

Installed Building Products, Inc.

Form 10-Q

May 04, 2018

**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2018**

**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)

**45-3707650**  
(I.R.S. Employer Identification No.)

**495 South High Street, Suite 50**

**Columbus, Ohio**  
(Address of principal executive offices)

**43215**  
( Zip Code)

**(614) 221-3399**

**(Registrant's telephone number, including area code)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On April 27, 2018 the registrant had 31,601,831 shares of common stock, par value \$0.01 per share, outstanding.



**Table of Contents**

**Table of Contents**

|                                                                                                             |           |
|-------------------------------------------------------------------------------------------------------------|-----------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>                                                                  | <b>1</b>  |
| <b><u>Item 1. Financial Statements</u></b>                                                                  | <b>1</b>  |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | <b>21</b> |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | <b>29</b> |
| <b><u>Item 4. Controls and Procedures</u></b>                                                               | <b>29</b> |
| <b><u>PART II OTHER INFORMATION</u></b>                                                                     | <b>29</b> |
| <b><u>Item 1. Legal Proceedings</u></b>                                                                     | <b>29</b> |
| <b><u>Item 1A. Risk Factors</u></b>                                                                         | <b>29</b> |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | <b>30</b> |
| <b><u>Item 3. Defaults Upon Senior Securities</u></b>                                                       | <b>30</b> |
| <b><u>Item 4. Mine Safety Disclosures</u></b>                                                               | <b>30</b> |
| <b><u>Item 5. Other Information</u></b>                                                                     | <b>30</b> |
| <b><u>Item 6. Exhibits</u></b>                                                                              | <b>30</b> |
| <b><u>SIGNATURES</u></b>                                                                                    | <b>31</b> |

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****INSTALLED BUILDING PRODUCTS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except share and per share amounts)

|                                                                                                                                         | March 31,<br>2018 | December 31,<br>2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                           |                   |                      |
| Current assets                                                                                                                          |                   |                      |
| Cash and cash equivalents                                                                                                               | \$ 19,906         | \$ 62,510            |
| Investments                                                                                                                             | 28,798            | 30,053               |
| Accounts receivable (less allowance for doubtful accounts of \$4,900 and \$4,805 at March 31, 2018 and December 31, 2017, respectively) | 188,651           | 180,725              |
| Inventories                                                                                                                             | 46,160            | 48,346               |
| Other current assets                                                                                                                    | 44,935            | 33,308               |
| Total current assets                                                                                                                    | 328,450           | 354,942              |
| Property and equipment, net                                                                                                             | 84,531            | 81,075               |
| Non-current assets                                                                                                                      |                   |                      |
| Goodwill                                                                                                                                | 161,681           | 155,466              |
| Intangibles, net                                                                                                                        | 136,885           | 137,991              |
| Other non-current assets                                                                                                                | 10,683            | 9,272                |
| Total non-current assets                                                                                                                | 309,249           | 302,729              |
| Total assets                                                                                                                            | \$ 722,230        | \$ 738,746           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                              |                   |                      |
| Current liabilities                                                                                                                     |                   |                      |
| Current maturities of long-term debt                                                                                                    | \$ 17,378         | \$ 16,650            |
| Current maturities of capital lease obligations                                                                                         | 5,287             | 5,666                |
| Accounts payable                                                                                                                        | 87,273            | 87,425               |
| Accrued compensation                                                                                                                    | 19,003            | 25,399               |
| Other current liabilities                                                                                                               | 25,277            | 24,666               |
| Total current liabilities                                                                                                               | 154,218           | 159,806              |
| Long-term debt                                                                                                                          | 330,679           | 330,927              |
| Capital lease obligations, less current maturities                                                                                      | 5,525             | 6,479                |
| Deferred income taxes                                                                                                                   | 7,516             | 6,444                |
| Other long-term liabilities                                                                                                             | 25,711            | 24,562               |

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|                                                                                                                                                                                                 |            |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Total liabilities                                                                                                                                                                               | 523,649    | 528,218    |
| Commitments and contingencies (Note 13)                                                                                                                                                         |            |            |
| Stockholders' equity                                                                                                                                                                            |            |            |
| Preferred Stock; \$0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively                                               |            |            |
| Common Stock; \$0.01 par value: 100,000,000 authorized, 32,595,324 and 32,524,934 issued and 31,518,607 and 31,862,146 shares outstanding at March 31, 2018 and December 31, 2017, respectively | 326        | 325        |
| Additional paid in capital                                                                                                                                                                      | 176,349    | 174,043    |
| Retained earnings                                                                                                                                                                               | 57,604     | 48,434     |
| Treasury Stock; at cost: 1,076,717 and 662,788 shares at March 31, 2018 and December 31, 2017, respectively                                                                                     | (37,477)   | (12,781)   |
| Accumulated other comprehensive income                                                                                                                                                          | 1,779      | 507        |
| Total stockholders' equity                                                                                                                                                                      | 198,581    | 210,528    |
| Total liabilities and stockholders' equity                                                                                                                                                      | \$ 722,230 | \$ 738,746 |

See accompanying notes to consolidated financial statements

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE

## INCOME (UNAUDITED)

(in thousands, except share and per share amounts)

|                                                                                                             | Three months ended<br>March 31, |            |
|-------------------------------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                                             | 2018                            | 2017       |
| Net revenue                                                                                                 | \$ 301,728                      | \$ 255,669 |
| Cost of sales                                                                                               | 221,752                         | 183,497    |
| Gross profit                                                                                                | 79,976                          | 72,172     |
| Operating expenses                                                                                          |                                 |            |
| Selling                                                                                                     | 15,846                          | 14,026     |
| Administrative                                                                                              | 44,203                          | 39,261     |
| Amortization                                                                                                | 7,128                           | 6,416      |
| Operating income                                                                                            | 12,799                          | 12,469     |
| Other expense                                                                                               |                                 |            |
| Interest expense, net                                                                                       | 4,040                           | 2,170      |
| Other                                                                                                       | 122                             | 152        |
| Income before income taxes                                                                                  | 8,637                           | 10,147     |
| Income tax provision                                                                                        | 2,243                           | 3,783      |
| Net income                                                                                                  | \$ 6,394                        | \$ 6,364   |
| Other comprehensive income, net of tax:                                                                     |                                 |            |
| Unrealized gain on cash flow hedge, net of tax provision of \$386 for the three months ended March 31, 2018 | 1,160                           |            |
| Comprehensive income                                                                                        | \$ 7,554                        | \$ 6,364   |
| Basic and diluted net income per share                                                                      | \$ 0.20                         | \$ 0.20    |
| Weighted average shares outstanding:                                                                        |                                 |            |
| Basic                                                                                                       | 31,548,745                      | 31,590,478 |
| Diluted                                                                                                     | 31,772,581                      | 31,687,056 |

See accompanying notes to consolidated financial statements

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share amounts)

|                                                              | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Accumulated<br>Other<br>Comprehensive<br>Income | Stockholders'<br>Equity |
|--------------------------------------------------------------|------------------------|------------------------|----------------------------------|----------------------|--------------------------|--------------------------|-------------------------------------------------|-------------------------|
| BALANCE -<br>January 1, 2017                                 | 32,135,176             | \$ 321                 | \$ 158,581                       | \$ 7,294             | (650,402)                | \$(12,219)               | \$                                              | \$ 153,977              |
| Net Income                                                   |                        |                        |                                  | 6,364                |                          |                          |                                                 | 6,364                   |
| Issuance of<br>Common Stock for<br>Acquisition               | 282,577                | 3                      | 10,856                           |                      |                          |                          |                                                 | 10,859                  |
| Surrender of<br>Common Stock                                 |                        |                        |                                  |                      |                          |                          |                                                 |                         |
| Awards by<br>Employees                                       |                        |                        |                                  |                      | (1,392)                  | (54)                     |                                                 | (54)                    |
| Share-Based<br>Compensation<br>Expense                       |                        |                        | 480                              |                      |                          |                          |                                                 | 480                     |
| BALANCE -<br>March 31, 2017                                  | 32,417,753             | \$ 324                 | \$ 169,917                       | \$ 13,658            | (651,794)                | \$(12,273)               | \$                                              | \$ 171,626              |
|                                                              |                        |                        |                                  |                      |                          |                          |                                                 |                         |
|                                                              | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Accumulated<br>Other<br>Comprehensive<br>Income | Stockholders'<br>Equity |
| BALANCE -<br>January 1, 2018                                 | 32,524,934             | \$ 325                 | \$ 174,043                       | \$ 48,434            | (662,788)                | \$(12,781)               | \$ 507                                          | \$ 210,528              |
| Net Income                                                   |                        |                        |                                  | 6,394                |                          |                          |                                                 | 6,394                   |
| Cumulative Effect<br>of Accounting<br>Changes, Net of<br>Tax |                        |                        |                                  | 2,776                |                          |                          | 112                                             | 2,888                   |
| Issuance of<br>Common Stock                                  |                        |                        |                                  |                      |                          |                          |                                                 |                         |
| Awards to<br>Employees                                       | 70,390                 | 1                      | (1)                              |                      |                          |                          |                                                 |                         |
| Surrender of<br>Common Stock                                 |                        |                        |                                  |                      | (1,212)                  | (56)                     |                                                 | (56)                    |

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|                                        |            |        |            |           |             |             |          |            |          |
|----------------------------------------|------------|--------|------------|-----------|-------------|-------------|----------|------------|----------|
| Awards by Employees                    |            |        |            |           |             |             |          |            |          |
| Share-Based Compensation Expense       | 2,307      |        |            |           |             |             |          | 2,307      |          |
| Common Stock Repurchase                |            |        |            |           | (412,717)   | (24,640)    |          |            | (24,640) |
| Other Comprehensive Income, Net of Tax |            |        |            |           |             |             |          | 1,160      | 1,160    |
| BALANCE - March 31, 2018               | 32,595,324 | \$ 326 | \$ 176,349 | \$ 57,604 | (1,076,717) | \$ (37,477) | \$ 1,779 | \$ 198,581 |          |

See accompanying notes to consolidated financial statements

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|                                                                                                      | Three months ended March 31, |           |
|------------------------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                                      | 2018                         | 2017      |
| <b>Cash flows from operating activities</b>                                                          |                              |           |
| Net income                                                                                           | \$ 6,394                     | \$ 6,364  |
| Adjustments to reconcile net income to net cash provided by operating activities                     |                              |           |
| Depreciation and amortization of property and equipment                                              | 7,978                        | 6,552     |
| Amortization of intangibles                                                                          | 7,128                        | 6,416     |
| Amortization of deferred financing costs and debt discount                                           | 302                          | 102       |
| Provision for doubtful accounts                                                                      | 896                          | 1,231     |
| Gain on sale of property and equipment                                                               | (185)                        | (107)     |
| Noncash stock compensation                                                                           | 2,240                        | 480       |
| Changes in assets and liabilities, excluding effects of acquisitions                                 |                              |           |
| Accounts receivable                                                                                  | (7,058)                      | (3,200)   |
| Inventories                                                                                          | (2,420)                      | (894)     |
| Other assets                                                                                         | (4,139)                      | (722)     |
| Accounts payable                                                                                     | (57)                         | (1,781)   |
| Income taxes payable/receivable                                                                      | 1,303                        | 3,106     |
| Other liabilities                                                                                    | (6,297)                      | (1,873)   |
| Net cash provided by operating activities                                                            | 6,085                        | 15,674    |
| <b>Cash flows from investing activities</b>                                                          |                              |           |
| Purchases of investments                                                                             | (17,782)                     |           |
| Maturities of short term investments                                                                 | 19,000                       |           |
| Purchases of property and equipment                                                                  | (10,237)                     | (7,776)   |
| Acquisitions of businesses, net of cash acquired of \$0 and \$247, respectively                      | (11,505)                     | (106,873) |
| Proceeds from sale of property and equipment                                                         | 283                          | 203       |
| Other                                                                                                | (1,050)                      | (550)     |
| Net cash used in investing activities                                                                | (21,291)                     | (114,996) |
| <b>Cash flows from financing activities</b>                                                          |                              |           |
| Payments on term loan under credit agreement applicable to respective period (Note 6)                | (750)                        | (1,250)   |
| Proceeds from delayed draw term loan under credit agreement applicable to respective period (Note 6) |                              | 112,500   |
| Proceeds from vehicle and equipment notes payable                                                    | 4,510                        | 4,331     |
| Debt issuance costs                                                                                  | (1)                          | (833)     |
| Principal payments on long-term debt                                                                 | (3,092)                      | (2,117)   |
| Principal payments on capital lease obligations                                                      | (1,629)                      | (1,882)   |

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|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| Acquisition-related obligations                     | (1,740)   | (1,248)   |
| Repurchase of common stock                          | (24,640)  |           |
| Surrender of common stock awards by employees       | (56)      | (54)      |
| Net cash (used in) provided by financing activities | (27,398)  | 109,447   |
| Net change in cash and cash equivalents             | (42,604)  | 10,125    |
| Cash and cash equivalents at beginning of period    | 62,510    | 14,482    |
| Cash and cash equivalents at end of period          | \$ 19,906 | \$ 24,607 |

**Supplemental disclosures of cash flow information**

Net cash paid during the period for:

|                              |          |          |
|------------------------------|----------|----------|
| Interest                     | \$ 3,914 | \$ 2,044 |
| Income taxes, net of refunds | 899      | 650      |

**Supplemental disclosure of noncash investing and financing activities**

|                                                                         |       |        |
|-------------------------------------------------------------------------|-------|--------|
| Common stock issued for acquisition of business                         |       | 10,859 |
| Vehicles capitalized under capital leases and related lease obligations | 312   | 816    |
| Seller obligations in connection with acquisition of businesses         | 3,093 | 2,302  |
| Unpaid purchases of property and equipment included in accounts payable | 1,485 | 609    |

See accompanying notes to consolidated financial statements

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 1 ORGANIZATION**

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, 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 125 locations and its corporate office is located in Columbus, Ohio.

We have one operating segment and a single reportable segment. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects 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.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Principles of Consolidation**

The accompanying condensed consolidated financial statements include all of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and the rules and regulations of the Securities and Exchange Commission (the SEC ) have been omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to prevent the information presented from being misleading when read in conjunction with our consolidated financial statements and the notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the 2017 Form 10-K ), as filed with the SEC on February 28, 2018. The December 31, 2017 condensed consolidated balance sheet data herein was derived from the audited financial statements but does not include all disclosures required by U.S. GAAP.

Our interim operating results for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected in future operating quarters. See Item 1A, Risk Factors, in our 2017 Form 10-K for additional information regarding risk factors that may impact our results.

Note 2 to the consolidated financial statements in our 2017 Form 10-K describes the significant accounting policies and estimates used in preparation of the consolidated financial statements. During the three months ended March 31, 2018 our significant accounting policies changed as they pertain to our revenue recognition, as a result of the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and related subsequently issued amendments, effective January 1, 2018. Our revenue recognition accounting policy is described in Note 3, Revenue Recognition.



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**Table of Contents**

**INSTALLED BUILDING PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Recently Adopted Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 and related subsequently issued amendments set forth a new revenue recognition model that requires identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations and recognizing the revenue upon satisfaction of performance obligations. In July 2015, the FASB voted to defer the application of the provisions of this standard for public companies until annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. We adopted the new standard on January 1, 2018 using the modified retrospective approach and, as such, recognized a \$2.9 million cumulative effect, net of tax, of initially applying the standard as an increase to the opening balance of retained earnings on January 1, 2018. See Note 3, Revenue Recognition, for further information regarding our revenue recognition policies.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU better aligns a company's risk management activities and financial reporting for hedging relationships and makes certain improvements to simplify the application of hedge accounting guidance. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. We elected to early adopt this ASU as of January 1, 2018 and, as such, recognized a \$0.1 million adjustment to our opening retained earnings and accumulated other comprehensive income as of January 1, 2018 to reclassify the cash flow hedge ineffectiveness previously recorded in net income in the fourth quarter of 2017 to accumulated other comprehensive income.

In March 2018, the Financial Accounting Standards Board issued ASU No 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (ASU 2018-05), which became effective immediately. ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118). See Note 11, Income Taxes for additional information regarding the adoption of ASU 2018-05.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 and related subsequently-issued amendments, which change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. For public business entities, this update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted as of the standard's issuance date. We are currently in the process of evaluating our existing lease portfolios, including accumulating all of the necessary information required to properly account for the leases under the new standard. We have not completed our assessment, but we expect the adoption of this standard will have a significant impact on our Condensed Consolidated Balance Sheets. Additionally, we are evaluating our existing processes and internal controls to ensure we meet the standard's reporting and disclosure requirements. We will adopt

this standard effective January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU amends 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. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. We are evaluating whether this ASU will have a material impact on our consolidated financial statements.

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 3 REVENUE RECOGNITION**

*Adoption of ASC Topic 606, Revenue from Contracts with Customers*

On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

We recorded a \$2.9 million increase to opening retained earnings, net of tax, on January 1, 2018 due to the impact of adopting Topic 606, with the impact primarily related to the change in accounting for certain of our short-term contracts that were previously accounted for on a completed contract basis, whereas, under ASC 606, we now recognize revenue associated with these contracts over time as service is performed and the transfer of control occurs, based on a percentage-of-completion method using cost-to-cost input methods as a measure of progress. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

*Revenue Recognition*

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complimentary 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. We recognize revenue using the percentage-of-completion method of accounting, utilizing a cost-to-cost input approach as we believe this represents the best measure of when goods and services are transferred to the customer. 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.

When the percentage-of-completion 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 cost-to-cost approach). Under the cost-to-cost approach, 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

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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. The following tables present our revenues disaggregated by end market and product for the three months ended March 31 (in thousands):

|                              | 2018       |      | 2017 <sup>(1)</sup> |      |
|------------------------------|------------|------|---------------------|------|
| Residential and multi-family | \$ 250,114 | 83%  | \$ 209,391          | 82%  |
| Commercial                   | 51,614     | 17%  | 46,278              | 18%  |
| Net revenues                 | \$ 301,728 | 100% | \$ 255,669          | 100% |

|                                    | 2018       |      | 2017 <sup>(1)</sup> |      |
|------------------------------------|------------|------|---------------------|------|
| Insulation                         | \$ 202,275 | 67%  | \$ 175,623          | 69%  |
| Waterproofing                      | 22,606     | 7%   | 21,005              | 8%   |
| Shower doors, shelving and mirrors | 20,260     | 7%   | 12,885              | 5%   |
| Garage doors                       | 15,466     | 5%   | 14,287              | 6%   |
| Rain gutters                       | 8,658      | 3%   | 8,442               | 3%   |
| Other building products            | 32,463     | 11%  | 23,427              | 9%   |
| Net revenues                       | \$ 301,728 | 100% | \$ 255,669          | 100% |

<sup>(1)</sup> As noted above, prior period amounts have not been adjusted under the modified retrospective method.

*Contract Assets and Liabilities*

Our contract assets consist of unbilled amounts typically resulting from sales under long-term 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 is included in other current liabilities in our Consolidated Balance Sheets.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Contract assets and liabilities related to our uncompleted contracts and customer deposits were as follows as of March 31 and December 31 (in thousands):

|                      | 2018      | 2017     |
|----------------------|-----------|----------|
| Contract assets      | \$ 18,101 | \$ 6,182 |
| Contract liabilities | (6,963)   | (4,376)  |

Uncompleted contracts were as follows for the three months ended March 31 and December 31 (in thousands):

|                                         | 2018       | 2017      |
|-----------------------------------------|------------|-----------|
| Costs incurred on uncompleted contracts | \$ 102,088 | \$ 79,235 |
| Estimated earnings                      | 55,882     | 44,035    |
| Total                                   | 157,970    | 123,270   |
| Less: Billings to date                  | 144,506    | 121,464   |
| Net under (over) billings               | \$ 13,464  | \$ 1,806  |

Net under (over) billings were as follows as of March 31 and December 31 (in thousands):

|                                                                                                    | 2018      | 2017     |
|----------------------------------------------------------------------------------------------------|-----------|----------|
| Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets)      | \$ 18,101 | \$ 6,182 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) | (4,637)   | (4,376)  |
| Net under (over) billings                                                                          | \$ 13,464 | \$ 1,806 |

During the three months ended March 31, 2018, we recognized \$6.3 million of revenue that was included in the contract liability balance at December 31, 2017. We did not recognize any impairment losses on our receivables and contract assets during the three months ended March 31, 2018.

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 March 31, 2018, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was \$78.6 million. We expect to recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

*Practical Expedients and Exemptions*

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 within the Condensed Consolidated Statements of Operations and Comprehensive Income.

**NOTE 4 INVESTMENTS**

Cash and cash equivalents includes investments in money market funds that are valued based on the net asset value of the funds. The cash equivalents consist primarily of money market funds that are Level 1 measurements. The investments in these funds were \$17 thousand and \$55.6 million as of March 31, 2018 and December 31, 2017, respectively.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

All other investments are classified as held-to-maturity and consist of highly liquid instruments, primarily including corporate bonds and commercial paper. As of March 31, 2018 and December 31, 2017, the amortized cost of these investments equaled the net carrying value, which was \$28.8 million and \$30.1 million, respectively. All held-to-maturity securities as of March 31, 2018 mature in one year or less. See Note 7, Fair Value Measurements, for additional information.

**NOTE 5 GOODWILL AND INTANGIBLES****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, 2018       | \$ 225,470          | \$ (70,004)                         | \$ 155,466        |
| Business Combinations | 5,783               |                                     | 5,783             |
| Other                 | 432                 |                                     | 432               |
| March 31, 2018        | \$ 231,685          | \$ (70,004)                         | \$ 161,681        |

Other changes included in the above table represent minor adjustments for the allocation of certain acquisitions still under measurement and one immaterial acquisition completed during the three months ended March 31, 2018.

We test goodwill for impairment annually during the fourth quarter of our fiscal year or earlier if there is an impairment indicator. No impairment was recognized during either of the three month periods ended March 31, 2018 and 2017.

**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 March 31, 2018        |                             |                      | As of December 31, 2017     |                             |                      |
|------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
|                        | 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: |                             |                             |                      |                             |                             |                      |

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|                            |            |           |            |            |           |            |
|----------------------------|------------|-----------|------------|------------|-----------|------------|
| Customer relationships     | \$ 124,860 | \$ 41,866 | \$ 82,994  | \$ 121,015 | \$ 38,651 | \$ 82,364  |
| Covenants not-to-compete   | 12,112     | 5,423     | 6,689      | 11,807     | 4,773     | 7,034      |
| Trademarks and trade names | 60,024     | 15,089    | 44,935     | 58,136     | 14,076    | 44,060     |
| Backlog                    | 13,600     | 11,333    | 2,267      | 13,600     | 9,067     | 4,533      |
|                            | \$ 210,596 | \$ 73,711 | \$ 136,885 | \$ 204,558 | \$ 66,567 | \$ 137,991 |

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The gross carrying amount of intangibles increased approximately \$6.0 million during the three months ended March 31, 2018 primarily due to business combinations. See Note 14, Business Combinations, for more information. Remaining estimated aggregate annual amortization expense is as follows (amounts, in thousands, are for the fiscal year ended):

|                   |           |
|-------------------|-----------|
| Remainder of 2018 | \$ 16,966 |
| 2019              | 19,054    |
| 2020              | 18,338    |
| 2021              | 17,320    |
| 2022              | 16,402    |
| Thereafter        | 48,805    |

**NOTE 6 LONG-TERM DEBT**

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

|                                                                                                                                             | As of March 31,<br>2018 | As of December 31,<br>2017 |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------|
| Term loans, in effect, net of unamortized debt issuance costs of \$4,940 and \$5,146, respectively                                          | \$ 292,810              | \$ 293,354                 |
| Vehicle and equipment notes, maturing March 2023; payable in various monthly installments, including interest rates ranging from 2% to 4.5% | 51,556                  | 50,357                     |
| Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 4% to 5% | 3,691                   | 3,866                      |
|                                                                                                                                             | 348,057                 | 347,577                    |
| Less: current maturities                                                                                                                    | (17,378)                | (16,650)                   |
| Long-term debt, less current maturities                                                                                                     | \$ 330,679              | \$ 330,927                 |

**NOTE 7 FAIR VALUE MEASUREMENTS****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 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 March 31, 2018 and December 31, 2017 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 the each of the three months ended March 31, 2018 and 2017, we did not record any impairments on these assets required to be measured at fair value on a nonrecurring basis.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Estimated Fair Value of Financial Instruments**

Accounts receivable, accounts payable and accrued liabilities as of March 31, 2018 and December 31, 2017 approximate fair value due to the short-term maturities of these financial instruments. On April 13, 2017, we entered into, and subsequently amended on November 30, 2017, a term loan credit agreement which provides for a seven-year \$300.0 million term loan facility (the "Term Loan") and an asset-based lending credit agreement (the "ABL Credit Agreement") which provides for up to approximately \$100.0 million with a sublimit up to \$50.0 million for the issuance of letters of credit (the "ABL Revolver"), which may be reduced or increased pursuant to the ABL Credit Agreement. The carrying amounts of our long-term debt, including the Term Loan and ABL Revolver as of March 31, 2018 and December 31, 2017, approximate fair value due to the variable rate nature of the agreements. The carrying amounts of the obligations associated with our capital leases and vehicle and equipment notes approximate fair value as of March 31, 2018 and December 31, 2017 because we have incurred the obligations within recent fiscal years when the interest rate markets have been relatively low and stable. All debt classifications represent Level 2 fair value measurements. Market risk associated with our long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

The fair values of financial assets and liabilities that are recorded at fair value in the Condensed Consolidated Balance Sheets and not described above were as follows (in thousands):

|                                  | As of March 31, 2018 |         |          |         | As of December 31, 2017 |           |         |         |
|----------------------------------|----------------------|---------|----------|---------|-------------------------|-----------|---------|---------|
|                                  | Total                | Level 1 | Level 2  | Level 3 | Total                   | Level 1   | Level 2 | Level 3 |
| Financial assets:                |                      |         |          |         |                         |           |         |         |
| Cash equivalents                 | \$ 17                | \$ 17   | \$       | \$      | \$ 55,634               | \$ 55,634 | \$      | \$      |
| Derivative financial instruments | 2,370                |         | 2,370    |         | 618                     |           | 618     |         |
| Total financial assets           | \$ 2,387             | \$ 17   | \$ 2,370 | \$      | \$ 56,252               | \$ 55,634 | \$ 618  | \$      |

The carrying values and associated fair values of financial assets and liabilities that are not recorded at fair value in the Condensed Consolidated Balance Sheets and not described above include investments which represent a Level 2 fair value measurement and are as follows (in thousands):

|                   | As of March 31, 2018 |            | As of December 31, 2017 |            |
|-------------------|----------------------|------------|-------------------------|------------|
|                   | Carrying Value       | Fair Value | Carrying Value          | Fair Value |
| Financial assets: |                      |            |                         |            |
| Investments       | \$ 28,798            | \$ 28,735  | \$ 30,053               | \$ 30,038  |

See Note 4, Investments, for more information on cash equivalents and investments included in the table above. Also see Note 8, Derivatives and Hedging Activities, for more information on derivative financial instruments.

**NOTE 8 DERIVATIVES AND HEDGING ACTIVITIES**

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 first quarter of 2018, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange

**Table of Contents**

**INSTALLED BUILDING PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of March 31, 2018, we have two interest rate swaps with a beginning notional of \$100.0 million that amortize quarterly to \$95.3 million at a maturity date of May 31, 2022. We had no such interest rate swaps or other derivatives as of March 31, 2017.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffectiveness arising during the period, as a result of a change to the hedge or the item(s) being hedged, is recognized directly in earnings. We had no such changes during the three months ended March 31, 2018.

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 \$0.2 million will be reclassified as an increase to interest expense, net.

Additionally, 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 March 31, 2018 the Company has not posted any collateral related to these agreements.

We elected to early adopt ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. as of January 1, 2018 and, as such, recognized a \$0.1 million adjustment to our opening retained earnings and accumulated other comprehensive income as of January 1, 2018 to reclassify the cash flow hedge ineffectiveness previously recorded in net income in the fourth quarter of 2017 to accumulated other comprehensive income.

**NOTE 9 STOCKHOLDERS EQUITY**

As of March 31, 2018, we had \$1.8 million in accumulated other comprehensive income on our Condensed Consolidated Balance Sheet, which represents the effective portion of the unrealized gain on our derivative instruments. For additional information, see Note 8, Derivatives and Hedging Activities.

On February 28, 2018, we announced that our Board of Directors authorized a \$50 million stock repurchase program effective March 2, 2018 through February 28, 2019, unless extended by the Board of Directors. During the three months ended March 31, 2018, we repurchased approximately 413 thousand shares of our common stock for an aggregate purchase price of approximately \$24.6 million or \$59.70 average price per share as part of our 2018 stock repurchase plan. The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation.

**NOTE 10 EMPLOYEE BENEFITS**

**Healthcare**

Our healthcare benefit expense (net of employee contributions) for all plans was approximately \$4.4 million and \$4.0 million for the three months ended March 31, 2018 and 2017, respectively. An accrual for estimated healthcare claims incurred but not reported ( IBNR ) is included within accrued compensation on the Condensed Consolidated Balance Sheets and was \$2.1 million and \$1.8 million as of March 31, 2018 and December 31, 2017, respectively.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Workers Compensation**

Workers compensation expense totaled \$3.8 million and \$4.1 million for the three months ended March 31, 2018 and 2017, respectively. Workers compensation known claims and IBNR reserves included on the Condensed Consolidated Balance Sheets were as follows (in thousands):

|                                         | March 31,<br>2018 | December 31,<br>2017 |
|-----------------------------------------|-------------------|----------------------|
| Included in other current liabilities   | \$ 5,228          | \$ 5,899             |
| Included in other long-term liabilities | 10,021            | 8,721                |
|                                         | \$ 15,249         | \$ 14,620            |

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

|                                      | March 31,<br>2018 | December 31,<br>2017 |
|--------------------------------------|-------------------|----------------------|
| Included in other non-current assets | \$ 1,827          | \$ 1,826             |

**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 each of the three months ended March 31, 2018 and 2017, we recognized 401(k) plan expenses of \$0.4 million, which is included in administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income.

**Share-Based Compensation***Employees Common Stock Awards*

During the three months ended March 31, 2018, our employees surrendered approximately one thousand shares of our common stock to satisfy tax withholding obligations arising in connection with the vesting of common stock awards issued under our 2014 Omnibus Incentive Plan. Share-based compensation expense associated with non-performance-based awards was \$0.9 million and \$0.4 million for the three months ended March 31, 2018 and 2017, respectively. We recognized excess tax benefits of \$0.1 million within the income tax provision in the Condensed Consolidated Statements of Operations and Comprehensive Income for each of the three months ended

March 31, 2018 and 2017.

As of March 31, 2018, there was \$5.1 million of unrecognized compensation expense related to these nonvested common stock awards. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of 1.99 years. Shares forfeited are returned as treasury shares and available for future issuances. See the table below for changes in shares and related weighted average fair market value per share.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

*Employees Performance-Based Stock Awards*

During the three months ended March 31, 2018, we granted under our 2014 Omnibus Incentive Plan approximately sixty-three thousand shares of our common stock to certain officers, which vest in two equal installments on each of April 20, 2019 and April 20, 2020. These shares were issued in connection with the performance-based targets established in 2017. Share-based compensation expense associated with these performance-based awards was \$0.4 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively. In addition, during the three months ended March 31, 2018, we established, and our Board of Directors approved, performance-based targets in connection with common stock awards to be issued to certain officers in 2019 contingent upon achievement of these 2018 targets.

*Employees Performance-Based Restricted Stock Units*

During 2017, 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 2018 contingent upon achievement of a performance target. These units will be accounted for as equity-based awards that will be settled with a fixed number of common shares. We recorded \$0.9 million in compensation expense associated with these performance-based units during the three months ended March 31, 2018.

As of March 31, 2018, there was \$0.2 million of unrecognized compensation expense related to nonvested performance-based common stock units. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of .05 years. See the table below for changes in shares and related weighted average fair market value per share.

*Share-Based Compensation Summary*

Amounts for each category of equity-based award for employees as of December 31, 2017 and changes during the three months ended March 31, 2018 were as follows:

|                                             | Common Stock Awards                |           | Performance-Based Stock Awards     |           | Performance-Based Restricted Stock Units |           |
|---------------------------------------------|------------------------------------|-----------|------------------------------------|-----------|------------------------------------------|-----------|
|                                             | Weighted Average Fair Market Value |           | Weighted Average Fair Market Value |           | Weighted Average Fair Market Value       |           |
|                                             | Awards                             | Per Share | Awards                             | Per Share | Units                                    | Per Share |
| Nonvested awards/units at December 31, 2017 | 202,331                            | \$ 39.09  | 77,254                             | \$ 41.00  | 72,000                                   | \$ 52.16  |
| Granted                                     | 7,584                              | 65.60     | 52,892                             | 65.60     | 584                                      | 52.80     |
| Vested                                      | (9,560)                            | 52.00     |                                    |           |                                          |           |

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|                                          |         |          |          |          |         |          |
|------------------------------------------|---------|----------|----------|----------|---------|----------|
| Forfeited/Cancelled                      | (287)   | 21.79    | (14,448) | 41.00    | (1,464) | 52.94    |
| Nonvested awards/units at March 31, 2018 | 200,068 | \$ 40.91 | 115,698  | \$ 52.25 | 71,120  | \$ 52.15 |

During the three months ended March 31, 2018 and 2017, we recorded the following stock compensation expense, by income statement category (in thousands):

|                | 2018     | 2017   |
|----------------|----------|--------|
| Cost of sales  | \$ 475   | \$     |
| Selling        | 283      |        |
| Administrative | 1,482    | 480    |
|                | \$ 2,240 | \$ 480 |

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

**NOTE 11 INCOME TAXES**

Our provision for income taxes as a percentage of pretax earnings is based on a current estimate of the annual effective income tax rate adjusted to reflect the impact of discrete items.

During the three months ended March 31, 2018, our effective tax rate was 26.0%. This rate was favorably impacted primarily by the enactment of Pub.L. 115 97, an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (the Tax Act ). The Tax Act reduced the U.S federal corporate tax rate from 35% to 21% effective January 1, 2018, among other changes. ASC Topic 740, *Accounting for Income Taxes*, requires companies to recognize the effect of tax law changes in the period of enactment. ASU 2018-05 and Staff Accounting Bulletin No. 118 ( SAB 118 ) issued by the Securities and Exchange Commission allow a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain tax effects of the Tax Act. We have recognized the provisional tax impacts of the Tax Act in our consolidated financial statements for the year ended December 31, 2017 included within our 2017 Form 10-K. Based on a review of the guidance issued by the Internal Revenue Service in the first quarter of 2018, no adjustment to the provisional amount recorded in the consolidated financial statements for the year ended December 31, 2017 was deemed necessary. We continue to assess new guidance and refine our computation of these provisional amounts and will complete our analysis within the one-year measurement period ending December 22, 2018.

**NOTE 12 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 affiliated ownership.

We lease our headquarters and certain other facilities from related parties. See Note 13, Commitments and Contingencies, for future minimum lease payments to be paid to these related parties.

For the three months ended March 31, 2018 and 2017, the amount of sales to related parties as well as the purchases from and rent expense paid to related parties were as follows (in thousands):

|           | 2018     | 2017     |
|-----------|----------|----------|
| Sales     | \$ 2,893 | \$ 2,336 |
| Purchases | 363      | 291      |
| Rent      | 281      | 296      |

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As of March 31, 2018 and December 31, 2017, we had related party balances of approximately \$2.2 million and \$2.0 million, respectively, included in accounts receivable on our Condensed 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 is a member of our Board of Directors, accounted for \$1.0 million of these balances as of each of March 31, 2018 and December 31, 2017.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 13 COMMITMENTS AND CONTINGENCIES****Accrued General Liability**

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

|                                         | March 31,<br>2018 | December 31,<br>2017 |
|-----------------------------------------|-------------------|----------------------|
| Included in other current liabilities   | \$ 1,956          | \$ 2,033             |
| Included in other long-term liabilities | 7,825             | 7,073                |
|                                         | \$ 9,781          | \$ 9,106             |

We also had insurance receivables and an indemnification asset, totaling \$2.8 million, included in other non-current assets on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, that, in aggregate, offset an equal liability included within the reserve amounts noted above.

**Leases**

We are obligated under capital leases covering vehicles and certain equipment. The vehicle and equipment leases generally have initial terms ranging from four to six years. Total gross assets relating to capital leases were approximately \$62.8 million and \$63.4 million as of March 31, 2018 and December 31, 2017, respectively, and a total of approximately \$24.8 million and \$26.8 million were fully depreciated as of March 31, 2018 and December 31, 2017, respectively. The net book value of assets under capital leases was approximately \$11.7 million and \$13.0 million as of March 31, 2018 and December 31, 2017, respectively. Amortization of assets held under capital leases is included within cost of sales on the Condensed Consolidated Statements of Operations and Comprehensive Income.

We also have several noncancellable operating leases, primarily for buildings, improvements, equipment and certain vehicles. These leases generally contain renewal options for periods ranging from one to five years and require us to pay all executory costs such as property taxes, maintenance and insurance.

Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) with related parties as of March 31, 2018 are as follows (in thousands):

|                   |        |
|-------------------|--------|
| Remainder of 2018 | \$ 664 |
| 2019              | 837    |

|            |     |
|------------|-----|
| 2020       | 574 |
| 2021       | 591 |
| 2022       | 609 |
| Thereafter |     |

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 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

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

**NOTE 14 BUSINESS COMBINATIONS**

As part of our ongoing strategy to expand geographically and increase market share in certain markets, we completed two business combinations and one insignificant tuck-in acquisition merged into existing operations during each of the three months ended March 31, 2018 and 2017, respectively, in which we acquired 100% of the ownership interests in each.

The largest of these acquisitions were Custom Overhead Door, LLC dba Custom Door & Gate (collectively, CDG) in March 2018 and Trilok Industries, Inc., Alpha Insulation and Waterproofing Inc. and Alpha Insulation and Waterproofing Company (collectively, Alpha) in January 2017. The remaining acquisitions were individually insignificant as follows. Net (Loss) Income, as noted below, includes amortization, taxes and interest allocations when appropriate.

For the three months ended March 31, 2018 (in thousands):

| 2018 Acquisitions | Date      | Acquisition<br>Type | Cash Paid        | Seller<br>Obligations | Total<br>Purchase<br>Price | Three months ended<br>March 31, 2018 |                      |
|-------------------|-----------|---------------------|------------------|-----------------------|----------------------------|--------------------------------------|----------------------|
|                   |           |                     |                  |                       |                            | Revenue                              | Net (Loss)<br>Income |
| CDG               | 3/19/2018 | Asset               | \$ 9,440         | \$ 1,973              | \$ 11,413                  | \$ 400                               | \$ (15)              |
| Other             | 1/15/2018 | Asset               | 2,065            | 1,120                 | 3,185                      | 1,271                                | 66                   |
| <b>Total</b>      |           |                     | <b>\$ 11,505</b> | <b>\$ 3,093</b>       | <b>\$ 14,598</b>           | <b>\$ 1,671</b>                      | <b>\$ 51</b>         |

For the three months ended March 31, 2017 (in thousands):

| 2017 Acquisitions    | Date      | Acquisition<br>Type | Cash<br>Paid | Seller<br>Obligations | Fair Value of<br>Common<br>Stock | Total<br>Purchase<br>Price | Three months ended<br>March 31, 2017 |            |
|----------------------|-----------|---------------------|--------------|-----------------------|----------------------------------|----------------------------|--------------------------------------|------------|
|                      |           |                     |              |                       |                                  |                            | Revenue                              | Net Income |
| Alpha <sup>(1)</sup> | 1/5/2017  | Share               | \$ 103,810   | \$ 2,002              | \$ 10,859                        | \$ 116,671                 | \$ 28,166                            | \$ 900     |
| Other                | 3/20/2017 | Asset               | 3,402        | 300                   |                                  | 3,702                      | 518                                  | 21         |

|       |            |          |           |            |           |        |
|-------|------------|----------|-----------|------------|-----------|--------|
| Total | \$ 107,212 | \$ 2,302 | \$ 10,859 | \$ 120,373 | \$ 28,684 | \$ 921 |
|-------|------------|----------|-----------|------------|-----------|--------|

- (1) The cash paid included \$21.7 million in contingent consideration to satisfy purchase price adjustments related to cash and net working capital requirements, earnout consideration based on Alpha's change in EBITDA from 2015 and a customary holdback. These payments were based on fair value of each contingent payment at the time of acquisition and subsequently adjusted during the measurement period. We issued 282,577 shares of our common stock with a fair value of \$10.9 million.

Acquisition-related costs recorded within administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income amounted to \$0.5 million and \$0.6 million for the three months ended March 31, 2018 and 2017, respectively. The goodwill 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 approximately \$6.1 million of goodwill for tax purposes as a result of 2018 acquisitions.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**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 as of March 31 (in thousands):

|                                                  | CDG      | 2018<br>Other | Total     | Alpha      | 2017<br>Other | Total      |
|--------------------------------------------------|----------|---------------|-----------|------------|---------------|------------|
| Estimated fair values:                           |          |               |           |            |               |            |
| Cash                                             | \$       | \$            | \$        | \$ 247     | \$            | \$ 247     |
| Accounts receivable                              | 1,819    |               | 1,819     | 29,851     | 1,087         | 30,938     |
| Inventories                                      | 514      | 75            | 589       | 1,852      | 746           | 2,598      |
| Other current assets                             | 13       | 12            | 25        | 4,500      | 3             | 4,503      |
| Property and equipment                           | 933      | 517           | 1,450     | 1,528      | 457           | 1,985      |
| Intangibles                                      | 3,710    | 1,675         | 5,385     | 57,200     | 1,904         | 59,104     |
| Goodwill                                         | 4,852    | 931           | 5,783     | 38,511     | 586           | 39,097     |
| Other non-current assets                         | 36       |               | 36        | 383        | 119           | 502        |
| Accounts payable and other current liabilities   | (464)    | (25)          | (489)     | (17,401)   | (1,200)       | (18,601)   |
| Fair value of assets acquired and purchase price | 11,413   | 3,185         | 14,598    | 116,671    | 3,702         | 120,373    |
| Less fair value of common stock issued           |          |               |           | 10,859     |               | 10,859     |
| Less seller obligations                          | 1,973    | 1,120         | 3,093     | 2,002      | 300           | 2,302      |
| Cash paid                                        | \$ 9,440 | \$ 2,065      | \$ 11,505 | \$ 103,810 | \$ 3,402      | \$ 107,212 |

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 amounts based on working capital calculations, earnouts based on performance, and non-compete agreements, all of which are based on fair value at the time of acquisition. When these payments are expected to be made over one year from the acquisition date, the contingent consideration is discounted to net present value using our weighted average cost of capital (WACC).

Further adjustments to the allocation for each acquisition still under its measurement period are expected as third-party and internal valuations are finalized, certain tax aspects of the transaction are completed 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 5, Goodwill and Intangibles, during each of the three months ended March 31, 2018 and 2017 due to minor adjustments to goodwill for the allocation of certain acquisitions

still under measurement. In addition, goodwill and intangibles increased during each of the three months ended March 31, 2018 and 2017 due to an immaterial tuck-in acquisition that does not appear in the above table.

The provisional amounts for Alpha originally reported in our Condensed Consolidated Balance Sheets included in our Quarterly Report on Form 10-Q for the period ended March 31, 2017 were adjusted during the measurement period to reflect the review and ongoing analysis of the fair value measurements. As a result of our continued evaluation during the measurement period, during the twelve months ended December 31, 2017, we increased goodwill by approximately \$2.1 million, offset by a corresponding net reduction in various working capital accounts.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Estimates of acquired intangible assets related to the acquisitions are as follows for the three months ended March 31 (dollars in thousands):

|                             | 2018       |                                                           | 2017       |                                                           |
|-----------------------------|------------|-----------------------------------------------------------|------------|-----------------------------------------------------------|
|                             | Estimated  | Weighted<br>Average<br>Estimated<br>Useful<br>Life (yrs.) | Estimated  | Weighted<br>Average<br>Estimated<br>Useful<br>Life (yrs.) |
| Acquired intangibles assets | Fair Value |                                                           | Fair Value |                                                           |
| Customer relationships      | \$ 3,440   | 8                                                         | \$ 28,401  | 8                                                         |
| Trademarks and trade names  | 1,695      | 15                                                        | 15,496     | 15                                                        |
| Non-competition agreements  | 250        | 5                                                         | 1,607      | 5                                                         |
| Backlog                     |            |                                                           | 13,600     | 1.5                                                       |

**Pro Forma Information**

The unaudited pro forma information for the combined results of the Company has been prepared as if the 2018 acquisitions had taken place on January 1, 2017 and the 2017 acquisitions had taken place on January 1, 2016. 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, 2017 and 2016, respectively, and the unaudited pro forma information does not purport to be indicative of future financial operating results (in thousands, except per share data):

|                              | Unaudited pro forma for the three<br>months ended March 31, |            |
|------------------------------|-------------------------------------------------------------|------------|
|                              | 2018                                                        | 2017       |
| Net revenue                  | \$ 304,790                                                  | \$ 275,530 |
| Net income                   | 6,457                                                       | 7,436      |
| Basic net income per share   | 0.20                                                        | 0.24       |
| Diluted net income per share | 0.20                                                        | 0.23       |

Unaudited pro forma net income reflects additional intangible asset amortization expense of \$67 thousand and \$0.7 million for the three months ended March 31, 2018 and 2017, respectively, as well as additional income tax expense of \$23 thousand and \$0.6 million for the three months ended March 31, 2018 and 2017, respectively, that would have been recorded had the 2018 acquisitions taken place on January 1, 2017 and the 2017 acquisitions taken place on January 1, 2016.

**NOTE 15 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 March 31, 2018 and 2017 was 224 thousand and 97 thousand shares, respectively.

**NOTE 16 SUBSEQUENT EVENTS**

On April 9, 2018, we acquired substantially all of the assets of H2H Blinds, LLC for total consideration of approximately \$4.6 million, subject to a working capital adjustment. The initial accounting for the business combination was not complete at the time the financial statements were issued due to the timing of the acquisition and the filing of this Quarterly Report on Form 10-Q. As a result, disclosures required under ASC 805-10-50, Business Combinations, cannot be made at this time.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and related notes in Item 1. Financial Statements of this Form 10-Q, as well as our 2017 Form 10-K.*

## **Table of Contents**

### **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, 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 125 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 recently passed Tax Act has added additional momentum to the economic landscape surrounding our business. While there have been concerns about the impact of the new tax law on housing, initial analyses are suggesting that it is generally stimulative to the economy. In addition, preliminary concerns about the reduction of the mortgage interest deduction, deductibility of real estate taxes, state taxes and local taxes seem to be offset by overall optimistic momentum around economic stability and growth. We may adjust our strategies based on housing demand and our performance in each of our markets.

### *Q1 2018 Highlights*

Despite inclement weather in certain of our markets for much of the first quarter, net revenue increased 18.0% or \$46.1 million to \$301.7 million, while gross profit increased 10.8% or \$7.8 million, during the three months ended March 31, 2018 compared to 2017. The increase in net revenue and gross profit was primarily driven by our presence in strong housing markets, the contribution of our recent acquisitions and the diversity of installation services across our end markets and products. In addition, in the first quarter of 2018, we repurchased \$24.6 million of our stock as part of our 2018 stock-repurchase plan effective March 2, 2018.

We believe there are several trends that should drive long-term growth in the housing market. These trends include an aging housing stock, population growth and household formation growth. These positive trends are reflected in Blue Chip Economic Indicators' April 2018 consensus forecast, which projects housing starts to increase from approximately 1.2 million in 2017 to approximately 1.3 million in 2018. We expect that our net revenue, gross profit and operating income will benefit from this growth. While we are actively adjusting pricing with our customers, we have realized selling price increases at a slower rate than the increase in material costs. We have been successful negotiating better pricing with our customers and experienced solid price increase momentum during the month of March. As a result, we expect our selling prices to continue to improve during the second quarter, with improving margins to be in-line with historical trends. We do expect to experience higher material costs through the remainder of the year and will continue to work with our customers to adjust selling prices to offset these higher costs.

### *Sales performance*

Net revenues increased \$46.1 million, or 18.0%, to \$301.7 million in the first quarter of 2018 compared to 2017, primarily driven by acquisitions, organic growth from our existing branches and increased selling prices. On a same branch basis, net revenue improved 11.3% from the prior year quarter, with approximately 7.3% of the increase

attributable to growth in the number of completed jobs and 3.6%

**Table of Contents**

attributable to price gains and more favorable customer and product mix. We also saw organic growth in our large commercial construction end market of 13.5%. Same branch new residential sales increased 11.3%, compared to growth in U.S. housing completions of 8.2%.

|                                | Three months ended March 31, |                   |
|--------------------------------|------------------------------|-------------------|
|                                | 2018                         | 2017              |
| Same branch <sup>(1)</sup>     | \$ 284,465                   | \$ 208,381        |
| Acquired branch <sup>(2)</sup> | 17,263                       | 47,288            |
| <b>Total net revenue</b>       | <b>\$ 301,728</b>            | <b>\$ 255,669</b> |

(1) Represents sales for branch locations owned for greater than 12 months as of the financial statement date.

(2) Represents sales for branch locations owned for less than 12 months as of the financial statement date.

*Cost of sales and gross profit*

Gross profit for the three months ended March 31 was as follows (dollars in thousands):

|                     | 2018             | Change       | 2017             |
|---------------------|------------------|--------------|------------------|
| Net revenues        | \$ 301,728       | 18.0%        | \$ 255,669       |
| Cost of sales       | 221,752          | 20.8%        | 183,497          |
| <b>Gross profit</b> | <b>\$ 79,976</b> | <b>10.8%</b> | <b>\$ 72,172</b> |

|                         |       |       |
|-------------------------|-------|-------|
| Gross profit percentage | 26.5% | 28.2% |
|-------------------------|-------|-------|

As a percentage of net revenue, gross profit decreased during the three months ended March 31, 2018 compared to 2017 attributable primarily to industry-wide material cost increases beginning in January of this year as well as the impacts of our financial wellness plan and stock compensation plan for installers. Of the 1.7% decrease in gross profit margin as a percentage of net revenue between 2018 and 2017, increases in material and labor costs accounted for 0.6% and 0.5%, respectively, with no other single factor contributing significantly to the decrease. Selling price increases began to take effect late in the first quarter of 2018 across many of our markets and product lines due to increased market pricing on insulation materials, which is expected to improve our costs of sales and gross margin as a percentage of sales going forward.

**Table of Contents***Operating expenses*

Operating expenses for the three months ended March 31 were as follows (dollars in thousands):

|                                 | 2018      | Change | 2017      |
|---------------------------------|-----------|--------|-----------|
| Selling                         | \$ 15,846 | 13.0%  | \$ 14,026 |
| Percentage of total net revenue | 5.3%      |        | 5.5%      |
| Administrative                  | \$ 44,203 | 12.6%  | \$ 39,261 |
| Percentage of total net revenue | 14.7%     |        | 15.4%     |
| Amortization                    | \$ 7,128  | 11.1%  | \$ 6,416  |
| Percentage of total net revenue | 2.4%      |        | 2.5%      |

**Selling**

The dollar increase in selling expenses for the three months ended March 31, 2018 was primarily driven by increased selling wages and commissions on an increased sales base. Selling expense decreased 0.2% as a percentage of sales primarily due to lower bad debt expense in the first quarter of 2018 compared to the first quarter of 2017.

**Administrative**

The increase in administrative expenses for the three months ended March 31, 2018 was primarily due to an increase in wages and benefits and facility costs attributable to both acquisitions and organic growth, which accounted for 9.9% and 1.9% of the total 12.6% increase on a dollar basis, respectively. Administrative expense decreased 0.7% as a percentage of sales primarily due to lower liability insurance expense in the first quarter of 2018 compared to the first quarter of 2017.

*Other expense*

Other expense net for the three months ended March 31 was as follows (in thousands):

|                     | 2018     | Change | 2017     |
|---------------------|----------|--------|----------|
| Interest expense    | \$ 4,040 | 86.2%  | \$ 2,170 |
| Other               | 122      | -19.7% | 152      |
| Total other expense | \$ 4,162 | 79.2%  | \$ 2,322 |

The year-over-year increase in interest expense was due to increased debt balances associated with our borrowings to support acquisition-related growth.

**Table of Contents***Income tax provision*

Income tax provision and effective tax rates for the three months ended March 31 were as follows (dollars in thousands):

|                      | 2018     | 2017     |
|----------------------|----------|----------|
| Income tax provision | \$ 2,243 | \$ 3,783 |
| Effective tax rate   | 26.0%    | 37.3%    |

During the three months ended March 31, 2018, our tax rate was favorably impacted primarily by the effects of the Tax Act, which reduced the U.S federal corporate tax rate from 35% to 21%.

During the three months ended March 31, 2017, our tax rate was favorably impacted by deductions related to domestic production activities, usage of net operating losses for a tax filing entity which previously had a full valuation allowance and excess tax benefits from share-based compensation arrangements. This favorability was partially offset by separate tax filing entities in a loss position for which a full valuation allowance will be accounted for against the losses, causing no tax benefit to be recognized on the losses.

*Impacts of the Tax Act*

Income tax expense decreased \$1.5 million for the three months ended March 31, 2018, compared to the three months ended March 31, 2017, of which approximately \$1.0 million of the decrease was primarily due to the impact of the Tax Act, which reduced the U.S federal corporate tax rate from 35% to 21%. Potential future offsets to the lower federal corporate tax rate under the Tax Act include the impacts of the potential loss of the domestic production activities deduction as well as the loss of certain employee expense-related deductions.

The ultimate impact of the Tax Act may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued and actions we may take as a result of the Tax Act. We have recognized the provisional tax impacts of the Tax Act in our condensed consolidated financial statements for the year ended December 31, 2017 included within our 2017 Form 10-K. Based on a review of the guidance issued by the Internal Revenue Service in the first quarter of 2018, no adjustment to the provisional amount recorded in the condensed consolidated financial statements for the year ended December 31, 2017 was deemed necessary. We continue to assess new guidance and refine our computation of these provisional amounts and will complete our analysis within the one-year measurement period ending December 22, 2018.

**KEY FACTORS AFFECTING OUR OPERATING RESULTS***Material costs*

We purchase the materials that we install primarily from manufacturers. The industry supply of 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 in 2018. Increased market pricing, regardless of the catalyst, could impact our results of operations, to the extent that price increases cannot be passed on to our customers. See Management's Discussion and Analysis of Financial Conditions and Results of Operations Overview Q1 2018 Highlights.



**Table of Contents****Liquidity and capital resources**

Our primary capital requirements are to fund working capital needs, operating expenses, acquisitions and capital expenditures and meet required principal and interest payments. Our capital resources primarily consist of cash from operations and borrowings under our credit agreement and capital equipment leases and loans. Our investments consist of highly liquid instruments primarily including corporate bonds and commercial paper. As of March 31, 2018, we had no outstanding borrowings under our ABL Revolver (as defined above).

Our acquisition of Alpha, which was completed on January 5, 2017, required us to commit significant resources to the acquisition and ongoing support of Alpha's business. This acquisition was funded by drawing on the credit facility in existence at that time.

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 three months ended March 31, 2018 and 2017. At March 31, 2018, we were in compliance with all applicable covenants under our borrowing agreements.

The following table summarizes our liquidity (in thousands):

|                                                         | As of March<br>31, 2018 | As of December<br>31, 2017 |
|---------------------------------------------------------|-------------------------|----------------------------|
| Cash and cash equivalents                               | \$ 19,906               | \$ 62,510                  |
| Short-term investments                                  | 28,798                  | 30,053                     |
| ABL revolver facility                                   | 100,000                 | 100,000                    |
| Less: outstanding letters of credit and cash-collateral | (28,522)                | (17,902)                   |
| <b>Total liquidity</b>                                  | <b>\$ 120,182</b>       | <b>\$ 174,661</b>          |

*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 as of March 31, 2018 (in thousands):

|                                                 | 2018      |
|-------------------------------------------------|-----------|
| Performance bonds                               | \$ 39,228 |
| Insurance letters of credit and cash-collateral | 28,522    |
| Permit and license bonds                        | 6,409     |

|                 |           |
|-----------------|-----------|
| Total liquidity | \$ 74,159 |
|-----------------|-----------|

In January 2018, we posted \$10.0 million into a trust to serve as additional collateral for our workers' compensation and general liability policies. This \$10.0 million can be converted to a letter of credit at our discretion and is therefore not considered to be restricted cash.

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**Table of Contents**

**Historical cash flow information**

*Cash flows from operating activities*

Net cash provided by operating activities was \$6.1 million and \$15.7 million for the three months ended March 31, 2018 and 2017, respectively. Generally, the primary driver of our cash flow from operations is 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. In addition, cash flows are seasonally stronger in the third and fourth quarters as a result of increased construction activity.

*Cash flows from investing activities*

**Business Combinations.** During the three months ended March 31, 2018 and 2017, we made cash payments, net of cash acquired, of \$11.5 million and \$106.9 million, respectively, on business combinations. Our acquisition of Alpha in January 2017 required an investing cash outlay of \$103.8 million.

**Capital Expenditures.** Total cash paid for property and equipment was \$10.2 million and \$7.8 million for the three months ended March 31, 2018 and 2017, respectively, and was primarily related to purchases of vehicles and various equipment to support our growing operations. We expect to continue to support any increases in 2018 net revenue through further capital expenditures.

**Other.** During the three months ended March 31, 2018, we invested \$17.8 million in short-term investments consisting primarily of corporate bonds and commercial paper and had \$19.0 million in short-term investments that matured during the quarter. We had no short-term investments during the three months ended March 31, 2017.

*Cash flows from financing activities*

We utilize our credit facilities to support our operations and continuing acquisitions as well as to finance our fleet expansion. During the three months ended March 31, 2018 and 2017, we had cash inflows from our credit facilities, net of payments on these instruments and other long-term debt, amounting to \$0.7 million and \$113.5 million, respectively, to support those initiatives. In addition, we made \$1.6 million and \$1.9 million in principal payments on our capital leases during the three months ended March 31, 2018 and 2017, respectively. We incurred \$1.7 million and \$1.2 million of acquisition-related obligations during the three months ended March 31, 2018 and 2017, respectively. Lastly, we repurchased approximately 413 thousand shares of our common stock for \$24.6 million during the three months ended March 31, 2018, as part of our 2018 stock repurchase plan. See Note 9, Stockholders' Equity for more information surrounding our stock repurchase plan.

**Capped Call Agreement**

Certain of our stockholders entered into a capped call agreement with the underwriters of the secondary offering of our common stock completed on June 17, 2014. This agreement provided these stockholders with an option to call from the underwriters a total of approximately 1.0 million shares of our common stock at a capped price, with settlement required to be made in cash. During 2016, these stockholders exercised the call option with respect to approximately 0.7 million of the shares. In addition, in the fourth quarter of 2016, these stockholders simultaneously cancelled the remaining portion of the call option and purchased a new call option from the underwriters. This new capped call agreement provided these stockholders with the option to call from the underwriters a total of approximately 0.4 million shares of our common stock at a capped price. The option was exercised on April 16, 2018.

and was settled in cash. The capped call agreement is between these stockholders and the underwriters and does not represent compensation to the stockholders for services rendered to us. The price paid for the option represents the fair value of that transaction and we are not a party to the agreement. Accordingly, we have not recorded any expense related to this transaction.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

During the three months ended March 31, 2018 we changed certain of our critical accounting policies and estimates, from those previously disclosed in our 2017 Form 10-K, in relation to our revenue recognition, cash flow classification for certain of our cash flows and our hedge accounting, as a result of the adoption of new accounting standards on January 1, 2018.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 and related subsequently issued amendments set forth a new revenue recognition model that requires identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations and recognizing the revenue upon satisfaction of performance obligations. In July 2015, the FASB voted to defer the application of the provisions of this standard for public companies until annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. On January 1, 2018, we adopted Topic 606, Revenue from Contracts with Customers and all the related amendments using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Our results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

We recorded a \$2.9 million increase to opening retained earnings, net of tax, on January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the change in accounting for certain of our short-term contracts that were previously accounted for on a point-in-time basis, whereas, under ASC 606, we now recognize revenue associated with these contracts over time as service is performed and the transfer of control occurs, based on a percentage-of-completion method using input methods as a measure of progress. The impact to our fiscal quarter-ended March 31, 2018 net income, as a result of adopting Topic 606 on January 1, 2018 was a \$0.3 million increase.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU better aligns a company's risk management activities and financial reporting for hedging relationships and makes certain improvements to simplify the application of hedge accounting guidance. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. We elected to early adopt this ASU as of January 1, 2018, and as such recognized a \$0.1 million reduction to our opening retained earnings as of January 1, 2018 and an offsetting increase to our accumulated other comprehensive income, in order to derecognize the cash flow hedge ineffectiveness previously recorded in net income in the fourth quarter of 2017. Beginning January 1, 2018 we will no longer measure or recognize hedge ineffectiveness in net income for cash flow hedges deemed to be effective at inception and will recognize all changes in fair value of the related hedge in accumulated other comprehensive income.

### **Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the federal securities laws, including with respect to the housing market, our financial and business model, our ability to increase selling prices, demand for our services and product offerings, expansion of our national footprint and diversification, our ability to capitalize on the new home and commercial construction recovery, 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 2018. Forward-looking statements may generally be identified by the use of words such as anticipate, believe, estimate, project, predict, possible, forecast, may, could, v

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

## **Table of Contents**

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 our 2017 Form 10-K, as the same may be updated from time to time in our subsequent filings with the 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to our exposure to market risk since December 31, 2017.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) as required by Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2018.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Part I, Item 1. Financial Statements, Note 13, Commitments and Contingencies Other Commitments and Contingencies, for information about existing legal proceedings.

### **Item 1A. Risk Factors**

There have been no material changes for the three months ended March 31, 2018 from the risk factors as disclosed in our 2017 Form 10-K.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

|                       | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price Paid<br>Per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>under the Plans or<br>Programs <sup>(2)</sup> |
|-----------------------|----------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| January 1 - 31, 2018  |                                                          | \$                                    |                                                                                                    |                                                                                                                        |
| February 1 - 28, 2018 |                                                          |                                       |                                                                                                    |                                                                                                                        |
| March 1 - 31, 2018    | 413,642                                                  | 59.68                                 | 412,717                                                                                            | \$ 25.4 million                                                                                                        |
|                       | 413,642                                                  | \$ 59.68                              | 412,717                                                                                            | \$ 25.4 million                                                                                                        |

The following table shows the stock repurchase activity for the three months ended March 31, 2018:

- (1) Includes 925 shares surrendered to the Company by employees to satisfy tax withholding obligations arising in connection with the vesting of 9,560 shares of restricted stock awarded under our 2014 Omnibus Incentive Plan.
- (2) On February 28, 2018, we announced that our Board of Directors authorized a \$50 million stock repurchase program effective March 2, 2018 through February 28, 2019, unless extended by the Board of Directors.

**Item 3. Defaults Upon Senior Securities**

There have been no material defaults in senior securities.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On May 2, 2018, the Board of Directors approved an annual grant of restricted stock under the 2014 Omnibus Incentive Plan for non-employee directors. The grant date is May 31, 2018, the date of our 2018 Annual Meeting of Stockholders, and the grant will have a fair market value of \$60 thousand per director. This restricted stock will vest on the date of the regular annual meeting of stockholders in 2019, subject to the continued service as members of our Board from the grant date through the vesting date.

**Item 6. Exhibits**

(a)(3) Exhibits

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q:

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                     |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 31.1*                     | <u>CEO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2*                     | <u>CFO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32.1*                     | <u>CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>      |
| 32.2*                     | <u>CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>      |
| 101 (a)                   | Financial statements in XBRL Format                                                                                                    |

\* Filed herewith.

**Table of Contents**

**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: May 4, 2018

INSTALLED BUILDING PRODUCTS, INC.

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

By: /s/ Michael T. Miller  
*Michael T. Miller*  
*Executive Vice President and Chief  
Financial Officer*