial term of 12 months or less are not recorded on the balance sheet as we recognize lease expense for these leases on a straight-line basis over the lease term.

We elected the package of practical expedients for the adoption of ASC 842 available for expired or existing contracts, which allowed us to carryforward our historical assessments of whether contracts are or contain leases, lease classification tests and treatment of initial direct costs. We also elected to not separate lease components from non-lease components for all fixed payments, and we exclude variable lease payments in the measurement of right-of-use assets and lease obligations. Most lease agreements include one or more renewal options, all of which are at our sole discretion. Generally, future renewal options that have not been executed as of the balance sheet date are excluded from right-of-use assets and related lease liabilities. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Some of our vehicle lease agreements include provisions for residual value guarantees and any expected payment is included in our lease liability.

#### Share-Based Compensation

Our share-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of our stockholders. Restricted stock awards are periodically granted to certain employees, officers and non-employee members of our board of directors under the stockholder-approved 2014 Omnibus Incentive Plan.

Certain of our stock awards are deemed to be equity-based with a service condition and do not contain a market or performance condition with the exception of performance-based awards granted to certain officers and performance-based stock units. Fair value of the non-performance-based awards to employees and officers is measured at the grant date and amortized to expense over the vesting period of the awards using the straight-line attribution method for all service-based awards with a graded vesting feature. This fair value is reduced by assumed forfeitures and adjusted for actual forfeitures until vesting. We also issue performance-based stock awards to certain officers under our 2014 Omnibus Incentive Plan. The performance-based compensation expense is recorded over the requisite service period using the graded-vesting method for the entire award. Performance-based stock awards are accounted for at fair value at date of grant. We also periodically grant performance-based stock units to certain employees under the stockholder-approved 2014 Omnibus Incentive Plan. These units convert to shares upon meeting time- and performance-based requirements.

Compensation expense for performance-based stock units is recorded based on an assessment each reporting period of the probability that certain performance goals will be met during the contingent vesting period. If performance goals are not probable to occur, no compensation expense will be recognized. If performance goals that were previously deemed probable are not or are not expected to be met, the previously recognized compensation cost related to such performance goals will be reversed. Employees and officers are subject to tax at the vesting date based on the market price of the shares on that date, or on the grant date if an election is made.

#### Income Taxes

We account for income taxes using the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, the ability to produce future taxable income, prudent and feasible tax planning strategies and recent financial operations. In projecting future taxable income, we factor in historical results and changes in accounting policies and incorporate assumptions, including the amount of future federal and state pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future.

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A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more likely than not recognition threshold to be recognized.

We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Liabilities related to uncertain tax positions are recorded in other long-term liabilities on the Consolidated Balance Sheets. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense and the effective tax rate in the period in which the new information becomes available. Interest and penalties related to unrecognized tax benefits are recognized within income tax expense in the Consolidated Statements of Operations and Comprehensive Income. Accrued interest and penalties are recognized in other current liabilities on the Consolidated Balance Sheets.

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the United States, which includes numerous state and local jurisdictions. Significant judgments and estimates are required in determining the income tax expense, deferred tax assets and liabilities and the reserve for unrecognized tax benefits.

Estimated Fair Value of Financial Instruments

See Note 10, Fair Value Measurements, for related accounting policies.



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Recently Adopted Accounting Pronouncements

| Standard  | Effective Date          | Adoption  |
|---|-------------------------|---|
| ASU 2016-13, Financial Instruments-Credit Losses (Topic 326)  | January 1, 2020         | This pronouncement and subsequently-issued amendments change the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In addition, these amendments require the measurement of all expected credit losses for financial assets, including trade accounts receivable, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. See Note 4, Credit Losses, for further information.  |
| ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment                                   | January 1, 2020         | This ASU addresses concerns over the cost and complexity of the two-step goodwill impairment test by removing the second step of the goodwill impairment test. Going forward, we will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.  |
| ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement | January 1, 2020         | This pronouncement amends ASC 820 to eliminate, add and modify certain disclosure requirements for fair value measurements. The adoption of this standard did not impact our financial statements or have a material effect on our disclosures.   |
| ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848)             | Effective upon issuance | This pronouncement contains optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. The provisions of ASC 848 must be applied at a Topic, Subtopic or Industry Subtopic for all transactions other than derivatives, which may be applied at a hedging relationship level. The relief granted in ASC 848 is applicable only to legacy contracts if the amendments made to the agreements are solely for reference rate reform activities. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. In January 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-01, "Reference Rate Reform - Scope," which clarified the scope and application of the original guidance. We continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur. |

Recently Issued Accounting Pronouncements Not Yet Adopted

We are currently evaluating the impact of certain ASUs on our Consolidated Financial Statements or Notes to Consolidated Financial Statements, which are described below:

| Standard   | Description   | Effective Date  | Effect on the financial statements or other significant matters                     |
|--|---|---|---|
| ASU 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes | This pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles of Topic 740 and improves the consistent application of GAAP by clarifying and amending existing guidance. | Annual periods beginning after December 15, 2020, including interim periods therein. Early adoption is permitted. | We do not expect ASU 2019-12 to have a material impact on our financial statements. |

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**NOTE 3 – REVENUE RECOGNITION**

We disaggregate our revenue from contracts with customers by end market and product, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. The following tables present our revenues disaggregated by end market and product (in thousands):

|                              | Years ended December 31, |              |                     |              |                     |              |
|------------------------------|--------------------------|--------------|---------------------|--------------|---------------------|--------------|
|                              | 2020                     |              | 2019                |              | 2018                |              |
| Residential new construction | \$ 1,243,498             | 75 %         | \$ 1,138,475        | 75 %         | \$ 1,026,473        | 77 %         |
| Repair and remodel           | 106,784                  | 7 %          | 98,771              | 7 %          | 89,977              | 7 %          |
| Commercial                   | 302,943                  | 18 %         | 274,383             | 18 %         | 219,982             | 16 %         |
| Net revenues                 | <u>\$ 1,653,225</u>      | <u>100 %</u> | <u>\$ 1,511,629</u> | <u>100 %</u> | <u>\$ 1,336,432</u> | <u>100 %</u> |

|  | Years ended December 31, |              |                     |              |                     |              |
|--|--------------------------|--------------|---------------------|--------------|---------------------|--------------|
|  | 2020                     |              | 2019                |              | 2018                |              |
| Insulation                               | \$ 1,058,316             | 64 %         | \$ 970,070          | 64 %         | \$ 876,118          | 66 %         |
| Waterproofing                            | 122,962                  | 7 %          | 112,075             | 7 %          | 97,683              | 7 %          |
| Shower doors, shelving and mirrors       | 117,131                  | 7 %          | 105,745             | 7 %          | 90,352              | 7 %          |
| Garage doors                             | 93,516                   | 6 %          | 89,959              | 6 %          | 79,539              | 6 %          |
| Rain gutters                             | 62,672                   | 4 %          | 49,788              | 3 %          | 44,203              | 3 %          |
| Fireproofing/firestopping <sup>(1)</sup> | 49,648                   | 3 %          | 41,845              | 3 %          | 36,589              | 3 %          |
| Window blinds                            | 46,984                   | 3 %          | 41,641              | 3 %          | 28,981              | 2 %          |
| Other building products                  | 101,996                  | 6 %          | 100,506             | 7 %          | 82,967              | 6 %          |
| Net revenues                             | <u>\$ 1,653,225</u>      | <u>100 %</u> | <u>\$ 1,511,629</u> | <u>100 %</u> | <u>\$ 1,336,432</u> | <u>100 %</u> |

(1) Combined with "Other building products" in previous years but shown separately to conform with updated disclosures

Contract Assets and Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized, based on costs incurred, exceeds the amount billed to the customer. Our contract assets are recorded in other current assets in our Consolidated Balance Sheets. Our contract liabilities consist of customer deposits and billings in excess of revenue recognized, based on costs incurred and are included in other current liabilities in our Consolidated Balance Sheets.

Contract assets and liabilities related to our uncompleted contracts and customer deposits were as follows (in thousands):

|                      | As of December 31, |           |
|----------------------|--------------------|-----------|
|                      | 2020               | 2019      |
| Contract assets      | \$ 24,334          | \$ 22,138 |
| Contract liabilities | (8,965)            | (8,888)   |

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Uncompleted contracts were as follows (in thousands):

|   | As of December 31, |                  |
|---|--------------------|------------------|
|   | 2020               | 2019             |
| Costs incurred on uncompleted contracts | \$ 169,544         | \$ 110,818       |
| Estimated earnings                      | 90,737             | 61,185           |
| Total                                   | 260,281            | 172,003          |
| Less: Billings to date                  | 240,665            | 155,599          |
| Net under billings                      | <u>\$ 19,616</u>   | <u>\$ 16,404</u> |

Net under billings were as follows (in thousands):

|  | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2020               | 2019             |
| Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets)      | \$ 24,334          | \$ 22,138        |
| Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) | (4,718)            | (5,734)          |
| Net under billings   | <u>\$ 19,616</u>   | <u>\$ 16,404</u> |

The difference between contract assets and contract liabilities as of December 31, 2020 compared to December 31, 2019 is primarily the result of timing differences between our performance of obligations under contracts and customer payments. During the year ended December 31, 2020, we recognized \$7.8 million of revenue that was included in the contract liability balance at December 31, 2019. We did not recognize any impairment losses on our receivables and contract assets during the years ended December 31, 2020 and 2019.

Remaining performance obligations represent the transaction price of contracts for which work has not been performed and excludes unexercised contract options and potential modifications. As of December 31, 2020, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was \$78.5 million. We expect to satisfy remaining performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

#### NOTE 4 – CREDIT LOSSES

On January 1, 2020 we adopted ASU 2016-13, “Financial Instruments – Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments” under the modified retrospective approach. ASC 326 replaces the incurred loss impairment model with an expected credit loss impairment model for financial instruments, including trade receivables, retainage receivables and contract assets (unbilled receivables). Results for reporting periods beginning after January 1, 2020 are presented under ASC 326, while prior period amounts are not adjusted. The amendment requires entities to consider forward-looking information to estimate expected credit losses, resulting in earlier recognition of losses for receivables that are current or not yet due, which were not considered under the previous accounting guidance.

Upon adoption of ASC 326, we recorded a cumulative effect adjustment to retained earnings of \$1.2 million, net of \$0.4 million of income taxes, on the opening consolidated balance sheet as of January 1, 2020. The adoption of the credit loss standard had no impact to cash from or used in operating, financing or investing activities on our consolidated cash flow statements.

Our expected loss allowance methodology for accounts receivable is developed using historical losses, current economic conditions and future market forecasts. We also perform ongoing evaluations of our existing and potential customer’s creditworthiness. Our expected loss allowance methodology for held-to-maturity investments is developed using historical losses, investment grade ratings and liquidity and maturity assessments. Based on our assessment using these factors, we did not record any allowance for credit losses related to our held-to-maturity investments.

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To date, the COVID-19 pandemic has not yet had a material impact on the collectability of our existing trade receivables. All amounts prior to January 1, 2020 in the following table were based on the incurred loss impairment model. Changes in our allowance for credit losses were as follows (in thousands):

|   |                 |
|---|-----------------|
| January 1, 2018                                     | \$ 4,805        |
| Current period provision                            | 2,630           |
| Recoveries collected and other                      | 675             |
| Amounts written off                                 | <u>(3,025)</u>  |
| December 31, 2018                                   | <u>\$ 5,085</u> |
| Current period provision                            | 4,312           |
| Recoveries collected and other                      | 1,269           |
| Amounts written off                                 | <u>(3,788)</u>  |
| December 31, 2019                                   | <u>\$ 6,878</u> |
| Cumulative effect of change in accounting principle | 1,600           |
| Current period provision                            | 4,444           |
| Recoveries collected and other                      | 503             |
| Amounts written off                                 | <u>(4,636)</u>  |
| December 31, 2020                                   | <u>\$ 8,789</u> |

**NOTE 5 – INVESTMENTS**

Cash and cash equivalents include investments in money market funds that are valued based on the net asset value of the funds. The investments in these funds were \$170.4 million and \$99.2 million as of December 31, 2020 and 2019, respectively.

All other investments are classified as held-to-maturity and consist of highly liquid instruments including primarily corporate bonds and commercial paper. As of December 31, 2019, the amortized cost of these investments equaled the net carrying value, which was \$38.0 million. There were no held-to-maturity securities as of December 31, 2020. See Note 10, Fair Value Measurements, for additional information.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following (in thousands):

|   | As of December 31, |                   |
|---|--------------------|-------------------|
|   | 2020               | 2019              |
| Land  | \$ 108             | \$ 108            |
| Buildings                                       | 3,901              | 3,901             |
| Leasehold improvements                          | 10,288             | 7,748             |
| Furniture, fixtures and equipment               | 55,780             | 49,199            |
| Vehicles and equipment                          | <u>223,003</u>     | <u>203,310</u>    |
|   | 293,080            | 264,266           |
| Less: accumulated depreciation and amortization | <u>(189,058)</u>   | <u>(157,856)</u>  |
|   | <u>\$ 104,022</u>  | <u>\$ 106,410</u> |

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We recorded the following depreciation and amortization expense on our property and equipment, by income statement category (in thousands):

|                | Years ended December 31, |           |           |
|----------------|--------------------------|-----------|-----------|
|                | 2020                     | 2019      | 2018      |
| Cost of sales  | \$ 39,011                | \$ 36,922 | \$ 31,526 |
| Administrative | 2,328                    | 1,939     | 1,779     |

Property and equipment as of December 31, 2020 and 2019 of \$98.0 million and \$72.7 million, respectively, were fully depreciated but still being utilized in our business.

**NOTE 7 – GOODWILL AND INTANGIBLES**

We anticipate that the COVID-19 pandemic could continue to have an impact on the homebuilding industry in general, as it could result in further business interruptions (government-mandated or otherwise) and could affect, among other factors, employment levels, consumer spending and consumer confidence, which could decrease demand for homes, adversely affecting our business. As such, we considered whether impairment indicators arose through the date of filing of this Form 10-K for our goodwill, long-lived assets and other intangible assets and concluded that no factors caused us to impair any asset group during the year ended December 31, 2020. While we ultimately concluded that our goodwill, long-lived assets and other intangibles assets were not impaired as of December 31, 2020, we will continue to assess impairment indicators related to the impact of the COVID-19 pandemic on our business.

Goodwill

The change in carrying amount of goodwill was as follows (in thousands):

|                       | Goodwill<br>(Gross) | Accumulated<br>Impairment<br>Losses | Goodwill<br>(Net) |
|-----------------------|---------------------|-------------------------------------|-------------------|
| January 1, 2019       | \$ 243,053          | \$ (70,004)                         | \$ 173,049        |
| Business combinations | 22,405              | —                                   | 22,405            |
| Other                 | 198                 | —                                   | 198               |
| December 31, 2019     | 265,656             | (70,004)                            | 195,652           |
| Business combinations | 21,305              | —                                   | 21,305            |
| Other                 | (87)                | —                                   | (87)              |
| December 31, 2020     | <u>\$ 286,874</u>   | <u>\$ (70,004)</u>                  | <u>\$ 216,870</u> |

Other changes included in the above table for the years ended December 31, 2020 and 2019 include minor adjustments for the allocation of certain acquisitions still under measurement. For the year ended December 31, 2019, other changes included several immaterial tuck-in acquisitions. For additional information regarding changes to goodwill resulting from acquisitions, see Note 17, Business Combinations.

At October 1, 2020, our measurement date, we tested goodwill for impairment under the updated guidance per ASU 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" by performing a one-step qualitative assessment in conformity with generally accepted accounting principles and determined that no impairment of goodwill was required. As such, no impairment of goodwill was recognized for the year ended December 31, 2020. In addition, no impairment of goodwill was recognized for the years ended December 31, 2019 or 2018. Accumulated impairment losses included within the above table were incurred over multiple periods, with the latest impairment charge being recorded during the year ended December 31, 2010.

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Intangibles, net

The following table provides the gross carrying amount, accumulated amortization and net book value for each major class of intangibles (in thousands):

|                           | As of December 31,          |                             |                      |                             |                             |                      |
|---------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
|                           | 2020                        |                             |                      | 2019                        |                             |                      |
|                           | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value |
| Amortized intangibles:    |                             |                             |                      |                             |                             |                      |
| Customer relationships    | \$ 197,641                  | \$ 89,137                   | \$ 108,504           | \$ 169,334                  | \$ 69,388                   | \$ 99,946            |
| Covenants not-to-compete  | 20,309                      | 13,436                      | 6,873                | 16,959                      | 10,617                      | 6,342                |
| Trademarks and tradenames | 79,657                      | 27,245                      | 52,412               | 69,718                      | 22,609                      | 47,109               |
| Backlog                   | 18,847                      | 15,243                      | 3,604                | 14,080                      | 13,915                      | 165                  |
|                           | <u>\$ 316,454</u>           | <u>\$ 145,061</u>           | <u>\$ 171,393</u>    | <u>\$ 270,091</u>           | <u>\$ 116,529</u>           | <u>\$ 153,562</u>    |

There was no intangible asset impairment loss for the years ended December 31, 2020, 2019 and 2018.

The gross carrying amount of intangibles increased approximately \$46.4 million and \$28.3 million during the years ended December 31, 2020 and 2019, respectively. Intangibles associated with business combinations accounted for approximately \$46.2 million and \$28.0 million of the increases during the years ended December 31, 2020 and 2019, respectively. For more information, see Note 17, Business Combinations. Amortization expense on intangible assets totaled approximately \$28.5 million and \$24.5 million, \$25.4 million during the years ended December 31, 2020, 2019 and 2018, respectively. Remaining estimated aggregate annual amortization expense is as follows (in thousands):

|            |          |
|------------|----------|
| 2021       | \$32,357 |
| 2022       | 28,884   |
| 2023       | 25,447   |
| 2024       | 21,934   |
| 2025       | 16,529   |
| Thereafter | 46,242   |

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consisted of the following (in thousands):

|  | As of December 31, |                   |
|--|--------------------|-------------------|
|  | 2020               | 2019              |
| Senior Notes due 2028, net of unamortized debt issuance costs of \$4,230 and \$4,823, respectively   | \$ 295,770         | \$ 295,177        |
| Term loan, net of unamortized debt issuance costs of \$1,343 and \$1,662, respectively   | 198,657            | 198,338           |
| Vehicle and equipment notes, maturing through December 2025; payable in various monthly installments, including interest rates ranging from 1.9% to 4.8% | 67,493             | 72,714            |
| Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 2.0% to 5.0%          | 3,392              | 2,966             |
|  | <u>565,312</u>     | <u>569,195</u>    |
| Less: current maturities   | <u>(23,355)</u>    | <u>(24,164)</u>   |
| Long-term debt, less current maturities  | <u>\$ 541,957</u>  | <u>\$ 545,031</u> |

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Remaining required repayments of debt principal, gross of unamortized debt issuance costs, as of December 31, 2020 are as follows (in thousands):

|            |          |
|------------|----------|
| 2021       | \$23,355 |
| 2022       | 19,642   |
| 2023       | 14,452   |
| 2024       | 8,545    |
| 2025       | 204,891  |
| Thereafter | 300,000  |

5.75% Senior Notes due 2028

In September 2019, we issued \$300.0 million in aggregate principal amount of 5.75% senior unsecured notes (the “Senior Notes”). The Senior Notes will mature on February 1, 2028 and interest will be payable semi-annually in cash in arrears on February 1 and August 1, commencing on February 1, 2020. The net proceeds from the Senior Notes offering were \$295.0 million after debt issuance costs. We used some of the net proceeds to repay a portion of our outstanding obligations (including accrued and unpaid interest) under our term loan credit agreement (as defined below) and to pay fees and expenses related to the entry into a new revolving credit facility described below.

The indenture covering the Senior Notes contains restrictive covenants that, among other things, limit the ability of the Company and certain of our subsidiaries (subject to certain exceptions) to: (i) incur additional debt and issue preferred stock; (ii) pay dividends on, redeem or repurchase stock in an aggregate amount exceeding 2.0% of market capitalization per fiscal year, or in an aggregate amount exceeding certain applicable restricted payment baskets; (iii) prepay subordinated debt; (iv) create liens; (v) make specified types of investments; (vi) apply net proceeds from certain asset sales; (vii) engage in transactions with affiliates; (viii) merge, consolidate or sell substantially all of our assets; and (ix) pay dividends and make other distributions from subsidiaries.

Credit Facilities

In December 2019, we amended and restated our \$400 million, seven-year term loan facility due April 2025 (the “Term Loan”) under our credit agreement (the “Term Loan Agreement”), dated as of April 13, 2017 (as previously amended by the First Amendment thereto dated November 30, 2017 and by the Second Amendment thereto dated June 19, 2018). The amended Term Loan (i) effects a repricing of the interest rate applicable to the term loans thereunder from LIBOR plus 2.50% to LIBOR plus 2.25% and (ii) replaces Royal Bank of Canada with Bank of America, N.A. as the administrative agent and collateral agent thereunder. As of December 31, 2020, we had \$198.7 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.25% in the case of base rate loans.

In September 2019, we entered into a new asset-based lending credit agreement (the “ABL Credit Agreement”). The ABL Credit Agreement provides for an asset-based lending credit facility (the “ABL Revolver”) of up to \$200.0 million with a five-year maturity, which replaced the Company’s previous revolving credit facility. Borrowing availability under the ABL Revolver is based on a percentage of the value of certain assets securing the Company’s obligations and those of the subsidiary guarantors thereunder. In connection with the Amended and Restated Term Loan, we entered into a Second Amendment (the “Second Amendment”) to the ABL/Term Loan Intercreditor Agreement with Bank of America, N.A., as ABL Agent for the lenders under the ABL Credit Agreement, and Bank of America, N.A., as Term Loan Agent for the lenders under the Amended and Restated Term Loan. Including outstanding letters of credit, our remaining availability under the ABL Revolver as of December 31, 2020 was \$161.2 million.

All of the obligations under the Term Loan and ABL Revolver are guaranteed by all of the Company’s existing restricted subsidiaries and will be guaranteed by the Company’s future restricted subsidiaries. Additionally, all obligations under the Term Loan and ABL Revolver, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the guarantors, subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute ABL Priority Collateral, as defined in the ABL Credit Agreement, and a second- priority security interest in such assets that constitute Term Loan Priority Collateral, as defined in the Term Loan Agreement.

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The ABL Revolver bears interest at either the Eurodollar rate or the base rate (which approximated the prime rate), at the Company's election, plus a margin of (A) 1.25% or 1.50% in the case of Eurodollar rate loans (based on a measure of availability under the ABL Credit Agreement) and (B) 0.25% or 0.50% in the case of base rate loans (based on a measure of availability under the ABL Credit Agreement).

The ABL Revolver also provides incremental revolving credit facility commitments of up to \$50.0 million. The terms and conditions of any incremental revolving credit facility commitments must be no more favorable than the terms of the ABL Revolver. The ABL Revolver also allows for the issuance of letters of credit of up to \$75.0 million in aggregate and borrowing of swingline loans of up to \$20.0 million in aggregate.

The ABL Credit Agreement contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.0x in the event that we do not meet a minimum measure of availability under the ABL Revolver. The ABL Credit Agreement and the Term Loan Agreement contain restrictive covenants that, among other things, limit the ability of the Company and certain of our subsidiaries (subject to certain exceptions) to: (i) incur additional debt and issue preferred stock; (ii) pay dividends on, redeem or repurchase stock in an aggregate amount exceeding 2.0% of market capitalization per fiscal year, or in an aggregate amount exceeding certain applicable restricted payment baskets; (iii) prepay subordinated debt; (iv) create liens; (v) make specified types of investments; (vi) apply net proceeds from certain asset sales; (vii) engage in transactions with affiliates; (viii) merge, consolidate or sell substantially all of our assets; and (ix) pay dividends and make other distributions from subsidiaries.

#### Vehicle and Equipment Notes

We are party to a Master Loan and Security Agreement ("Master Loan and Security Agreement"), a Master Equipment Lease Agreement ("Master Equipment Agreement") and one or more Master Loan Agreements ("Master Loan Agreements" and together with the Master Loan and Security Agreement and Master Equipment Agreement the "Master Loan Equipment Agreements") with various lenders to provide financing for the purpose of purchasing or leasing vehicles and equipment used in the normal course of business. Each financing arrangement under these agreements constitutes a separate note and obligation. Vehicles and equipment purchased or leased under each financing arrangement serve as collateral for the note applicable to such financing arrangement. Regular payments are due under each note for a period of typically 60 consecutive months after the incurrence of the obligation. The specific terms of each note are based on specific criteria, including the type of vehicle or equipment and the market interest rates at the time. No termination date applies to these agreements. As of December 31, 2020, approximately \$64.1 million of the various loan agreements was available for purchases of equipment.

Total gross assets relating to our Master Loan and Equipment Agreements were \$132.2 million and \$130.2 million as of December 31, 2020 and 2019, respectively. The net book value of assets under these agreements was \$65.7 million and \$68.2 million as of December 31, 2020 and 2019, respectively. Depreciation of assets held under these agreements is included within cost of sales on the Consolidated Statements of Operations and Comprehensive Income.

#### **NOTE 9 – LEASES**

We lease various assets in the ordinary course of business as follows: warehouses to store our materials and perform staging activities for certain products we install; various office spaces for selling and administrative activities to support our business; and certain vehicles and equipment to facilitate our operations, including, but not limited to, trucks, forklifts and office equipment.



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Lease Position as of December 31, 2020

The table below presents the lease-related assets and liabilities recorded on the Consolidated Balance Sheet:

| (in thousands)                        | Classification                                    | As of<br>December 31,<br>2020 | As of<br>December 31,<br>2019 |
|---------------------------------------|---|-------------------------------|-------------------------------|
| <b>Assets</b>                         |   |                               |                               |
| Non-Current                           |   |                               |                               |
| Operating                             | Operating lease right-of-use assets               | \$ 53,766                     | \$ 45,691                     |
| Finance                               | Property and equipment, net                       | 4,946                         | 7,148                         |
| Total lease assets                    |   | <u>\$ 58,712</u>              | <u>\$ 52,839</u>              |
| <b>Liabilities</b>                    |   |                               |                               |
| Current                               |   |                               |                               |
| Operating                             | Current maturities of operating lease obligations | \$ 18,758                     | \$ 15,459                     |
| Financing                             | Current maturities of finance lease obligations   | 2,073                         | 2,747                         |
| Non-Current                           |   |                               |                               |
| Operating                             | Operating lease obligations                       | 34,413                        | 29,785                        |
| Financing                             | Finance lease obligations                         | 2,430                         | 3,597                         |
| Total lease liabilities               |   | <u>\$ 57,674</u>              | <u>\$ 51,588</u>              |
| Weighted-average remaining lease term |   |                               |                               |
| Operating leases                      |   | 4.1 years                     | 4.6 years                     |
| Finance leases                        |   | 2.6 years                     | 2.7 years                     |
| Weighted-average discount rate        |   |                               |                               |
| Operating leases                      |   | 3.67 %                        | 4.67 %                        |
| Finance leases                        |   | 5.08 %                        | 4.85 %                        |

Lease Costs

The table below presents certain information related to the lease costs for finance and operating leases during 2020 and 2019:

| (in thousands)                               | Classification        | Years ended December 31, |                  |
|--|-----------------------|--------------------------|------------------|
|  |                       | 2020                     | 2019             |
| Operating lease cost <sup>(1)</sup>          | Administrative        | \$ 23,454                | \$ 21,024        |
| Finance lease cost                           |                       |                          |                  |
| Amortization of leased assets <sup>(2)</sup> | Cost of sales         | 3,645                    | 4,942            |
| Interest on finance lease obligations        | Interest expense, net | 268                      | 341              |
| Total lease costs                            |                       | <u>\$ 27,367</u>         | <u>\$ 26,307</u> |

- (1) Includes variable lease costs of \$2.9 million and \$2.5 million for the year ended December 31, 2020 and 2019, respectively, and short-term lease costs of \$0.8 million and \$0.9 million for the years ended December 31, 2020 and 2019 respectively.
- (2) Includes variable lease costs of \$0.7 million and \$0.9 million for the years ended December 31, 2020 and 2019 respectively.

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Other Information

The table below presents supplemental cash flow information related to leases during 2020 and 2019 (in thousands):

|   | Years ended December 31, |           |
|---|--------------------------|-----------|
|   | 2020                     | 2019      |
| Cash paid for amounts included in the measurement of lease liabilities: |                          |           |
| Operating cash flows for operating leases                               | \$ 19,668                | \$ 17,521 |
| Operating cash flows for finance leases                                 | 268                      | 341       |
| Financing cash flows for finance leases                                 | 2,632                    | 4,157     |

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years for the finance lease obligations and operating lease obligations recorded on the Consolidated Balance Sheet as of December 31, 2020 (in thousands):

|  | Finance Leases  |               | Operating Leases |                  |
|--|-----------------|---------------|------------------|------------------|
|  |                 | Related Party | Other            | Total Operating  |
| 2021   | \$ 2,315        | \$ 1,061      | \$ 19,296        | \$ 20,357        |
| 2022   | 1,228           | 986           | 13,929           | 14,915           |
| 2023   | 867             | 534           | 8,630            | 9,164            |
| 2024   | 453             | 548           | 4,010            | 4,558            |
| 2025   | 85              | 561           | 2,358            | 2,919            |
| Thereafter                                     | —               | 526           | 5,097            | 5,623            |
| Total minimum lease payments                   | 4,948           | \$ 4,216      | \$ 53,320        | 57,536           |
| Less: Amounts representing executory costs     | (88)            |               |                  | —                |
| Less: Amounts representing interest            | (357)           |               |                  | (4,365)          |
| Present value of future minimum lease payments | 4,503           |               |                  | 53,171           |
| Less: Current obligation under leases          | (2,073)         |               |                  | (18,758)         |
| Long-term lease obligations                    | <u>\$ 2,430</u> |               |                  | <u>\$ 34,413</u> |

**NOTE 10 – FAIR VALUE MEASUREMENTS**

Fair Values

Fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820, “Fair Value Measurement,” establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. During the periods presented, there were no transfers between fair value hierarchical levels.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets, specifically other intangible and long-lived assets, are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. Assets measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019 are categorized based on the lowest level of significant input to the valuation. The assets are measured at fair value when our impairment assessment indicates a carrying value for each of the assets in excess of the asset's estimated fair value. Undiscounted cash flows, a Level 3 input, are utilized in determining estimated fair values. During each of the years ended December 31, 2020, 2019 and 2018, we did not record any impairments on these assets required to be measured at fair value on a nonrecurring basis.

Estimated Fair Value of Financial Instruments

Accounts receivable, accounts payable and accrued liabilities as of December 31, 2020 and 2019 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of certain long-term debt, including the Term Loan and ABL Revolver as of December 31, 2020 and 2019, approximate fair value due to the variable rate nature of the agreements. The carrying amounts of our operating lease right-of-use assets and the obligations associated with our operating and finance leases as well as our vehicle and equipment notes approximate fair value as of December 31, 2020 and 2019. All debt classifications represent Level 2 fair value measurements.

Derivative financial instruments are measured at fair value based on observable market information and appropriate valuation methods. Contingent consideration liabilities arise from future earnout payments to the sellers associated with certain acquisitions and are based on predetermined calculations of certain future results. These future payments are estimated by considering various factors, including business risk and projections. The contingent consideration liabilities are measured at fair value by discounting estimated future payments, calculated based on a weighted average of various future forecast scenarios, to their net present value. The fair values of financial assets and liabilities that are recorded at fair value in the Consolidated Balance Sheets and not described above were as follows (in thousands):

|                                  | As of December 31, 2020 |                  |                 |                 | As of December 31, 2019 |                  |                 |                 |
|----------------------------------|-------------------------|------------------|-----------------|-----------------|-------------------------|------------------|-----------------|-----------------|
|                                  | Total                   | Level 1          | Level 2         | Level 3         | Total                   | Level 1          | Level 2         | Level 3         |
| Financial assets:                |                         |                  |                 |                 |                         |                  |                 |                 |
| Cash equivalents                 | \$170,398               | \$170,398        | \$ —            | \$ —            | \$ 99,242               | \$ 99,242        | \$ —            | \$ —            |
| Derivative financial instruments | 5,130                   | —                | 5,130           | —               | —                       | —                | —               | —               |
| Total financial assets           | <u>\$175,528</u>        | <u>\$170,398</u> | <u>\$ 5,130</u> | <u>\$ —</u>     | <u>\$ 99,242</u>        | <u>\$ 99,242</u> | <u>\$ —</u>     | <u>\$ —</u>     |
| Financial liabilities:           |                         |                  |                 |                 |                         |                  |                 |                 |
| Contingent consideration         | \$ 4,004                | \$ —             | \$ —            | \$ 4,004        | \$ 3,854                | \$ —             |                 | \$ 3,854        |
| Derivative financial instruments | 324                     | —                | 324             | —               | 9,446                   | —                | 9,446           | —               |
| Total financial liabilities      | <u>\$ 4,328</u>         | <u>\$ —</u>      | <u>\$ 324</u>   | <u>\$ 4,004</u> | <u>\$ 13,300</u>        | <u>\$ —</u>      | <u>\$ 9,446</u> | <u>\$ 3,854</u> |

See Note 5, Investments, for more information on cash equivalents included in the table above. Also see Note 11, Derivatives and Hedging Activities, for more information on derivative financial instruments.

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The change in fair value of the contingent consideration (a Level 3 input) was as follows (in thousands):

|  |    |              |
|--|----|--------------|
| Contingent consideration liability—January 1, 2020   | \$ | 3,854        |
| Preliminary purchase price                           |    | 3,813        |
| Fair value adjustments                               |    | (473)        |
| Accretion in value                                   |    | 631          |
| Amounts cancelled                                    |    | (188)        |
| Amounts paid to sellers                              |    | (3,633)      |
| Contingent consideration liability—December 31, 2020 | \$ | <u>4,004</u> |

The accretion in value of contingent consideration liabilities is included within administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

The carrying values and associated fair values of financial assets and liabilities that are not recorded at fair value in the Consolidated Balance Sheets and not described above include our Senior Notes and investments. To estimate fair values of these items, we utilized third-party quotes which are derived all or in part from model prices, external sources or market prices. Both represent a Level 2 fair value measurement and are as follows (in thousands):

|                             | As of December 31, 2020 |            | As of December 31, 2019 |            |
|-----------------------------|-------------------------|------------|-------------------------|------------|
|                             | Carrying Value          | Fair Value | Carrying Value          | Fair Value |
| Investments                 | \$ —                    | \$ —       | \$ 37,961               | \$ 37,958  |
| Senior Notes <sup>(1)</sup> | 300,000                 | 320,013    | 300,000                 | 321,114    |

(1) Excludes the impact of unamortized debt issuance costs.

See Note 5, Investments, for more information on investments included in the table above. Also see Note 8, Long-Term Debt, for more information on our Senior Notes.

## NOTE 11 – DERIVATIVES AND HEDGING ACTIVITIES

### Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We manage exposure to a wide variety of business and operational risks through our core business activities. We manage economic risks, including interest rate, liquidity and credit risk primarily by overseeing the amount, sources and duration of debt funding and the use of derivative financial instruments. Specifically, we have entered into derivative financial instruments to manage exposure to interest rate movements that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing and duration of our known or expected cash receipts and known or expected cash payments principally related to our investments and borrowings.

### Cash Flow Hedges of Interest Rate Risk

Our purpose for using interest rate derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. During the year ended December 31, 2020, we used interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We do not use derivatives for trading or speculative purposes and we currently do not have any derivatives that are not designated as hedges. As of December 31, 2020, we have not posted any collateral related to these agreements.

During the year ended December 31, 2020, we terminated our two existing interest rate swaps and our forward interest rate swap and simultaneously entered into a new forward interest rate swap beginning July 30, 2021. We settled the terminated

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swaps by making a cash payment of \$17.8 million. This payment is classified within cash flows from operating activities within the Consolidated Statements of Cash Flows for the year ended December 31, 2020. The unrealized loss included in accumulated other comprehensive loss associated with the terminated swaps of \$17.8 million at the time of termination will be amortized to interest expense over the course of the originally scheduled settlement dates of the terminated swaps. During the year ended December 31, 2020, we amortized \$1.3 million of the unrealized loss to interest expense, net. The new forward interest rate swap has a beginning notional amount of \$200.0 million, a fixed rate of 0.51% and a maturity date of April 15, 2030. Upon commencement, this forward swap will serve to hedge substantially all of the variable cash flows on our Term Loan until its maturity and if extended. The assets and liabilities associated with the forward interest rate swap are included in other long-term assets and other current liabilities on the Consolidated Balance Sheets at their fair value amounts as described in Note 10, Fair Value Measurements.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in other comprehensive income, net of tax on the Consolidated Statements of Operations and Comprehensive Income and in accumulated other comprehensive income on the Consolidated Balance Sheets and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. We had no such changes during the years ended December 31, 2020 or 2019.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense, net as interest payments are made on our variable-rate debt. Over the next twelve months, we estimate that an additional \$3.5 million will be reclassified as an increase to interest expense, net.

LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During the year ended December 31, 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation.

## **NOTE 12 – STOCKHOLDERS' EQUITY**

As of December 31, 2020 and 2019, we had losses of \$8.8 million and \$7.1 million, respectively, in accumulated other comprehensive loss on our Consolidated Balance Sheets. The loss as of December 31, 2020 represented the unrealized loss on our terminated interest rate swaps of \$12.2 million, net of taxes, less the effective portion of the unrealized gain on our forward interest rate swap of \$3.4 million, net of taxes. The loss as of December 31, 2019 represented the effective portion of the unrealized loss on our now-terminated derivative instruments. For additional information, see Note 11, Derivatives and Hedging Activities.

On February 26, 2018, our board of directors authorized a \$50 million stock repurchase program effective March 2, 2018 and on October 31, 2018, our board of directors approved an additional stock repurchase program, effective November 6, 2018, pursuant to which we may purchase up to an additional \$100 million of our outstanding common stock. In February 28, 2020, our board of directors approved extending the current stock repurchase program to March 1, 2021. During the year ended December 31, 2020, we repurchased 633 thousand shares of our outstanding common stock with an aggregate price of approximately \$33.9 million, or \$53.57 average price per share. We did not repurchase any shares during the year ended December 31, 2019. As of December 31, 2020, we had \$26.7 million remaining on our stock repurchase program. In response to COVID-19, we temporarily suspended our share repurchase program. Given the current state of our business and our markets, effective November 9, 2020, our share repurchase program was reinstated. The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation. In February, 2021, our board of directors approved extending the current stock repurchase program and increased the total amount of our outstanding common stock authorized for purchase under the program. For more details, see Note 19, Subsequent Events.

## **NOTE 13 – EMPLOYEE BENEFITS**

### Healthcare

We participate in multiple healthcare plans, the largest of which is partially self-funded with an insurance company paying benefits in excess of stop loss limits per individual/family. Our healthcare benefit expense (net of employee contributions)

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was approximately \$24.1 million, \$21.9 million and \$17.8 million for the years ended December 31, 2020, 2019 and 2018, respectively, for all plans. An accrual for estimated healthcare claims incurred but not reported (“IBNR”) is included within accrued compensation on the Consolidated Balance Sheets and was \$3.1 million and \$2.6 million as of December 31, 2020 and 2019, respectively.

Workers’ Compensation

We participate in multiple workers’ compensation plans. Under these plans, for a significant portion of our business, we use a high deductible program to cover losses above the deductible amount on a per claim basis. We accrue for the estimated losses occurring from both asserted and unasserted claims. Workers’ compensation liability for premiums is included in other current liabilities on the Consolidated Balance Sheets. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of IBNR claims. In estimating these reserves, historical loss experience and judgments about the expected levels of costs per claim are considered. These claims are accounted for based on actuarial estimates of the undiscounted claims, including IBNR. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals.

Workers’ compensation expense totaled \$15.7 million, \$15.4 million and \$12.8 million for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in cost of sales on the Consolidated Statements of Operations and Comprehensive Income. Workers’ compensation known claims and IBNR reserves included on the Consolidated Balance Sheets were as follows (in thousands):

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2020               | 2019      |
| Included in other current liabilities   | \$ 7,703           | \$ 6,777  |
| Included in other long-term liabilities | 11,986             | 10,874    |
|   | \$ 19,689          | \$ 17,651 |

We also had an insurance receivable for claims that exceeded the stop loss limit for fully insured policies included on the Consolidated Balance Sheets. This receivable offsets an equal liability included within the reserve amounts noted above and was as follows (in thousands):

|                                      | As of December 31, |          |
|--------------------------------------|--------------------|----------|
|                                      | 2020               | 2019     |
| Included in other non-current assets | \$ 1,854           | \$ 2,098 |

Retirement Plans

We participate in multiple 401(k) plans, whereby we provide a matching contribution of wages deferred by employees and can also make discretionary contributions to each plan. Certain plans allow for discretionary employer contributions only. These plans cover substantially all our eligible employees. During the years ended December 31, 2020, 2019 and 2018, we recognized 401(k) plan expenses of \$2.2 million, \$2.0 million and \$1.7 million, respectively, which is included in administrative expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income.

Multiemployer Pension Plans

We participate in various multiemployer pension plans under collective bargaining agreements in Washington, Oregon and Illinois with other companies in the construction industry. These plans cover our union-represented employees and contributions to these plans are expensed as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. We do not participate in any multiemployer pension plans that are considered to be individually significant.

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The risks of participating in these multiemployer pension plans are different from single-employer pension plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans a withdrawal liability based upon the underfunded status of the plan.

We also participate in various multiemployer health and welfare plans that cover both active and retired participants. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

Our contributions to multiemployer pension and health and welfare benefit plans were as follows (in thousands):

|                        | Years ended December 31, |          |          |
|------------------------|--------------------------|----------|----------|
|                        | 2020                     | 2019     | 2018     |
| Pension plans          | \$ 1,128                 | \$ 809   | \$ 871   |
| Health & welfare plans | 952                      | 674      | 724      |
| Total contributions    | \$ 2,080                 | \$ 1,483 | \$ 1,595 |

The increase in contributions for the year ended December 31, 2020 was driven by the acquisitions of Insulation Contractors/Magellan Insulation and Norkote, Inc. See Note 17, Business Combinations for more information.

#### Share-Based Compensation

##### *Common Stock Awards*

We periodically grant shares of our common stock under our 2014 Omnibus Incentive Plan to non-employee members of our board of directors and our employees. During the years ended December 31, 2020, 2019 and 2018, we granted approximately six thousand, eight thousand and five thousand shares of restricted stock, respectively, to non-employee members of our board of directors. Substantially all of the stock will vest over a one-year service period.

In addition, we granted approximately 0.2 million, 0.1 million and 0.1 million shares of our common stock to employees in each of the years ended December 31, 2020, 2019 and 2018, respectively. Substantially all of the stock will vest in three equal installments (rounded to the nearest whole share) annually over a three-year service period.

##### *Performance-Based Stock Awards*

We periodically grant nonvested stock awards subject to performance-based vesting conditions to certain officers. During the year ended December 31, 2020, we issued approximately 0.1 million shares of our common stock which vest in two equal installments on each of April 20, 2021 and April 20, 2022. In addition, during the year ended December 31, 2020, we established, and our Board of Directors approved, performance-based targets in connection with common stock awards to be issued to certain officers in 2021 contingent upon achievement of these targets.

In addition, there are long-term performance-based restricted stock awards to be issued to certain employees annually through 2022 contingent upon achievement of certain performance targets. These awards are accounted for as liability-based awards since they represent a predominantly-fixed monetary amount that will be settled with a variable number of common shares and as such are included in other long-term liabilities on the Consolidated Balance Sheets. During the year ended December 31, 2020, we granted approximately seven thousand shares that will vest in 2022.

##### *Performance-Based Restricted Stock Units*

During 2019, we established, and our board of directors approved, performance-based restricted stock units in connection with common stock awards which were issued to certain employees in 2020 based upon achievement of a performance target. In addition, during the year ended 2020, we established, and our board of directors approved, performance-based restricted stock units in connection with common stock awards to be issued to certain employees in 2021 based upon achievement of a



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performance target. These units will be accounted for as equity-based awards that will be settled with a fixed number of common shares. During the year ended December 31, 2020, we granted approximately fourteen thousand shares that will vest over a one-year service period.

*Share-Based Compensation Summary*

Amounts and changes for each category of equity-based award were as follows:

|   | Common Stock Awards |  | Performance-Based Stock Awards |  | Performance-Based Restricted Stock Units |  |
|---|---------------------|--|--------------------------------|--|--|--|
|   | Awards              | Weighted Average Grant Date Fair Value Per Share | Awards                         | Weighted Average Grant Date Fair Value Per Share | Units                                    | Weighted Average Grant Date Fair Value Per Share |
| Nonvested awards/units at December 31, 2019 | 152,882             | \$ 52.93   | 160,289                        | \$ 50.49   | 13,186                                   | \$ 51.62   |
| Granted                                     | 174,445             | 44.56  | 61,174                         | 77.20  | 13,655                                   | 36.51  |
| Vested                                      | (90,870)            | 49.69  | (54,502)                       | 51.43  | (13,077)                                 | 51.50  |
| Forfeited/Cancelled                         | (5,177)             | 45.94  | —                              | —  | (491)                                    | 42.94  |
| Nonvested awards/units at December 31, 2020 | <u>231,280</u>      | <u>\$ 48.05</u>                                  | <u>166,961</u>                 | <u>\$ 59.97</u>                                  | <u>13,273</u>                            | <u>\$ 36.51</u>                                  |

The following table summarizes the share-based compensation expense recognized under our 2014 Omnibus Incentive Plan (in thousands):

|  | Years ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2020                     | 2019            | 2018            |
| Common Stock Awards                      | \$ 4,116                 | \$ 4,242        | \$ 3,847        |
| Non-Employee Common Stock Awards         | 333                      | 359             | 177             |
| Performance-Based Stock Awards           | 3,869                    | 3,034           | 2,041           |
| Liability Performance-Based Stock Awards | 1,969                    | 432             | 163             |
| Performance-Based Restricted Stock Units | 539                      | 660             | 1,618           |
|  | <u>\$ 10,826</u>         | <u>\$ 8,727</u> | <u>\$ 7,846</u> |

We recorded the following stock compensation expense, by income statement category (in thousands):

|                | Years ended December 31, |                 |                 |
|----------------|--------------------------|-----------------|-----------------|
|                | 2020                     | 2019            | 2018            |
| Cost of sales  | \$ 284                   | \$ 374          | \$ 846          |
| Selling        | 202                      | 194             | 451             |
| Administrative | 10,340                   | 8,159           | 6,549           |
|                | <u>\$ 10,826</u>         | <u>\$ 8,727</u> | <u>\$ 7,846</u> |

Administrative stock compensation expense includes all stock compensation earned by our administrative personnel, while cost of sales and selling stock compensation represents all stock compensation earned by our installation and sales employees, respectively. We recognized a tax shortfall of \$0.3 million for the year ended December 31, 2020 and we recognized windfall tax benefits of \$0.3 million and \$0.5 million for the years ended December 31, 2019 and 2018, respectively, associated with our Common Stock Awards within the income tax provision in the Consolidated Statements of Operations and Comprehensive Income.



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Unrecognized share-based compensation expense related to unvested awards was as follows (in thousands):

|  | As of December 31, 2020                                       |   |
|--|---|---|
|  | Unrecognized<br>Compensation<br>Expense<br>on Unvested Awards | Weighted Average<br>Remaining<br>Vesting Period |
| Common Stock Awards  | \$ 7,162  | 1.9 years                                       |
| Performance-Based Stock Awards                                     | 4,310   | 1.6 years                                       |
| Performance-Based Restricted Stock Units                           | 137   | 0.3 years                                       |
| Total unrecognized compensation expense related to unvested awards | \$ 11,609   |   |

Total unrecognized compensation expense is subject to future adjustments for forfeitures. This expense is expected to be recognized over the remaining weighted-average period shown above on a straight-line basis except for the Performance-Based Stock Awards which uses the graded-vesting method. Shares forfeited are returned as treasury shares and available for future issuances.

During the years ended December 31, 2020, 2019 and 2018, our employees surrendered approximately 25 thousand, 45 thousand and 41 thousand shares of our common stock under all plans, respectively, to satisfy tax withholding obligations arising in connection with the vesting of common stock awards issued under our 2014 Omnibus Incentive Plan.

As of December 31, 2020, approximately 2.0 million of the 3.0 million shares of common stock authorized for issuance were available for issuance under the 2014 Omnibus Incentive Plan.

**NOTE 14 – INCOME TAXES**

The provision for income taxes is comprised of (in thousands):

|                   | Years ended December 31, |           |           |
|-------------------|--------------------------|-----------|-----------|
|                   | 2020                     | 2019      | 2018      |
| Current:          |                          |           |           |
| Federal           | \$ 33,495                | \$ 14,850 | \$ 13,486 |
| State             | 8,918                    | 4,127     | 3,641     |
|                   | 42,413                   | 18,977    | 17,127    |
| Deferred:         |                          |           |           |
| Federal           | (7,177)                  | 4,585     | 221       |
| State             | (1,298)                  | 884       | 90        |
|                   | (8,475)                  | 5,469     | 311       |
| Total tax expense | \$ 33,938                | \$ 24,446 | \$ 17,438 |

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The reconciliation between our effective tax rate on net income and the federal statutory rate is as follows (dollars in thousands):

|  | Years ended December 31, |        |                  |        |                  |        |
|--|--------------------------|--------|------------------|--------|------------------|--------|
|  | 2020                     |        | 2019             |        | 2018             |        |
| Income tax at federal statutory rate       | \$ 27,547                | 21.0 % | \$ 19,447        | 21.0 % | \$ 15,159        | 21.0 % |
| Stock compensation                         | 331                      | 0.3 %  | (255)            | (0.3)% | (436)            | (0.6)% |
| Other permanent items                      | 424                      | 0.3 %  | 737              | 0.8 %  | (667)            | (0.8)% |
| Change in valuation allowance              | (207)                    | (0.2)% | 276              | 0.3 %  | 312              | 0.4 %  |
| Change in uncertain tax positions          | 65                       | 0.1 %  | 67               | 0.1 %  | 969              | 1.3 %  |
| State income taxes, net of federal benefit | 5,778                    | 4.4 %  | 4,174            | 4.5 %  | 2,911            | 4.0 %  |
| Rate impact of the Tax Act                 | —                        | — %    | —                | — %    | (810)            | (1.1)% |
| Total tax expense                          | <u>\$ 33,938</u>         | 25.9 % | <u>\$ 24,446</u> | 26.4 % | <u>\$ 17,438</u> | 24.2 % |

Components of the net deferred tax asset or liability are as follows (in thousands):

|                                       | As of December 31, |                   |
|---------------------------------------|--------------------|-------------------|
|                                       | 2020               | 2019              |
| Deferred Tax Assets                   |                    |                   |
| Long-term                             |                    |                   |
| Accrued liabilities and allowances    | \$ 9,106           | \$ 5,140          |
| Allowance for doubtful accounts       | 987                | 514               |
| Inventories                           | 402                | 437               |
| Property and equipment                | 280                | 303               |
| Intangibles                           | 6,582              | 5,615             |
| Net operating loss carryforwards      | 1,206              | 1,240             |
| Other                                 | 16                 | 5                 |
| Long-term deferred tax assets         | <u>18,579</u>      | <u>13,254</u>     |
| Less: Valuation allowance             | <u>(1,263)</u>     | <u>(1,512)</u>    |
| Net deferred tax assets               | 17,316             | 11,742            |
| Deferred Tax Liabilities              |                    |                   |
| Long-term                             |                    |                   |
| Accrued liabilities and allowances    | (151)              | (252)             |
| Property and equipment                | (4,587)            | (4,176)           |
| Intangibles                           | (4,810)            | (4,307)           |
| Investment in partnership             | (6,660)            | (11,857)          |
| Other                                 | (650)              | (325)             |
| Long-term deferred tax liabilities    | <u>(16,858)</u>    | <u>(20,917)</u>   |
| Net deferred tax assets (liabilities) | <u>\$ 458</u>      | <u>\$ (9,175)</u> |

As of December 31, 2020, we have recorded a deferred tax asset of \$1.2 million reflecting the benefit of \$5.4 million in federal and state income tax net operating loss (NOL) carryforwards, the earliest of which expires in 2030.

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Valuation Allowance

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets on a jurisdiction and by tax filing entity basis. A significant piece of objective negative evidence evaluated is cumulative losses incurred over the most recent three-year period. Such objective evidence limits our ability to consider other subjective positive evidence such as our projections for future growth.

Based on this evaluation, a valuation allowance has been recorded as of December 31, 2020 and 2019 for the net deferred tax assets recorded on certain of our wholly owned subsidiaries. Such deferred tax assets relate primarily to net operating losses that are not more likely than not realizable. However, the amount of the deferred tax asset considered realizable could be adjusted if our estimate of future taxable income during the carryforward period changes, or if objective negative evidence in the form of cumulative losses is no longer present. Additional weight may be given to subjective evidence such as our projections for growth in this situation.

Uncertain Tax Positions

We are subject to taxation in the United States and various state jurisdictions. As of December 31, 2020, our tax years for 2017 through 2019 are subject to examination by the tax authorities. A rollforward of the gross unrecognized tax benefits is as follows (in thousands):

|   |    |         |
|---|----|---------|
| Unrecognized tax benefit, January 1, 2018                             | \$ | 4,450   |
| Increase as a result of tax positions taken during the period         |    | 3,846   |
| Decrease as a result of tax positions taken during the period         |    | (2,850) |
| Decrease as a result of expiring statutes                             |    | (97)    |
| Unrecognized tax benefit, Unrecognized tax benefit, December 31, 2018 | \$ | 5,349   |
| Increase as a result of tax positions taken during the period         |    | 2,866   |
| Decrease as a result of tax positions taken during the period         |    | (2,482) |
| Decrease as a result of expiring statutes                             |    | (16)    |
| Unrecognized tax benefit, Unrecognized tax benefit, December 31, 2019 | \$ | 5,717   |
| Increase as a result of tax positions taken during the period         |    | 3,822   |
| Decrease as a result of tax positions taken during the period         |    | (2,873) |
| Increase as a result of expiring statutes                             |    | 10      |
| Unrecognized tax benefit, Unrecognized tax benefit, December 31, 2020 | \$ | 6,676   |

Unrecognized tax benefits of \$2.8 million at December 31, 2020 would affect the effective tax rate. Interest expense and penalties accrued related to uncertain tax positions as of December 31, 2020 are \$0.5 million.

We expect a decrease to the amount of unrecognized tax benefits (exclusive of penalties and interest) within the next twelve months of zero to \$4.8 million.

Determining uncertain tax positions and the related estimated amounts requires judgment and carry estimation risk. If future tax law changes or interpretations should come to light, or additional information should become known, our conclusions regarding unrecognized tax benefits may change.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

We sell installation services to other companies related to us through common or affiliated ownership and/or board of directors and/or management relationships. We also purchase services and materials and pay rent to companies with common or related ownership.

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We lease our headquarters and certain other facilities from related parties. See Note 9, Leases, for future minimum lease payments to be paid to these related parties.

The amount of sales to common or related parties as well as the purchases from and rent expense paid to common or related parties were as follows (in thousands):

|           | Years ended December 31, |           |           |
|-----------|--------------------------|-----------|-----------|
|           | 2020                     | 2019      | 2018      |
| Sales     | \$ 3,987                 | \$ 13,488 | \$ 12,636 |
| Purchases | 1,841                    | 1,810     | 1,587     |
| Rent      | 1,125                    | 1,040     | 1,099     |

At December 31, 2020 and 2019, we had related party balances of approximately \$0.7 million and \$1.7 million, respectively, included in accounts receivable on our Consolidated Balance Sheets. These balances primarily represent trade accounts receivable arising during the normal course of business with various related parties. M/I Homes, Inc., a customer whose Chairman, President and Chief Executive Officer was a member of our board of directors until his resignation from our board effective March 18, 2020, accounted for \$1.3 million of the related party accounts receivable balance as of December 31, 2019. Additionally, M/I Homes, Inc. accounted for a significant portion of our related party sales during the first quarter of the year ended December 31, 2020 as well as the years ended December 31, 2019 and 2018 while it was classified as a related party to the Company.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

Accrued General Liability and Auto Insurances

Accrued general liability and auto insurance reserves included on the Consolidated Balance Sheets were as follows (in thousands):

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2020               | 2019      |
| Included in other current liabilities   | \$ 5,102           | \$ 3,538  |
| Included in other long-term liabilities | 16,440             | 18,184    |
|   | \$ 21,542          | \$ 21,722 |

We also had insurance receivables and indemnification assets included on the Consolidated Balance Sheets that, in aggregate, offset equal liabilities included within the reserve amounts noted above. The amounts were as follows (in thousands):

|   | As of December 31, |          |
|---|--------------------|----------|
|   | 2020               | 2019     |
| Insurance receivables and indemnification assets for claims under fully insured policies    | \$ 4,400           | \$ 7,491 |
| Insurance receivables for claims that exceeded the stop loss limit                          | 328                | 2,321    |
| Total insurance receivables and indemnification assets included in other non-current assets | \$ 4,728           | \$ 9,812 |

Leases

See Note 9, Leases, for further information on our lease commitments.

Other Commitments and Contingencies

From time to time, various claims and litigation are asserted or commenced against us principally arising from contractual matters and personnel and employment disputes. In determining loss contingencies, management considers the likelihood of

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loss as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is considered probable that such a liability has been incurred and when the amount of loss can be reasonably estimated. As litigation is subject to inherent uncertainties, we cannot be certain that we will prevail in these matters. However, we do not believe that the ultimate outcome of any pending matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

During the year ended December 31, 2018, we entered into an agreement with one of our suppliers to purchase a portion of the insulation materials we utilize across our business. This agreement is effective January 1, 2019 through December 31, 2021 with a purchase obligation of \$22.6 million for 2020 and \$14.9 million for 2021. During the fourth quarter of 2020, our commitment for the year ended December 31, 2020 was reduced to \$12.6 million, which is equal to the total amount we purchased during the year.

**NOTE 17 – BUSINESS COMBINATIONS**

As part of our ongoing strategy to expand geographically and increase market share in certain markets, we completed nine, six and ten business combinations during the years ended December 31, 2020, 2019 and 2018, respectively, as well as several insignificant tuck-in acquisitions merged into existing operations in 2019 and 2018, in which we acquired 100% of the voting equity interests in each acquired entity. Acquisition-related costs amounted to \$2.8 million, \$2.1 million and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively, and are included in Administrative expenses on the Consolidated Statements of Operations and Comprehensive Income. The goodwill to be recognized in conjunction with these business combinations represents the excess cost of the acquired entity over the net amount assigned to assets acquired and liabilities assumed. We expect to deduct \$21.0 million of goodwill for tax purposes as a result of 2020 acquisitions.

Below is a summary of each significant acquisition by year, including revenue and net income (loss) since date of acquisition, shown for the year of acquisition. The largest of our 2020 acquisitions were Royals Commercial Services, Inc. (“Royals”) in February 2020, certain branches from Energy One America, LLC (“Energy One”) in August 2020, Storm Master Gutters (“Storm Master”) in August 2020, Insulation Contractors/Magellan Insulation (“ICON”) in October 2020, Norkote, Inc. (“Norkote”) in October 2020, and WeatherSeal Insulation Co., LLC (“WeatherSeal”) in November 2020. In each table, “Other” represents acquisitions that were individually immaterial in that year. Net income (loss), as noted below, includes amortization, taxes and interest allocations when appropriate.

For the year ended December 31, 2020 (in thousands):

| 2020 Acquisitions | Date       | Acquisition Type | Cash Paid        | Seller Obligations | Total Purchase Price | Revenue          | Net Income (Loss) |
|-------------------|------------|------------------|------------------|--------------------|----------------------|------------------|-------------------|
| Royals            | 2/29/2020  | Asset            | \$ 7,590         | \$ 2,500           | \$ 10,090            | \$ 11,095        | \$ 1,332          |
| Energy One        | 8/10/2020  | Asset            | 13,200           | 1,591              | 14,791               | 7,454            | (558)             |
| Storm Master      | 8/31/2020  | Asset            | 13,000           | 1,336              | 14,336               | 8,131            | 619               |
| ICON              | 10/13/2020 | Asset            | 16,900           | 3,598              | 20,498               | 4,798            | 449               |
| Norkote           | 10/26/2020 | Asset            | 8,725            | 2,426              | 11,151               | 2,702            | 417               |
| WeatherSeal       | 11/16/2020 | Asset            | 9,500            | 922                | 10,422               | 766              | (23)              |
| Other             | Various    | Asset            | 7,531            | 1,713              | 9,244                | 5,548            | (344)             |
| Total             |            |                  | <u>\$ 76,446</u> | <u>\$ 14,086</u>   | <u>\$ 90,532</u>     | <u>\$ 40,494</u> | <u>\$ 1,892</u>   |

For the year ended December 31, 2019 (in thousands):

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| 2019 Acquisitions    | Date       | Acquisition Type | Cash Paid        | Seller Obligations | Total Purchase Price | Revenue          | Net Income (Loss) |
|----------------------|------------|------------------|------------------|--------------------|----------------------|------------------|-------------------|
| 1st State Insulation | 3/18/2019  | Asset            | \$ 5,125         | \$ 1,355           | \$ 6,480             | \$ 9,828         | \$ 476            |
| Expert Insulation    | 6/24/2019  | Asset            | 16,165           | 1,993              | 18,158               | 6,484            | 155               |
| Premier              | 11/18/2019 | Share            | 25,000           | 2,765              | 27,765               | 2,161            | (62)              |
| Other                | Various    | Asset            | 5,750            | 1,430              | 7,180                | 3,339            | 23                |
| Total                |            |                  | <u>\$ 52,040</u> | <u>\$ 7,543</u>    | <u>\$ 59,583</u>     | <u>\$ 21,812</u> | <u>\$ 592</u>     |

For the year ended December 31, 2018 (in thousands):

| 2018 Acquisitions | Date       | Acquisition Type | Cash Paid        | Seller Obligations | Total Purchase Price | Revenue          | Net Income (Loss) |
|-------------------|------------|------------------|------------------|--------------------|----------------------|------------------|-------------------|
| CDG               | 3/19/2018  | Asset            | \$ 9,440         | \$ 1,973           | \$ 11,413            | \$ 11,466        | \$ 531            |
| AFT               | 10/31/2018 | Asset            | 19,707           | 1,510              | 21,217               | 3,530            | (13)              |
| Other             | Various    | Shares/Asset     | 28,593           | 4,057              | 32,650               | 24,329           | 639               |
| Total             |            |                  | <u>\$ 57,740</u> | <u>\$ 7,540</u>    | <u>\$ 65,280</u>     | <u>\$ 39,325</u> | <u>\$ 1,157</u>   |

Purchase Price Allocations

The estimated fair values of the assets acquired and liabilities assumed for the acquisitions, as well as total purchase prices and cash paid, approximated the following (in thousands):

|  | 2020            |                  |                  |                  |                 |                 |                 |                  |
|--|-----------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|
|  | Royals          | Energy One       | Storm Master     | ICON             | Norkote         | WeatherSeal     | Other           | Total            |
| Estimated fair values:                           |                 |                  |                  |                  |                 |                 |                 |                  |
| Accounts receivable                              | \$ 2,848        | \$ 3,357         | \$ 2,362         | \$ 4,828         | \$ 1,926        | \$ 865          | \$ 1,419        | \$ 17,605        |
| Inventories                                      | 305             | 838              | 175              | 243              | 444             | 156             | \$ 600          | \$ 2,761         |
| Other current assets                             | 430             | 12               | —                | 675              | 178             | 14              | \$ 145          | \$ 1,454         |
| Property and equipment                           | 598             | 2,319            | 798              | 380              | 584             | 520             | \$ 663          | \$ 5,862         |
| Intangibles                                      | 3,930           | 6,500            | 8,720            | 11,830           | 5,310           | 5,450           | \$ 4,483        | \$ 46,223        |
| Goodwill   | 3,015           | 3,253            | 3,631            | 2,870            | 2,841           | 3,472           | \$ 2,223        | \$ 21,305        |
| Other non-current assets                         | 58              | —                | —                | 145              | —               | —               | \$ 38           | \$ 241           |
| Accounts payable and other current liabilities   | (1,059)         | (1,469)          | (1,336)          | (445)            | (86)            | (50)            | \$ (196)        | \$ (4,641)       |
| Other long-term liabilities                      | (35)            | (19)             | (14)             | (28)             | (46)            | (5)             | \$ (131)        | \$ (278)         |
| Fair value of assets acquired and purchase price | 10,090          | 14,791           | 14,336           | 20,498           | 11,151          | 10,422          | 9,244           | 90,532           |
| Less seller obligations                          | 2,500           | 1,591            | 1,336            | 3,598            | 2,426           | 922             | 1,713           | 14,086           |
| Cash paid  | <u>\$ 7,590</u> | <u>\$ 13,200</u> | <u>\$ 13,000</u> | <u>\$ 16,900</u> | <u>\$ 8,725</u> | <u>\$ 9,500</u> | <u>\$ 7,531</u> | <u>\$ 76,446</u> |

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|  | 2019            |                  |                  |                 | Total            |
|--|-----------------|------------------|------------------|-----------------|------------------|
|  | 1st State       | Expert           | Premier          | Other           |                  |
| Estimated fair values:                           |                 |                  |                  |                 |                  |
| Cash   | —               | —                | \$ 334           | —               | \$ 334           |
| Accounts receivable                              | —               | 1,796            | 2,929            | 479             | 5,204            |
| Inventories                                      | 291             | 723              | 1,242            | 410             | 2,666            |
| Other current assets                             | —               | —                | —                | 3               | 3                |
| Property and equipment                           | 989             | 235              | 876              | 887             | 2,987            |
| Intangibles                                      | 3,382           | 6,740            | 14,300           | 3,619           | 28,041           |
| Goodwill   | 1,857           | 8,545            | 10,151           | 1,765           | 22,318           |
| Other non-current assets                         | —               | 161              | 329              | 41              | 531              |
| Accounts payable and other current liabilities   | (39)            | (42)             | (2,396)          | (24)            | (2,501)          |
| Fair value of assets acquired and purchase price | 6,480           | 18,158           | 27,765           | 7,180           | 59,583           |
| Less seller obligations                          | 1,355           | 1,993            | 2,765            | 1,430           | 7,543            |
| Cash paid  | <u>\$ 5,125</u> | <u>\$ 16,165</u> | <u>\$ 25,000</u> | <u>\$ 5,750</u> | <u>\$ 52,040</u> |

|  | 2018           |                 |                 |          | Total           |
|--|----------------|-----------------|-----------------|----------|-----------------|
|  | CDG            | AFT             | Other           |          |                 |
| Estimated fair values:                           |                |                 |                 |          |                 |
| Accounts receivable                              | \$ 1,731       | —               | \$ 4,104        | —        | \$ 5,835        |
| Inventories                                      | 514            | 565             | 1,136           | —        | 2,215           |
| Other current assets                             | 28             | —               | 918             | —        | 946             |
| Property and equipment                           | 933            | 2,882           | 2,169           | —        | 5,984           |
| Intangibles                                      | 3,711          | 13,470          | 18,904          | —        | 36,085          |
| Goodwill   | 4,898          | 4,415           | 7,766           | —        | 17,079          |
| Other non-current assets                         | 36             | 13              | 82              | —        | 131             |
| Accounts payable and other current liabilities   | (438)          | (128)           | (2,429)         | —        | (2,995)         |
| Fair value of assets acquired and purchase price | 11,413         | 21,217          | 32,650          | —        | 65,280          |
| Less seller obligations                          | 1,973          | 1,510           | 4,057           | —        | 7,540           |
| Cash paid  | <u>\$9,440</u> | <u>\$19,707</u> | <u>\$28,593</u> | <u>—</u> | <u>\$57,740</u> |

Contingent consideration is included as “seller obligations” in the above table or within “fair value of assets acquired” if subsequently paid during the period presented. These contingent payments consist primarily of earnouts based on performance that are recorded at fair value at the time of acquisition, and/or non-compete agreements and amounts based on working capital calculations. When these payments are expected to be made over one year from the acquisition date, the contingent consideration is discounted to net present value of future payments based on a weighted average of various future forecast scenarios.

Further adjustments to the allocation for each acquisition still under its measurement period are expected as third-party or internal valuations are finalized, certain tax aspects of the transaction are completed, contingent consideration is settled, and customary post-closing reviews are concluded during the measurement period attributable to each individual business combination. As a result, insignificant adjustments to the fair value of assets acquired, and in some cases total purchase price, have been made to certain business combinations since the date of acquisition and future adjustments may be made through the end of each measurement period. Goodwill and intangibles per the above table do not agree to the total gross increases of these assets as shown in Note 7, Goodwill and Intangibles, during the years ended December 31, 2020, 2019 and 2018 due to minor adjustments to goodwill for the allocation of certain acquisitions still under measurement as well as other immaterial intangible assets added during the ordinary course of business. In addition, goodwill and intangibles increased during the years ended December 31, 2019 and 2018 due to various small acquisitions merged into existing operations that do not appear in the above tables.

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Estimates of acquired intangible assets related to the acquisitions are as follows (dollars in thousands):

|                             | 2020                 |  | 2019                 |  | 2018                 |  |
|-----------------------------|----------------------|--|----------------------|--|----------------------|--|
|                             | Estimated Fair Value | Weighted Average Estimated Useful Life (yrs) | Estimated Fair Value | Weighted Average Estimated Useful Life (yrs) | Estimated Fair Value | Weighted Average Estimated Useful Life (yrs) |
| Acquired intangibles assets |                      |  |                      |  |                      |  |
| Customer relationships      | \$ 28,307            | 8  | \$ 20,659            | 8  | \$ 27,149            | 8  |
| Trademarks and trade names  | 9,834                | 15   | 5,286                | 15   | 6,075                | 15   |
| Non-competition agreements  | 3,315                | 5  | 2,096                | 5  | 2,401                | 5  |
| Backlog                     | 4,767                | 1.5  | —                    | —  | 460                  | 2  |

Pro Forma Information (unaudited)

The unaudited pro forma information has been prepared as if the 2020 acquisitions had taken place on January 1, 2019, the 2019 acquisitions had taken place on January 1, 2018 and the 2018 acquisitions had taken place on January 1, 2017. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2019, 2018 and 2017 and the unaudited pro forma information does not purport to be indicative of future financial operating results (in thousands, except for per share data).

|                              | December 31, |              |              |
|------------------------------|--------------|--------------|--------------|
|                              | 2020         | 2019         | 2018         |
| Net revenue                  | \$ 1,722,030 | \$ 1,660,326 | \$ 1,436,713 |
| Net income                   | 99,243       | 76,474       | 61,148       |
| Basic net income per share   | 3.36         | 2.57         | 1.97         |
| Diluted net income per share | 3.34         | 2.56         | 1.96         |

Unaudited pro forma net income reflects additional intangible asset amortization expense of \$5.4 million, \$10.2 million and \$6.2 million for the years ended December 31, 2020, 2019 and 2018, respectively, as well as additional income tax expense of \$0.7 million, \$3.0 million and \$2.0 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**NOTE 18 – INCOME PER COMMON SHARE**

Basic net income per common share is calculated by dividing net income by the weighted average shares outstanding during the period, without consideration for common stock equivalents.

Diluted net income per common share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method. Potential common stock is included in the diluted income per common share calculation when dilutive. The dilutive effect of outstanding restricted stock awards after application of the treasury stock method as of December 31, 2020, 2019 and 2018, was 213 thousand, 120 thousand and 122 thousand, respectively. Approximately four thousand shares of potential common stock was not included in the calculation of diluted net income per common share for the year ended December 31, 2020 because the effect would have been anti-dilutive.



**NOTE 19 – SUBSEQUENT EVENTS**

On February 22, 2021, our board of directors authorized an extension of our stock repurchase program through March 1, 2022 and concurrently authorized an increase in the total amount of our outstanding common stock we can purchase up to \$100.0 million. As a result of this extension, we have \$100.0 million remaining on our stock repurchase program as of the date of filing of this Form 10-K. For further information about our stock repurchase program, see Note 12, Stockholder's Equity.

In addition, we recently announced that our board of directors declared our first quarterly dividend, payable on March 31, 2021 at a rate of \$0.30 per common share.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2020 with the participation of the Company's principal executive officer and principal financial officer as required by Exchange Act Rule 13a-15(b). Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that, as of December 31, 2020, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management, under the supervision of the principal executive officer and the principal financial officer, assessed the effectiveness of our internal control over financial reporting, excluding the internal control over financial reporting at the subsidiaries listed below that we acquired during 2020 as of December 31, 2020 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*. The scope of management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2020 includes all of the Company's subsidiaries except the subsidiaries listed below, which were acquired during 2020 and whose financial statements constitute the percentages of total assets and net revenue listed below of the consolidated financial statements of the Company as of and for the year ended December 31, 2020:

| Subsidiary           | Acquisition Date  | Percentage of Total Assets | Percent of Net Revenue |
|----------------------|-------------------|----------------------------|------------------------|
| SCE Unlimited        | January 13, 2020  | 0.1%                       | 0.1%                   |
| Royals               | February 29, 2020 | 0.9%                       | 0.7%                   |
| Nationwide Gutters   | June 22, 2020     | 0.5%                       | 0.2%                   |
| Energy One           | August 10, 2020   | 1.4%                       | 0.5%                   |
| Storm Master         | August 31, 2020   | 1.3%                       | 0.5%                   |
| ICON                 | October 13, 2020  | 1.8%                       | 0.3%                   |
| Norkote              | October 26, 2020  | 1.0%                       | 0.2%                   |
| WeatherSeal          | November 16, 2020 | 0.9%                       | 0.0%                   |
| Custom Glass & Doors | December 7, 2020  | 0.2%                       | 0.0%                   |

Management excluded the internal control over financial reporting at these subsidiaries from its assessment in accordance with the guidance of the staff of the SEC that an assessment of a recently acquired business may be omitted from the scope of management's assessment of internal control over financial reporting for one year following the acquisition.

Based on this assessment, management has determined that our internal control over financial reporting was effective as of December 31, 2020. We have not experienced any material impact to our internal controls over financial reporting due to the

COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation to identify potential limitations on our current internal controls that would adversely impact the design and operating effectiveness of internal controls over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2020, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which follows below.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2020 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Installed Building Products, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Installed Building Products, Inc. (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 24, 2021, expressed an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the subsidiaries listed below, which were acquired during 2020 and whose financial statements constitute the percentages of total revenues and assets listed below of the consolidated financial statements of the Company as of and for the year ended December 31, 2020.

| <u>Subsidiary</u>    | <u>Acquisition Date</u> | <u>Percentage of Total Assets</u> | <u>Percent of Net Revenue</u> |
|----------------------|-------------------------|-----------------------------------|-------------------------------|
| SCE Unlimited        | January 13, 2020        | 0.1%                              | 0.1%                          |
| Royals               | February 29, 2020       | 0.9%                              | 0.7%                          |
| Nationwide Gutters   | June 22, 2020           | 0.5%                              | 0.2%                          |
| Energy One           | August 10, 2020         | 1.4%                              | 0.5%                          |
| Storm Master         | August 31, 2020         | 1.3%                              | 0.5%                          |
| ICON                 | October 13, 2020        | 1.8%                              | 0.3%                          |
| Norkote              | October 26, 2020        | 1.0%                              | 0.2%                          |
| WeatherSeal          | November 16, 2020       | 0.9%                              | 0.0%                          |
| Custom Glass & Doors | December 7, 2020        | 0.2%                              | 0.0%                          |

Accordingly, our audit did not include the internal control over financial reporting of the subsidiaries listed above.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ Deloitte & Touche LLP*

Columbus, Ohio  
February 24, 2021

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be set forth under the headings “Election of Directors,” “Executive Officers and Certain Significant Employees,” “Corporate Governance” and “Delinquent Section 16(a) Reports” in our definitive proxy statement for the 2021 Annual Meeting of Stockholders (“2021 Proxy Statement”) to be filed with the SEC within 120 days of the fiscal year ended December 31, 2020 and is incorporated herein by reference.

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our code of business conduct and ethics is posted on the investor relations page on our website which is located at <http://investors.installedbuildingproducts.com>. We will post any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website.

### **Item 11. Executive Compensation**

The information required by this item will be set forth under the headings “Executive Compensation,” “Chief Executive Pay Ratio” and “Compensation Committee Interlocks and Insider Participation” in our 2021 Proxy Statement and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in our Proxy Statement for our 2021 Annual Meeting of Stockholders, to be filed on or before April 16, 2021, and such information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be set forth under the headings “Certain Relationships and Related-Party Transactions” and “Corporate Governance” in our 2021 Proxy Statement and is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

The information required by this item will be set forth under the heading “Fees Paid to Deloitte” and “Pre-Approval of Services” in our 2021 Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

- (a) The following documents are filed as a part of this Form 10-K:
1. Financial Statements: The Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm for Installed Building Products, Inc. are presented in Item 8, Financial Statements and Supplementary Data, of Part II of this Form10-K.
  2. Financial Schedules: All financial statement schedules have been omitted because they are inapplicable, not required, or shown in the consolidated financial statements and notes in Item 8, Financial Statements and Supplementary Data, of Part II of this Form10-K.
- (b) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u>   |
|-----------------------|--|
| 2.1†                  | Share Purchase Agreement, dated as of October 29, 2016, among EMPER Holdings, LLC; PREEM Holdings I, LLC; PREEM Holdings II, LLC; Vikas Verma; Henry Schmueckle; Vikas Verma in his capacity as the equityholders' representative; and Installed Building Products, Inc., incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 31, 2016.  |
| 3.1                   | Second Amended and Restated Certificate of Incorporation of Installed Building Products, Inc., incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 25, 2014.  |
| 3.2                   | Amended and Restated Bylaws of Installed Building Products, Inc., incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 28, 2018.   |
| 4.1                   | Form of Common Stock Certificate of Installed Building Products, Inc., incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed on January 27, 2014.   |
| 4.2                   | Indenture, dated September 26, 2019, among Installed Building Products, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee (including the Form of Note), incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 27, 2019.  |
| 4.3                   | Description of Installed Building Product, Inc.'s Securities Registered Pursuant to Section 12 of the Exchange Act, incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K filed on February 27, 2020.   |
| 10.1#                 | Form of Indemnification Agreement for directors and officers, incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on FormS-1/A filed on January 27, 2014.  |
| 10.2#                 | Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards, incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 filed on January 9, 2014.  |
| 10.3#                 | Amendment No. 1, dated as of November 1, 2016, to Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 28, 2017.  |
| 10.4#                 | Amendment No. 2, dated as of November 1, 2019, to Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards, incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed on February 27, 2020.   |
| 10.5#                 | Installed Building Products, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1/A filed on January 27, 2014.   |
| 10.6#                 | Amendment, dated as of February 24, 2017, to the Installed Building Products, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on February 28, 2017.   |
| 10.7                  | Term Loan Credit Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., the lenders party thereto from time to time, Royal Bank of Canada, as term administrative agent, and RBC Capital Markets, UBS Securities LLC and Jefferies Finance LLC as joint lead arrangers and joint bookrunners, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 17, 2017. |

- 10.8 Credit Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., the subsidiary guarantors from time to time party thereto, the financial institutions from time to time party thereto, and SunTrust Bank, as issuing bank, swing bank and administrative agent, with SunTrust Robinson Humphrey, Inc. as left lead arranger and bookrunner, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 17, 2017.
- 10.9 ABL/Term Loan Intercreditor Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., SunTrust Bank, as ABL agent, Royal Bank of Canada, as term loan agent, and each of the agents and certain of the Company's subsidiaries from time to time party thereto, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 17, 2017.
- 10.10 Term Collateral Agreement, dated April 13, 2017, among Installed Building Products, Inc., certain of its subsidiaries and Royal Bank of Canada, as term collateral agent, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 17, 2017.
- 10.11 Security Agreement, dated April 13, 2017, among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 17, 2017.
- 10.12 Term Guarantee Agreement, dated April 13, 2017, among certain of Installed Building Products, Inc.'s subsidiaries and Royal Bank of Canada, as term collateral agent, incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 17, 2017.
- 10.13 Amendment No. 1, dated October 26, 2017, to Term Loan Credit Agreement by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as lead arranger and bookrunner, incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed on February 28, 2018.
- 10.14 First Amendment, dated November 30, 2017, to Term Loan Credit Agreement, by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as lead arranger and bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 1, 2017.
- 10.15 First Amendment, dated October 26, 2017, to the Credit Agreement among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on February 28, 2018.
- 10.16 Second Amendment, dated December 26, 2017, to the Credit Agreement among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K filed on February 28, 2018.
- 10.17 Second Amendment to Term Loan Credit Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as joint lead arranger and joint bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 19, 2018.
- 10.18 Third Amendment to Credit Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., the lenders party thereto, and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 19, 2018.
- 10.19 Restatement Agreement, dated as of December 17, 2019, among Installed Building Products, Inc., as Borrower, the Lenders party thereto and Bank of America, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 18, 2019.
- 10.20 First Amendment to ABL/Term Loan Intercreditor Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., SunTrust Bank, as ABL agent, and Royal Bank of Canada, as term loan agent, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 19, 2018.
- 10.21 Second Amendment to ABL/Term Loan Intercreditor Agreement, dated as of December 17, 2019, by and among Installed Building Products, Inc., as Borrower, Bank of America, N.A., as ABL Agent, and Bank of America, N.A., as Term Loan Agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 18, 2019.
- 10.22 Purchase Agreement, dated as of September 16, 2019, by and among Installed Building Products, Inc., as issuer, the subsidiary guarantors party thereto, and BofA Securities, Inc. for itself and on behalf of several initial purchasers, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 17, 2019.
- 10.23 Credit Agreement, dated September 26, 2019, among Installed Building Products, Inc., the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as issuing bank, swing bank and administrative agent, with KeyBank National Association, as a syndication agent and U.S. Bank National Association, as a syndication agent, and Bank of America, N.A., as lead arranger and bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 27, 2019.



- 10.24 Security Agreement, dated September 26, 2019, among Installed Building Products, Inc., the other grantors party thereto and Bank of America, N.A., as administrative agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 27, 2019.
- 10.25# Retirement and General Release Agreement, dated as of July 31, 2018, by and among Installed Building Products, Inc., Installed Building Products, LLC, TCI Contracting, LLC and J. Michael Nixon, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 3, 2018.
- 10.26 Share Repurchase Agreement, dated November 5, 2018, by and between Installed Building Products, Inc. and PJAM IBP Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 5, 2018.
- 10.27# Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 14, 2014.
- 10.28# Form of Performance Share Award Agreement, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 13, 2014.
- 10.29# Form of Restricted Stock Agreement for Employees, incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on March 13, 2015.
- 10.30# Form of Restricted Stock Agreement for awards made on or after April 19, 2017, incorporated by reference to Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.
- 10.31# Form of Performance Share Agreement for awards made on or after April 19, 2017, incorporated by reference to Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.
- 10.32# Form of Stock Award Agreement, incorporated by reference to Exhibit 10.37 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.
- 10.33# Form of Performance-Based Cash Award Agreement, incorporated by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.
- 21.1\* List of Subsidiaries of Installed Building Products, Inc.
- 23.1\* Consent of Deloitte & Touche LLP.
- 31.1\* CEO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* CFO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\*\* The following financial statements from the Company's Annual Report on Form 10-K for the period ended December 31, 2020, formatted in inline XBRL, include: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.
- 104\*\* Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

\* Filed herewith

\*\* Submitted electronically with the report.

# Indicates management contract or compensatory plan.

† Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

## Item 16. Form 10-K Summary

None

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 24, 2021

INSTALLED BUILDING PRODUCTS, INC.

/s/ Jeffrey W. Edwards  
By: Jeffrey W. Edwards  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>  | <u>Title</u>  | <u>Date</u>       |
|---|---|-------------------|
| <u>/s/ Jeffrey W. Edwards</u><br>Jeffrey W. Edwards         | President, Chief Executive Officer and<br>Chairman of the Board of Directors<br>(Principal Executive Officer) | February 24, 2021 |
| <u>/s/ Michael T. Miller</u><br>Michael T. Miller           | Executive Vice President, Chief Financial<br>Officer and Director<br>(Principal Financial Officer)            | February 24, 2021 |
| <u>/s/ Todd R. Fry</u><br>Todd R. Fry                       | Chief Accounting Officer and Treasurer<br>(Principal Accounting Officer)                                      | February 24, 2021 |
| <u>/s/ Margot L. Carter</u><br>Margot L. Carter             | Director  | February 24, 2021 |
| <u>/s/ Lawrence A. Hilsheimer</u><br>Lawrence A. Hilsheimer | Director  | February 24, 2021 |
| <u>/s/ Janet E. Jackson</u><br>Janet E. Jackson             | Director  | February 24, 2021 |
| <u>/s/ David R. Meuse</u><br>David R. Meuse                 | Director  | February 24, 2021 |
| <u>/s/ Michael H. Thomas</u><br>Michael H. Thomas           | Director  | February 24, 2021 |
| <u>/s/ Vikas Verma</u><br>Vikas Verma                       | Director  | February 24, 2021 |

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INSTALLED BUILDING PRODUCTS

# Investor Information

## Board of Directors

### MARGOT L. CARTER

President and Founder  
Living Mountain Capital L.L.C.

### JEFFREY W. EDWARDS

Chairman, President and  
Chief Executive Officer  
Installed Building Products, Inc.

### LAWRENCE A. HILSHEIMER

Executive Vice President and  
Chief Financial Officer  
Greif, Inc.

### JANET E. JACKSON

President and Chief Executive Officer  
(Retired 2017)  
United Way of Central Ohio

### DAVID R. MEUSE

Senior Advisor of  
Stonehenge Partners, Inc.

### MICHAEL T. MILLER

Executive Vice President and  
Chief Financial Officer  
Installed Building Products, Inc.

### MICHAEL H. THOMAS

Partner (Retired 2014)  
Stonehenge Partners

### VIKAS VERMA

President of Commercial  
Development  
Installed Building Products, Inc.

## Executive Officers

### JEFFREY W. EDWARDS

Chairman, President and  
Chief Executive Officer

### JAY P. ELLIOTT

Chief Operating Officer

### TODD R. FRY

Chief Accounting Officer  
and Treasurer

### W. JEFFREY HIRE

President, External Affairs

### MICHAEL T. MILLER

Executive Vice President and  
Chief Financial Officer

### JASON R. NISWONGER

Senior Vice President,  
Finance and Investor Relations

## STOCK INFORMATION

Ticker Symbol: IBP  
Exchange: NYSE

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP  
Columbus, Ohio

## TRANSFER AGENT AND REGISTRAR

Computershare  
462 South 4th Street, Suite 1600  
Louisville, KY 40233-5000  
Shareholder Services Number – (800) 736-3001  
[www.computershare.com/investor](http://www.computershare.com/investor)

## ANNUAL MEETING OF STOCKHOLDERS

May 27, 2021 at 10:00 a.m. ET  
[www.meetingcenter.io/269787416](http://www.meetingcenter.io/269787416)

## ADDITIONAL INFORMATION

Additional information about the Company and copies of this Annual Report, along with our periodic filings with the Securities and Exchange Commission, are available on our website at [installedbuildingproducts.com](http://installedbuildingproducts.com). Printed copies are also available upon request, free of charge, by contacting:

## INVESTOR RELATIONS

Installed Building Products, Inc.  
495 South High Street, Suite 50  
Columbus, Ohio 43215  
(614) 221-9944

This document contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements may generally be identified by the use of words such as “anticipate,” “believe,” “expect,” “intends,” “plan,” and “will” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements that we make herein and in any future reports and statements are not guarantees of future performance, and actual results may differ materially from those expressed in or suggested by such forward-looking statements as a result of various factors, including, without limitation, the adverse impact of the COVID-19 crisis on our business and financial results, the economy and the markets we serve, general economic and industry conditions, the material price environment, and the factors discussed in the “Risk Factors” section of the enclosed Annual Report on Form 10-K for the year ended December 31, 2020, as the same may be updated from time to time in our subsequent filings with the Securities and Exchange Commission. Any forward-looking statement made by the Company in this document speaks only as of the date hereof. New risks and uncertainties arise from time to time, and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws.





Creating spaces in which people thrive is what we do. From improving homes, to lifting up communities, to creating a rewarding workplace, we take immense pride in laying the groundwork for a brighter future.