

BLD Earnings Call Transcript

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Quarter: 3

Operator: Greetings, and welcome to TopBuild's Third Quarter 2025 Earnings Conference Call. [Operator Instructions]. As a reminder, this conference is being recorded. It is now my pleasure to introduce P.I. Aquino, Vice President, Investor Relations.

P.I. Aquino: Please go ahead. Good morning, and thanks for joining us. With me today are Robert Buck, our President and CEO; and Rob Kuhns, our CFO. Our earnings release, senior management's formal remarks and the deck summarizing our comments can be found on our website at topbuild.com. Many of our remarks today will include forward-looking statements, which are subject to known and unknown risks and uncertainties including those set forth in this morning's press release and in the company's SEC filings. The company assumes no obligation to update any forward-looking statements because of new information, future events or otherwise. Please note that some of the financial measures to be discussed during this call will be on a non-GAAP basis. These non-GAAP measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. We provided a reconciliation of these financial measures to the most comparable GAAP measures in today's press release and in our presentation, both of which are available on our website. Let me now turn the call over to our President and CEO, Robert Buck.

Robert Buck: Good morning. Thank you for joining us today for our third quarter earnings call. With more than 3 quarters of the year behind us, we are proud of what our teams have accomplished thus far in 2025. Let me start by giving you an update on where we are with our acquisitions. In the third quarter, we acquired Progressive Roofing. With roughly \$440 million in annual sales, we've established an exciting new platform for growth in commercial roofing, which has a large and very fragmented \$75 billion TAM. In the first 100 days following the acquisition, we continued to learn great things about the business and are refining a strategy to build on the platform. We've established great connection points across the Progressive Roofing organization, and our teams are doing a great job coming together and executing for the future. In October, we closed the SPI transaction. With this strategic deal, we're bringing together two leaders in the mechanical insulation and custom fabrication to better serve our commercial industrial customers across diverse vertical markets. The transaction extended our geographic footprint and expanded our capabilities. Our teams are already hard at work, as we leverage our M&A; integration expertise to get SPI onto our technology platform and drive synergies. We expect to deliver \$35 to \$40 million in annual run-rate synergies over the next two years, and we're excited to have the SPI team onboard. We also announced yesterday several additional acquisitions. We closed Insulation Fabrics, Diamond Door Products and Performance Insulation Fabricators over the last few weeks and will soon close on a fourth acquisition, L&L; Insulation. Together, these acquisitions add just over \$50 million in annual revenue. Diamond Door Products is a very attractive complement to our specialty distribution business. Diamond Door fabricates and assembles insulated steel door systems which gives us the opportunity to provide metal building insulation customers with a value-added bundle of products that customers have requested. Insulation Fabrics and Performance Insulation Fabricators expand our distribution offerings of insulation accessories and mechanical insulation, while L&L; Insulation grows our residential insulation installation business in Colorado. Our M&A; Team is doing a great job. We continue to have a very attractive pipeline of acquisition candidates, and there's no shortage of opportunities to consider. Let

me transition to discuss our results in the quarter. Results were in line with expectations and similar to the prior quarter. Our performance was solid even as the macro environment remains uncertain. We posted total sales growth in the quarter of 1.4% to \$1.4 billion. Although the residential new construction market continues to be weak, it was partially offset by ongoing growth in heavy commercial and industrial. We're also benefiting from the contribution of our commercial roofing acquisition. Fundamentally, housing in the U.S. is still underbuilt and our long-term opportunity is intact. Near term, the downward movement of interest rates is encouraging, however mixed economic signals and affordability concerns linger, impacting consumer confidence and home buying decisions. Profitability in the third quarter was again solid and we reported adjusted EBITDA margin of 19.8% as we continue our focus on operational excellence across the business and supply chain. Turning to capital allocation, our priorities have not changed. We continue to believe we can drive the greatest shareholder returns through M&A.; We're also evaluating -- we are always evaluating opportunities and will remain disciplined around valuation. In the third quarter, we repurchased nearly 178,000 shares, returning \$65.5 million in capital to shareholders. As you know, we plan to host an Investor Day in New York on December 9th. So, before I turn it over to Rob, let me give you a bit of a preview of the day so you have an idea what to expect. TopBuild has a differentiated business model and a clear profitable growth strategy, which drives compounded returns. Our strong track record of value creation would not be possible without our great team of leaders, many of whom you'll meet, including some folks from our recent acquisitions. You've heard us talk a lot about being a people business. One of our core strengths is our culture and our ability to attract and retain great talent, both of which we'll cover in more detail. This year we've expanded our total addressable market to approximately \$90 billion, so we'll spend some time discussing our strategy for continued growth in this space, both organically and through M&A.; We have the advantage of having a single technology platform that enables us to drive operational excellence and efficiencies. As we look ahead, we'll share more on our digital roadmap to support continued operational excellence and solutions that improve the customer experience. Finally, we'll share our thoughts on TopBuild's long-term financial outlook. We encourage you to join us in person. If you don't already have the details and would like to attend, please reach out to PI. With that, let me close by thanking our teams as we continue our focus on safety, driving profitable growth and operational excellence. I also want to welcome our most recent acquisitions to our team. We look forward to working together and are delighted to have you join the TopBuild family. Rob?

Robert Kuhns: Thanks, Robert. Let me start by thanking our teams for continuing to drive solid results. Despite some challenging macro headwinds, our business continues to generate healthy margins and strong free cash flows, proving the strength and resiliency of our model. Turning to the third quarter results, our performance was in line with our expectations. Total sales grew 1.4% to \$1.4 billion, driven by M&A; of 7.9% and pricing of 0.3%, which were partially offset by a 6.7% decline in volume. Sales in our Installation Services segment totaled \$858.3 million, up 0.2%, as M&A; added 11% which was offset by a decline of 10.4% in volume and a 0.5% pricing decrease. As a reminder, our Installation Services segment includes Progressive Roofing, and they drove the majority of the \$95 million of M&A; revenue for the segment in the quarter. During the third quarter the demand for our legacy insulation installation services remained challenged in both residential and light commercial markets but was in line with our expectations. Specialty Distribution sales grew 1.4% to \$608.9 million in the third quarter. Our sixth consecutive quarter of year-over-year growth in Specialty Distribution was driven by acquisitions of 2.3% and pricing of 1.2%, which were partially offset by a 2.1% volume decline. During the third quarter, Specialty Distribution's volumes and pricing remained challenged in residential products but continued to be strong for commercial products, especially mechanical insulation. Adjusted gross profit in the third quarter was 30.1%, which compares to 30.7% last year. Adjusted SG&A; as a percentage of sales in the third quarter was 13.6% versus 12.8% last year. The increase in SG&A; percentage was primarily driven by incremental amortization from acquisitions. On a same branch basis, excluding acquisitions, SG&A; was 13.1% in the third quarter. Third quarter adjusted EBITDA for TopBuild totaled \$275.6 million, and adjusted EBITDA margin was 19.8%, down 100 basis points versus the third quarter of last year. Our margins continue to be very resilient primarily due to actions we took earlier this year and supply chain improvements. These cost savings are helping to offset price pressure on residential insulation products. Installation Services adjusted EBITDA margin

was 22.5%, an improvement of 20 basis points versus the third quarter of last year. Specialty Distribution adjusted EBITDA margin of 16.9% was down 150 basis points versus the third quarter of 2024. Other expense for the quarter was \$24.5 million, compared to \$16.1 million last year. The increase is due to higher interest expense resulting from the increased borrowing on our upsized credit facility that occurred in May of this year. Third quarter adjusted earnings per diluted share was \$5.36 and compares to \$5.68 last year. Turning to the balance sheet and cash flows, we ended the third quarter with total liquidity of \$2.1 billion, of which \$1.1 billion was cash and \$933.4 million was available under our revolver. Total debt at the end of the quarter was \$2.9 billion, \$1.5 billion higher than last year due to the refinancing and expansion of our credit facility and \$750 million in senior notes issued in September. Third quarter net debt was \$1.7 billion, and our net debt leverage ratio was 1.6 times trailing 12 months pro forma adjusted EBITDA. Our TTM free cash flow as of Q3 was \$791.2 million, up 13.4% versus last year primarily due to working capital. Working capital as a percentage of sales totaled 14.2%, which compares to 14.1% last year. We have been talking about our active M&A; pipeline and we are very excited to announce some results on that front as we closed the SPI transaction in October and as you saw in our press release yesterday, we have signed and/or closed four additional deals across our businesses. M&A; remains our top capital allocation priority. Assuming we owned SPI and the four most recent acquisitions for the last twelve months, our pro forma net debt leverage would have been 2.4 times. In the third quarter, we also repurchased shares totaling \$65.5 million, which brings our year-to date total to \$417.1 million or more than 1.3 million shares. \$770.9 million remains under the current authorization. As you saw in our release, we are updating our guidance today to incorporate the impact of our recent acquisitions. In the release and presentation, we've formatted our guidance table to make your modeling more straightforward. We expect full year sales to be between \$5.35 to \$5.45 billion, with the following assumptions at the midpoint. On a same branch basis, including price, we continue to expect residential sales will be down low double-digits for the year, driven by continued weakness in both single-family and multi-family. Commercial and industrial same branch sales are expected to be flattish. We expect heavy commercial projects to remain strong, while light commercial will continue to be challenged. The full year impact of M&A; on sales is expected to be approximately \$450 million. We are raising our adjusted EBITDA guidance for the year to be between \$1.01 billion to \$1.06 billion, which represents adjusted EBITDA margin of 19.2% at the midpoint. Depreciation and amortization are expected to be in the range of \$166 to \$171 million, and interest expense and other will be between \$88 to \$91 million for the year. We continue to expect our tax rate to be approximately 26%. In closing, I would like to welcome the employees from our recent acquisitions to the TopBuild family. These recent acquisitions have strengthened our legacy installation and distribution businesses, they have made our revenue streams less cyclical, and they have broadened our opportunities for growth. We are looking forward to sharing our excitement about the future at our Investor Day in New York next month.

Robert Buck: Thanks, Rob. The underlying fundamentals for our business are solid, and we have a uniquely positioned, diversified business model across the residential, commercial, and industrial construction end markets. Our leadership has great control over our business, as demonstrated by our ability to navigate successfully in a challenging environment. And as always, we're focused on driving profitable growth and increased shareholder value. We look forward to seeing you at our Investor Day on Tuesday, December 9th. With that, operator, let's open the line up for questions.

Operator: [Operator Instructions]. Our first question is from Stephen Kim with Evercore ISI.

Aatish Shah: This is Aatish on for Steve. I just wanted to touch on Progressive. Can you talk about the sales contribution for Progressive in the quarter? And are you still on track for the -- I think the incremental \$215 million for the full year? If you could touch on that, that would be helpful?

Robert Kuhns: Yes, this is Rob. So their total contribution in the quarter was about \$92 million of sales. For the quarter, they're probably closer to about a \$205 number now than the \$215 we had previously. There's been a handful of projects pushed out a big data center in Iowa, some school funding in Arizona that was a little bit slower than originally anticipated. I'd say despite that, we're still looking at the back half of the year up low single digits for them. So nothing that we're concerned about at this point.

Stephen Kim: Great. Yes, it's Steve Kim. I appreciate that. You also announced these 4 acquisitions

yesterday. And One of them was a manufacturer, and it seemed like that was sort of an interesting move on your part. So I was curious -- well, and frankly, also the fabric distributor was also interesting. Can you just provide a little bit more color on those and why those were something that was particularly intriguing for you? for example, like the fabric, the distribution, why not just add the bags, netting and suits to your existing facilities? I assume there's something the value-add they bring, and that would be helpful to understand. And then the doors, the insulated doors, is this -- is your intent to move deeper into manufacturing of specialty products like that? Those are the sort of the questions I had around those acquisitions.

Robert Buck: Steve, It's Robert. So let's start with Diamond Doors. Not a manufacturer, they just do assembly and some fabrication i.e. assembling those doors, I would definitely not call it manufacturing. And it's really just a bundle that goes with the metal building industry and the metal building products and where our customers have been asking for it is doors would typically get delivered at the beginning of the project. You would have damage to doors, that type of stuff they were sitting on job sites. And so given our relationships now we're able to bundle it with the insulation that both get installed at the same time, these door systems. So it's a great adjacency that put our sales force on top of what we think is going to drive some great cross-selling opportunities. So we got it right down the fairway from that perspective. Insulation fabric, from that perspective is some of the products that we sold, some new products, but it's all really insulation accessories. They have a great reputation in the industry as well as some great customer relationships as well. So it was really a good add-on there given some of the talent, relationships and it just adds to the insulation accessories. So we would consider that right down the fairway from a distribution perspective.

Stephen Kim: Okay. So were you already selling those nettings and suits in your existing priorities...

Robert Buck: Some of those products like the suits and the netting, as we were already in some of those products as well. Yes, absolutely.

Operator: Our next question is Michael Rehaut with JPMorgan.

Michael Rehaut: Great. Thanks, everyone. First question, wanted to 0 in, and apologies if I missed this in your prepared remarks, but quarter ago, you kind of baked in some price cost headwind into the back half of the year based on the potential for maybe pricing on the margin to weaken insulation pricing that is. I wanted to know in your current guidance, if that headwind is still baked in. I believe it was a \$30 million headwind. And more broadly, how insulation pricing has trended during 3Q?

Robert Kuhns: Yes, Michael, this is Rob. So that is still baked into our guidance, about \$30 million for the full year. We got impacted by roughly \$12 million, I'd say, in the third quarter, more heavily on the distribution side of the business than on the installation side of the business. Now you do see pricing on installation. We did have negative price there. So we're kind of seeing the product mix play out between the 2 segments. So when you look at the Installation segment, where we're having price pressure is on residential products, fiberglass and spray foam. It's a much larger percentage of our revenue on the installation side of the business. Now we're doing a good job of maintaining margins there and working back with our supply chain partners and taking costs out where we can. On the distribution side, I'd say those pressures in residential products are even stronger and having more margin impact but it's a much smaller percentage of the product mix on that side of the business because of all the commercial products. And then the other thing you got going on that's driving pricing actually positive on the distribution side is that we've got gutters and mechanical insulation, which make up a larger percentage of the product mix on that side that have positive pricing going on this year, and that's helping to drive that number up to the 1.2% you saw in the quarter.

Michael Rehaut: Great. That's very helpful, Rob. I appreciate all the detail there. Maybe secondly, you reiterated, I believe, your end market assumption for the year for residential to be down low double digits, commercial and industrial flattish. If we kind of took the trend line where it is today, the level of activity kind of more interested in residential, but if you have any comments on commercial industrial as well. I'm trying to think about the first half of '26 and recognizing guidance is a little premature. But -- if we think about the fact that just mathematically, if residential kind of did have softness that progressed throughout 2025, would this still point to some level of year-over-year decline in the first half of '26 year-over-year. Just trying to understand the trajectory of '25 and how it might impact at least 1H '26?

Robert Kuhns: Yes, Michael, this is Rob. So I'd say what we're seeing out there right now is single

family, was weak throughout most of the country, there are some pockets of strength in the Midwest and Northeast. But for the most part, weak across the country, it definitely got a little bit worse in Q3, I'd say, as we anticipated than it was the first half of the year. Our projections would say Q4 is probably a little softer as well. So to answer your question, if you roll that into next year, I think you're looking at probably flat to potentially slightly down first half of the year on single family. The other side of the equation, multifamily sales remain weak there. The little bit of bright side we see there is we are seeing some backlog starting to improve in certain markets. across this country. So there could be some potential upside on the multifamily next year.

Robert Buck: Yes, Michael. I'll add on to that. So Rob is right. On the single family, a little sluggish, and we'll see how that fares out to start the year. But he's is right. Multifamily backlogs netting is building there. I'd say fairly consistently if you look across the regions. And I think what this shows too is if you look at the quarter here, the plan around commercial industrial is -- I mean, the backlogs that are building there, even as we're seeing continued momentum whether it be mechanical as we look at backlogs and roofing and stuff as well, we think that's the positive as we look at what we've done in the mix of the business here as well.

Operator: Our next question is from Susan Maklari with Goldman Sachs.

Susan Maklari: My first question is on the margin. It's really nice to see how, especially in installation the operating margin is held up in there. Can you talk about your efforts to support that? And how we should be thinking about the path there for fourth quarter and anything looking out from that?

Robert Kuhns: Yes, Susan, this is Rob. So yes, the profitability on the install side of the equation has been a strong suit all year long, I'd say, something we're really happy with. It really -- the biggest driver there, I'd say, is are the cost savings actions we took in the first quarter of this year that we've talked about in the past. So that's the consolidation of facilities. Some headcount reductions across back office and support functions as well as some direct labor to really align our cost structure with the current environment. Like I mentioned earlier, there is some pressure on price there, but we've done a really good job of maintaining that impact overall on our margins. So just really a terrific story this year in terms of the margin resiliency of the Installation segment.

Susan Maklari: Yes. Okay. And then turning to Progressive. Given the weakness that we've seen on the new construction side, especially in some of the end markets there. Can you talk about what you're seeing on the reroofing side of that business? Is there any change in the competition and your ability to come up against that and continue to see the level of growth that you expect?

Robert Buck: Yes. It's Robert. So I think we feel very confident and comfortable with what's going on roofing as we look at their mix of reroofs and new construction as we look at their backlog, what's being bid, what's being one, even Q4 and definitely very strong for 2026. And margins are doing a nice job there given the mix of business as well. So highly confident. I'd say, some people ask us questions about, hey, you've owned the business here for, call it, 100 days or more. What have you learned or what have you seen? And that is just that team and the backlog that they're building especially across Southwest into Texas where they're strong and stuff. It's been a bright spot, and we think a bright spot for the future. So highly confident in what's going on there and what we see in the fundamentals of the business.

Operator: Our next question is from Ken Zener with Seaport Research.

Kenneth Zener: All right. So Rob, the question about -- look, public builder inventory units are down 15% to 20%. I mean, you can pick a range in there, but call it mid-teens. To the extent that, that correction tied to demand what they consider too many spec homes, accelerating cycle time. You know the routine suggest they could have fewer inventory units. What gives you confidence that, that kind of bogey of mid-teens, which we're seeing broadly in at least if we had permit data, that would be useful, but you do have better data. It gives you confidence that the first half in res can be so benign. And it kind of reminds me of the whole concerns around multifamilies we exited last year, but could you expand on that a little bit given your view the data you have on bids in the absence of government data. I really appreciate that.

Robert Kuhns: Yes, I'd say -- I mean, we're not giving guidance for 2026 at this point. I mean just...

Kenneth Zener: Bit of logic.

Robert Kuhns: Yes. Yes. I mean I think just given what we're seeing, we're not anticipating the market

to dramatically improve from here, right? But we will be comping pretty tough first and second quarter from last year. So that's really the thinking there around the comment to flattish to slightly down. But obviously, there's a long way to go, most of what we'll be working on in the first and second quarter of next year hasn't even been started yet by the builders. So we obviously got to see what activity happens there, and that will really ultimately end up driving our sales.

Kenneth Zener: And if I can ask you to expand on that then, given your substitution for the census data in many ways, -- we've seen builders really the margin pressure really coming out of places like Florida select parts of Texas. But are you seeing them really slamming on the brakes in those areas? And could you kind of contrast that with not public builder type business, I'm thinking above the smile, so to speak?

Robert Buck: Yes, Ken, this is Robert. So yes, look, in some certain markets, you've definitely seen it slow and they're trying to work through that inventory to exactly what you just said. And Naples would be a nice example of that. And Austin, Texas would be a nice example of that. So that's definitely happened in some markets. But there's somewhere, I'd call it steady. We talked about the Midwest. So even if you look at some of those above, user term, the smile states there, there are some pockets of some positiveness there relative to, I call it, steady demand. Even the Pacific Northwest isn't a bad area to look at and we look at what we're seeing in book sales and stuff also. So definitely some where they've slowed given the inventory and some where we're seeing, I'd call it, given the current environment steadiness, if you will.

Operator: Our next question is from Phil Ng with Jefferies.

Philip Ng: Congrats on another strong quarter in a choppy environment. Robert, I guess it would be helpful to kind of give us a little more color in terms of backlogs and the pace of orders particularly in your C&I; business. Any nuances between your legacy business versus some of the stuff you acquired, whether it's Progressive and SPI. Are things accelerating? I'm asking just because obviously, the headlines data points on data center has been pretty encouraging. But -- is it more steady than inflecting? Are you starting to see light commercial bottom out here? Just a little more perspective on what you're seeing on the C&I; side of things.

Robert Buck: Yes. I think so kind of hit the gamut there. So C&I;, we would call -- it's steady. We would say the backlogs are growing there. There's been some projects push out a little bit, no cancellations by no means there's even been some government projects slow down, although that's not a big percentage for us. But whenever we look at backlogs across mechanical, DI and SPI those are growing for sure. I think SPI, they're definitely bringing focus back to the business there now being part of top bills. That's we call that a big positive. And then someone asked the question previously, Progressive. And as we look at commercial roofing, has been the real positive as we're past over 100 days here of owning Progressive, but those backlogs are building as well, both reroof maintenance as well as new bigger projects, i.e., data centers that you're talking about, some big projects that they've landed. So very steady to, I'd call it, bright spot, and if we think about commercial and industrial. You mentioned light commercial, is that bottoming out -- we would hope so. It's definitely been a soft spot for shares that follows the residential trends. Our teams are trying to go after appropriate projects there across the footprint. So hopefully bottomed on that standpoint, and we're seeing some wins in the light commercial space.

Philip Ng: Okay. I mean everything you're saying suggest, probably some level of growth next year for '26 on C&I.; Is that a fair characterization?

Robert Buck: I think we feel positive about C&I; as we go into '26, yes.

Philip Ng: Okay. And then from a pricing standpoint, appreciating resi is a little choppier and your customers are dealing with affordability, but your commercial industrial business is 50% of the business at this point, post all the acquisitions you've announced this year. How should we think about pricing in those categories just because like mechanical insulation, everything we're reading, it's on allocation, I think prices are going higher, certainly don't have as great as a feel for commercial roofing. But internal perspective on pricing momentum and, I guess, at this point, half of your business?

Robert Kuhns: Yes, Phil, this is Rob. So -- you hit the nail on the head there, right price has definitely held up a lot better on the commercial industrial side this year. On the mechanical side of things, we had some cost increases that came through in the first quarter and our teams have done a great job

passing those along and recognizing price increases there. From what we're seeing on the commercial roofing side, pricing is holding up well there. So definitely, the stronger demand environment on the commercial industrial side is definitely helping to support the pricing environment there.

Operator: Our next question is from Jeffrey Stevenson with Loop Capital Markets.

Jeffrey Stevenson: Yes, I was hoping to dive deeper into the variance between residential installation and distribution pricing. And I wondered if the better relative installation pricing is driven by builders reliance on TopBuild's national scale and high-quality service levels compared with independent competitors. And then in distribution, our channel inventories currently at elevated levels, leading to increased competitive dynamics?

Robert Buck: Yes. It's Robert. So I'll hit the first part of that. Rob may add in as well. So yes, I mean, on the install side of the business, I mean, there's -- there's definitely pressure on the fiberglass side. But to Rob's point earlier, the team has done a great job there of weighing that price volume discussion market by market, given what's happened and the uniqueness in each market. But it is a bundled solution, right? Labor and material and our teams are known for great service, so -- and have really strong relationships with those builders in their local markets. So that has definitely helped although some headwind, but has helped those margins hold up. On distribution side, look, the material is definitely readily available right now. And so that obviously creates the supply and demand environment -- and we've seen more pressure there, specifically, as Rob called out fiberglass and spray foam. So it's really supply and demand there that's created some more competitive dynamics, but again, you can look at the overall margins. The team continues to do a nice job, but it's the balance there as well, but more pressure distribution on that residential side of the equation.

Jeffrey Stevenson: Great. And then I appreciate all the updates on the integration of Progressive Roofing, but just wondered on the roofing M&A; pipeline and now that you've had that business for several months now, how has the pipeline evolved given the fragmented nature of that market? And would you expect an acceleration in bolt-on acquisitions as we move through 2026.

Robert Buck: Yes. So great question. So we very active from an M&A; perspective in the roofing space. I'll hit it from 2 different angles. I think we mentioned on the last call, some investment we're making on the M&A; side and the team on roofing. So some of that's coming together for sure. That Progressive team has a lot of relationships in the industry. So they're working those relationship sides of, of some of the smaller to chunky acquisitions. Then obviously, we've got our relationships broader in the industry. And so we're definitely working some from, I'd say, the bigger side or, again, chunkier side of the of some roofing acquisitions. So definitely very active. We feel good about activity going on from both ends in commercial roofing, and we definitely would look to that to lead to some good execution in 2026.

Operator: Our next question is from Keith Hughes with Truist Securities.

Keith Hughes: Kind of building on the last question on more commercial roofing deals. Is there a specific region that you're looking specifically going after to acquire? And does it make a difference in terms of deals who the major suppliers of membrane are to the installers.

Robert Buck: Keith, it's Robert. So a couple of points there. So we have a lot of white space and it's highly fragmented. So we're not being to -- as far as the geographic location, obviously, Progressive has that great footprint, especially in the Southwest and some other spots across. So no particular area. I think it's back to probably the discipline that TopBuild has had in the past and that is looking for great companies, great talent to come along here in the white spaces is pretty broad. Relative to the supply base, if you think about the big suppliers in the space there, they're big TopBuild suppliers today, and we have great relationships there. So it doesn't have to lean too much on who the supplier is given our breadth of those partnerships and geography, again, we're just looking for -- we're looking at good quality companies here that match up and checks the boxes you would expect here from a competency perspective, talent perspective and performance.

Operator: Our next question is from Collin Verron with Deutsche Bank.

Collin Verron: I just wanted to go back to the installation margins and the strength there. You called out the primary driver being the cost saving actions that you guys have taken. Can you just help us think about how much was realized in the third quarter and maybe to date in 2025. And what you expect the annualized benefit of those cost actions to be as you go forward into 2026?

Robert Kuhns: Yes, Collin, this is Rob. So yes, the cost actions we took in the first quarter annualized is about \$35 million of savings, I'd say our productivity in the third quarter definitely had it 0.25 share of that as well as I'd say some additional savings we had there that helped really drive the margins up in the quarter.

Operator: Our next question is from Kurt Yinger with D.A. Davidson.

Kurt Yinger: Just wanted to go back to competitive dynamics on the residential install side. It sounds to me like that's primarily some savings on the material side. Is that the case? Or are you seeing increased bidding pressures depending on geography. And then maybe stepping back, can you just talk about kind of the tone of customer conversations as builders kind of battle the affordability challenges and maybe work to share some of that with suppliers like yourself?

Robert Buck: Kurt, it's Robert. So relative to the competitiveness, I mean, obviously, we worked in productivity side of it. If you think about margins, we've obviously worked with our supplier partners as well. But they're definitely in the slower markets, there definitely increased competitiveness in some of that bidding. And I think that's where we look at our team and the job they've done and why we complement them on the work that they've done there because I think they try to find that right balance of volume and price. And obviously, we were able to put some controls around that from a bidding perspective as well. So that's some of the dynamics that have happened from that standpoint. And if you look at the commentary around the country, the builders are obviously smart themselves. So between not just coming to us relative to some of the pressures, I mean, obviously, they're, they're reengineering some of the products they're going to market with. You can look at whether it be some of the footprints, whether some of the things that they're doing. Obviously, we've done some of that value engineering with them as well to help them as they face the pressures and they come to us as well. But it definitely has to be the partnership because as we said in our prepared remarks, look, the fundamentals are intact here, but we've got a time period here to the inflection point. So we're working with the customers on it. I think our teams in the field are doing a nice balance of that.

Kurt Yinger: Okay. I appreciate that. And maybe just following up on kind of the balance of price and volume. Does it feel like as the year has progressed and we've kind of seen that additional step down in residential that more often, you're maybe having to walk away from some of these projects or bids? Or has that been pretty consistent with what you felt over the last couple of quarters?

Robert Kuhns: Yes. This is Rob. I'd say it hasn't gotten a whole lot worse in terms of us having to step away from volume. We have as we talked about and as we anticipated, we have seen the price pressure pick up, and we have gotten a little more aggressive on pricing as a result of that. So I'd say we're not stepping away from more work. I'd say we're -- we're doing -- we're holding our share out there. And you can see the impact of that a little bit on the price side on the install side, where price was negative in the quarter. But as we've talked about, we've done a great job in terms of managing our costs and recouping most of that through productivity savings.

Operator: Our next question is from Rafe Jadrosich.

Rafe Jadrosich: On the distribution side, the pricing improved, but you say the price cost getting sort of worse there. And I think that's just on the residential piece of that. Can you just help me understand and like what's going on there? And just if the market stays soft, is there an opportunity from a cost perspective sort of said differently, like if the market like kind of stays like this, could you get to a point where you're able to lower your costs where you can get to price cost neutral even if pricing stays negative?

Robert Kuhns: Yes, Rafe, this is Rob. So we're working with our suppliers today in terms of that price cost equation, and we are seeing some relief there. But like we've talked about, we're definitely seeing the price pressure on the sales side. We've talked about how on install. We've done a great job offsetting. On the distribution side, a little tougher, a little more pressure there because you don't have the labor component. So the price pressure we're seeing is having a negative impact on margins. Now this is what I was trying to explain a little bit earlier. When you look at our overall pricing on distribution were up and it's really a product mix impact there because of gutters, we're seeing inflationary pressures on those products, mechanical insulation, we talked about how commercial products, we're seeing good, strong price. So we're driving price. Costs are up and prices are up on those products,

and we're maintaining margins. And then you got the residential products where you got cost down, price down. And when you put the 2 of those together, you're kind of netting out to a positive price, negative cost and a net slightly negative price cost number for distribution.

Robert Buck: And I think relative to -- Rob talked about productivity, I mean we're always looking at -- I think that's something we always said, we always look at what's going on across the footprint. We look at what's going on by market. And so if we have to make any adjustments, I think we've shown in the past, we've got a track record of being ahead of the curve on any of those as well. So...

Rafe Jadrosich: That's helpful. And then in the quarter, you bought back stock and then you obviously continued to close acquisitions. How much of a priority is getting the leverage sort of below 2x versus just continued M&A; and buyback? Are you comfortable sort of continuing to do that with the leverage above the long-term target?

Robert Kuhns: Yes, Rafe, this is Rob. So yes, we're not uncomfortable with where our leverage is today. It's pro forma with the SPI deal, we're at 2.4x, we've been that high or slightly higher before after large deals. We certainly will be more comfortable in that long-term target range of 1% to 2%. We don't feel the need to try to get there overnight. Obviously, there's, there's multiple paths to get there, ones to drive growth in EBITDA, which is definitely plan one and how we'd like to get there. We can also pay down debt or hold on to cash, and it would take about \$500 million of cash to get us back down to the 2x, which would be a portion of next year's free cash flow. So we can continue to do M&A; and continue to have, like we've talked about in the past, we balance buybacks with M&A; and typically put a grid in place. So we think we can continue that strategy at these levels with longer-term goal of getting that leverage back down to closer to 2x.

Operator: Our next question is from Adam Baumgarten with Vertical Research Partners.

Adam Baumgarten: Just on the kind of implied 4Q guidance, it kind of points to worsening year-over-year margin pressure. Maybe if you could sort of run through the drivers there, whether it's some of the acquisitions, pricing, price cost, just kind of the outlook there in the near term.

Robert Kuhns: Yes, Adam, this is Rob. So if you back into the Q4 numbers from the guidance we've given I mentioned price cost, we plan for that to continue to be a headwind, slightly worse in the fourth quarter than what we saw in the third quarter. We, again, hope that's a conservative estimate, but we're working our best on that one. M&A;, obviously, in year one before we get the synergies with SPI, that's going to have a negative impact on the overall EBITDA with them coming in at a 10% to 11% type EBITDA business. So that's -- but as we drive synergies there, we anticipate getting them up to the mid-teens on that deal. So those are really the 2 biggest drivers as well as the continued volume headwinds that we've talked a lot about those in the fourth quarter can be a little more pronounced as well just due to seasonality.

Operator: Thank you. There are no further questions at this time. I'd like to hand the floor back over to management for any closing comments.

Robert Buck: Thank you for joining us today. We look forward to seeing you next month at our Investor Day on December 9. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.