Installed Building Products, Inc.
Form 10-K
February 28, 2019
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 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** | **45-3707650** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **495 South High Street, Suite 50 Columbus, Ohio** | **43215** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(614) 221-3399**

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

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **Common Stock, $0.01 par value per share** | **The New York Stock Exchange** |

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2018 was $1,242,212,078.

On February 20, 2019, the registrant had 29,915,611 shares of common stock, par value $0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s Definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant s fiscal year ended December 31, 2018.

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### Information Regarding Forward-Looking Statements

This Annual Report on Form 10-K ( Form 10-K ) contains forward-looking statements within the meaning of the federal securities laws, including with respect to the housing market, our financial and business model, our efforts to navigate the material pricing environment, our ability to increase selling prices, our material and labor costs, 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 2019. Forward-looking statements may generally be identified by the use of words such as anticipate, believe, estimate, project, predict, possible, forecast, ma would, should, expect, intends, plan, and will or, in each case, their negative, or other variations or comparab terminology. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements that we make herein and in any future reports and statements are not guarantees of future performance, and actual results may differ materially from those expressed in or suggested by such forward-looking statements as a result of various factors, including, without limitation, the factors discussed in the Risk Factors section of this Form 10-K, as the same may be updated from time to time in our subsequent filings with the Securities and Exchange Commission, or SEC. Any forward-looking statement made by the Company in this report speaks only as of the date hereof. New risks and uncertainties arise from time to time and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws.

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

our dependence on the economy, the housing market, the level of new residential and commercial construction activity and the credit markets;

the cyclical and seasonal nature of our business;

declines in the economy or slowing of the housing market recovery that could lead to significant impairment charges;

our exposure to severe weather conditions;

the highly fragmented and competitive nature of our industry;

product shortages or the loss of key suppliers;

changes in the costs and availability of products;

inability to continue to successfully expand into new products or geographic markets;

inability to successfully acquire and integrate other businesses;

inability to successfully expand into the commercial construction market;

our exposure to claims arising from our operations;

our reliance on key personnel;

our ability to attract, train and retain qualified employees while controlling labor costs;

changes in employment and/or immigration laws;

our exposure to product liability, workmanship warranty, casualty, construction defect and other claims and legal proceedings;

changes in, or failure to comply with, federal, state, local and other regulations;

disruptions in our information technology systems, including cybersecurity incidents;

our ability to implement and maintain effective internal control over financial reporting; and

additional factors discussed under Item 1, Business; Item 1A, Risk Factors; and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

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# PART I

## Item 1. Business

## OUR COMPANY

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

We offer our portfolio of services from our national network of over 175 branch locations serving all 48 continental states and the District of Columbia. Each of our branches has the capacity to serve all of our end markets. We believe we have the number one or two market position for new single-family insulation installation in more than half of the markets in which we operate based on permits issued in those markets. We are committed to delivering quality installation with a commitment to safety, corporate social responsibility and total customer satisfaction.

Our business began in 1977 with one location in Columbus, Ohio. In the late 1990s, we began our acquisition strategy with the goal of creating a national platform. Since 1999, we have successfully completed and integrated over 140 acquisitions, which has allowed us to generate significant scale and to diversify our product offerings while expanding into some of the most attractive new construction markets in the United States. We believe we are well positioned to continue to profitably grow our business due to our strong balance sheet, liquidity and acquisition strategy. For a further discussion of our industry and trends affecting our industry, please refer to Item 7, Management s Discussion and Analysis of Financial Condition, Key Factors Affecting our Operating Results, in this Form 10-K.

## OUR OPERATIONS

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

### Insulation

*Overview*

We are one of the largest new residential insulation installers in the United States based on our internal estimates. Insulation installation comprised approximately 66% of our net revenue for the year ended December 31, 2018. We handle every stage of the installation process, including material procurement, project scheduling and logistics, multi-phase professional installation and quality inspection.

*Insulation Materials*

We offer a wide range of insulation materials consisting of:

Fiberglass and Cellulose Insulation     Fiber glass insulation is made of fibrous glass that is held together by a thermoset resin creating insulating air pockets. It typically contains an average of 50% recycled content. It is primarily available in two forms: batts (also referred to as blankets) and loosefill (also referred to as blown in). Fiberglass is the most widely used residential insulation material in the United States. Cellulose insulation is made primarily of paper and cardboard and has a very high recycled content. Cellulose is only available in loosefill form and is blown into the structure with

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specialized equipment. Fiberglass and cellulose insulation accounted for approximately 85% of our insulation sales for the year ended December 31, 2018.

Spray Foam Insulation Spray foam insulation, which is generally a polyurethane foam, is applied at a job site by mixing two chemical components together in specialized application equipment. While typically having the highest insulating value per inch and sealing effectiveness of all insulation materials that we offer, spray foam is also typically the most expensive on an installed basis. Spray foam insulation accounted for approximately 15% of our insulation sales for the year ended December 31, 2018.

*Insulation Installation Applications*

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

Basement and Crawl Space These spaces often account for the second most energy loss in a residential structure.

Building Envelope We insulate the exterior walls of both residential and commercial structures by applying insulation on the wall or between the studs.

Attic We insulate the attics of new and existing residential structures. The attic is the area where the most energy may be lost in a home.

Acoustical Many builder or architect specifications call for acoustical insulation for sound reduction purposes in both residential and commercial structures. This product is generally installed in the interior walls to minimize sound transmission.

In each of these applications, we typically use fiberglass batts, except in attic installations where we typically install loosefill fiberglass or cellulose.

**Waterproofing**

Some of our locations install waterproofing, caulking and moisture protection systems for commercial and industrial construction projects. We offer a variety of waterproofing options, including, but not limited to, sheet and hot applied waterproofing membranes, deck coating systems, bentonite systems and air & vapor systems. The installation and service of waterproofing comprised approximately 7% of our net revenue for the year ended December 31, 2018.

**Shower Doors, Closet Shelving and Mirrors**

Some of our locations install a variety of shower enclosures, ranging from basic sliding door designs to complex custom designs. We have the ability to meet our customers diverse needs by customizing shower enclosures by size and style according to their specifications, including framing, hardware and glass options. We design and install closet shelving systems in select markets utilizing some of the highest quality products available from national brands. We also offer standard and custom designed mirrors for our customers. Shower doors, closet shelving and mirror installations comprised approximately 7% of our net revenue for the year ended December 31, 2018.

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### Garage Doors

Some of our locations install and service garage doors and openers for new residential construction builders, homeowners and commercial customers. We offer a variety of options from some of the best-known garage door brands. We offer steel, aluminum, wood and vinyl garage doors as well as opener systems. Unlike the other products we install, the garage door business has an ongoing aftermarket service component, which represented almost one-third of the net revenue resulting from garage doors for the year ended December 31, 2018. The installation and service of garage doors comprised approximately 6% of our net revenue for the year ended December 31, 2018.

### Rain Gutters

Some of our locations install a wide range of rain gutters, which direct water from a home s roof away from the structure and foundation. Rain gutters are typically constructed from aluminum or copper and are available in a wide variety of colors, shapes and widths. They are generally assembled on the job site using specialized equipment. The installation of rain gutters comprised approximately 3% of our net revenue for the year ended December 31, 2018.

### Window Blinds

Some of our locations install different types of window blinds, including cordless blinds, shades and shutters. The installation of window blinds comprised approximately 2% of our net revenue for the year ended December 31, 2018.

### Other Building Products

Some of our locations install other complementary building products, none of which is an individually significant percentage of net revenue. Installation of other building products comprised approximately 9% of our net revenue for the year ended December 31, 2018.

### Sales and Marketing

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

Experienced sales and service professionals are important to our customer growth and increasing our profitability. Retaining and motivating local employees has been an important component of our acquisition and operating strategies. As of December 31, 2018, we employed approximately 600 sales professionals and our sales force has spent an average of almost a decade with our operations. The local sales staff, which is generally led by the branch manager, is responsible for maintaining relationships with our customers. These local teams work diligently to increase sales by supporting our existing customers with excellent service and value while also pursuing new customers with competitive offerings. In addition to the efforts of our sales staff, we market our product and service offerings on the internet, in the local yellow pages, on the radio and through advertisements in trade journals. We primarily conduct our marketing using local trademarks and trade names.

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## COMPETITIVE ADVANTAGES

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

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

***Diversified product lines.*** Diversifying our product line offerings provides us opportunity to increase sales for each contract and leverage our branch costs to improve profitability. We continue to form synergies by taking advantage of cross-selling opportunities with our existing customers in markets where we have multiple lines of business.

***Engaged employees.*** We offer competitive benefits to our employees to ensure an engaged workforce. In addition to offering certain benefits to most employees, including medical insurance, 401k and paid time off benefits, we also offer longevity stock awards, financial wellness training and savings matching in order to recruit and retain employees. Opportunity for professional growth, training and advancement are encouraged.

***Financial strength.*** We believe that we are among the most financially sound companies in our industry. We place an emphasis on having a strong balance sheet which allows us to focus on our strategic initiatives and pursue growth opportunities using our proven acquisition strategy, drive profitability and generate cash. We believe that we are well positioned to properly manage most unanticipated cash flow variations and the seasonality of our business.

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

***Broad customer base.*** We benefit from a customer base which includes production and custom homebuilders, multi-family and commercial construction firms and homeowners. We continue to enhance our longstanding relationships with some of the largest builders in the country.

***Relationship with suppliers.*** We have a long standing relationship with many of the manufacturers of the materials we install. This often allows us to negotiate preferred supply contract terms.

## BUSINESS STRATEGY

We believe our geographic footprint, long-standing relationships with national insulation manufacturers, streamlined value chain and proven track record of successful acquisitions provides us with opportunities for continued growth in our existing markets and expansion into new markets. We believe we are well positioned to further improve our profitability and results in 2019 and we will continue to emphasize the following strategic business objectives in 2019:

capitalize on the new residential and commercial construction markets;

capitalize on our ability to cross-sell products through existing markets as well as new markets entered as a result of acquisitions;

continue to strengthen our market share position by working with the best customers;

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- pursue value enhancing acquisitions by being disciplined in our approach to valuations and pricing;
- enhance profitability from our operating leverage and national scale; and
- continue organic expansion of the commercial end market in existing geographies.

However, we can provide no assurance that the positive trends reflected in our recent financial and operating results will continue in 2019.

## QUALITY CONTROL AND SAFETY

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

We consider risk management and safety to be a core business objective. Significant staffing, funding and other resources are allocated to our management that enhances quality and safety for our employees and our customers. Our branch managers are held accountable for the safety of employees and quality of workmanship at their locations. We provide our employees with ongoing training and development programs necessary to improve work quality and safety performance.

## CUSTOMERS

We serve a broad group of national, regional and local homebuilders, multi-family and commercial construction firms, individual homeowners and repair and remodeling contractors. Our top ten customers, which are a combination of national and regional builders, accounted for approximately 14% of net revenue for the year ended December 31, 2018. No single customer accounted for more than 4% of net revenue during the year ended December 31, 2018.

## BACKLOG

Certain of our contracts are accounted for under the percentage-of-completion method of accounting. 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 costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Backlog represents the transaction price for contracts for which work has not been performed and excludes unexercised contract options and potential modifications. Backlog is not a guarantee of future revenues as contractual commitments may change. There can be no assurance that backlog will result in revenues within the expected timeframe, if at all. We estimate backlog was $88.0 million as of December 31, 2018 and we estimated it to be $80.8 million as of December 31, 2017.

## SUPPLIERS

We have long-term relationships with many of our suppliers and have not experienced any significant disruption in the supply of any of the primary materials we purchase and install. As one of the largest purchasers of insulation in the United States, we believe that we maintain particularly strong relationships with the largest manufacturers of these products. The proximity of certain of our branch locations to insulation manufacturers facilities provides additional mutual benefits, including opportunities for cost savings and joint planning regarding future production. Due to the limited number of large fiberglass insulation manufacturers, our three largest suppliers in the aggregate accounted for approximately 39% of all material purchases for the year ended December 31, 2018. We also believe that we maintain good relationships with suppliers of the non-insulation

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products we install. We have found that using multiple suppliers ensures a stable source of materials and favorable purchasing terms as suppliers compete to gain and maintain our business. In addition, our national purchasing volumes provide leverage with suppliers as we pursue additional purchasing synergies.

## SEASONALITY

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

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

## COMPETITION

We believe that competition in our industry is based on quality and timeliness of service, knowledge of local building codes, pricing, relationships and reputation in the market. The building products installation industry is highly fragmented across all of the various products that we install, with the insulation industry being the most consolidated of our products. Our competitors include one other large national contractor, several large regional contractors and numerous local contractors. We expect to continue to effectively compete in our local markets given our long-standing customer relationships, access to capital, tenure and quality of local staff, quality installation reputation and competitive pricing.

## EMPLOYEES

As of December 31, 2018, we had approximately 7,700 employees, consisting of approximately 5,450 installers, approximately 600 sales professionals, approximately 500 production personnel and approximately 1,150 administrative and management personnel. Approximately 30 of our employees are covered under collective bargaining agreements. We have never experienced a work stoppage or strike, and we believe that we have good relationships with our employees.

## INFORMATION TECHNOLOGY

JobCORE is our web-enabled internal software technology designed to enhance the effectiveness of our operations and management. In addition, we typically integrate jobCORE into our acquired operations. The jobCORE software provides in-depth operational and financial performance data from individual branches to the corporate office. JobCORE provides our branch managers and our salespeople with an important operational tool for monitoring branch level performance. It assists management in assessing important business questions, including customer analysis, sales staff analysis, branch analysis and other operating activities.

## INTELLECTUAL PROPERTY

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

**ENVIRONMENTAL, SOCIAL AND REGULATORY MATTERS**

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

We are committed to socially responsible corporate practices. Through charitable donations and volunteer opportunities, we give back to the communities we serve. We also provide longevity stock awards and financial wellness training to our employees.

We are subject to various federal, state and local laws and regulations applicable in the jurisdictions in which we operate, including laws and regulations relating to our relationships with our employees, public health and safety, workplace safety, transportation, zoning and fire codes. We strive to operate in accordance with applicable laws, codes and regulations.

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

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

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

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

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

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

## CORPORATE AND AVAILABLE INFORMATION

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

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

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

## Item 1A. Risk Factors

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

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**RISKS RELATED TO OUR BUSINESS**

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

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

- the number of new home and commercial building construction starts;
- short- and long-term interest rates;
- inflation;
- employment levels and job and personal income growth;
- housing demand from population growth, household formation and other demographic changes;
- housing affordability;
- rental housing demand;
- availability and cost of labor;
- availability and cost of land;
- changes in material prices;
- local zoning and permitting processes, including the length of building cycles from permit to completion, based on local economic or environmental factors;
- federal, state and local energy efficiency programs, regulations, codes and standards;

- availability and pricing of mortgage financing for homebuyers and commercial financing for developers of multi-family homes and commercial projects;
- foreclosure rates;
- consumer confidence generally and the confidence of potential homebuyers in particular;
- U.S. and global financial system and credit market stability;
- federal government economic, trade, and spending laws and policies;
- private party and government mortgage loan programs and federal and state regulation, oversight and legal action regarding lending, appraisal, foreclosure and short sale practices;
- federal and state personal income tax rates and provisions, including provisions for the deduction of mortgage loan interest payments, state and local income and real estate taxes and other expenses;
- general economic conditions, including in the markets in which we compete; and
- natural disasters, war, acts of terrorism and response to these events.

Unfavorable changes in any of the above conditions could adversely affect consumer spending, result in decreased demand for homes and adversely affect our business generally or be more prevalent or concentrated in particular markets in which we operate. Any deterioration in economic or housing market conditions or continuation of uncertain economic or housing market conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

In 2018, the U.S. Census Bureau reported an estimated 1.2 million total housing starts. This is an increase of approximately 3.6% from 2017, but still well below historical averages over the past 50 years. There is significant uncertainty regarding the timing and extent of any further recovery in new home construction and resulting product demand levels, and any decline may materially adversely affect our business, financial condition, results of operations and cash flows. In particular, the increases in mortgage interest rates over the past several years and rising home prices, along with other economic factors, may slow the recovery of the home construction market or lead to a decline. For example, in the second half of 2018, rising interest rates and increased home prices have raised concerns over the affordability of housing. These affordability concerns have caused housing demand to stall and led to declines in the National Associates of Homebuilders Housing Market Index, which gauges homebuilder perceptions of current single-family home sales and sales expectations. In addition, some analysts project that the demand for residential construction may be negatively impacted as the number of renting households has increased in recent years and a shortage in the supply of affordable housing is expected to result in lower home ownership rates.

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

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

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

According to Dodge Data & Analytics, commercial construction put in place began to recover in 2013. However, 2018 levels of new commercial construction square footage put in place, measured by square footage of construction, are still well below the historical market average of 1.3 billion square feet annually since 1970.

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

We cannot predict the duration of the current market conditions or the timing or strength of any future growth of commercial construction activity in our markets. Weakness in the commercial construction market would have a material adverse effect on our business, financial condition and operating results. Continued uncertainty about current economic conditions will continue to pose a risk to our businesses that serve the non-residential markets. If participants in these industries postpone spending in response to tighter credit, negative financial news and declines in income or asset values or other factors, this could have a material negative effect on the demand for our products and services and on our business, financial condition and results of operations.

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

We review our goodwill and other intangible assets for impairment annually during the fourth quarter and when events or changes in circumstances indicate the carrying value may not be recoverable. In doing so, we either assess qualitative factors or perform a detailed analysis to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We did not record any goodwill impairment charges in 2018, 2017 or 2016; however, a decline in the expectation of our future performance, or a decline in our market capitalization, or deterioration in expectations regarding the general economy and/or the timing and the extent of new home construction and home improvement and commercial construction activity may cause us to recognize non-cash, pre-tax impairment charges for goodwill or other long-lived assets, which are not determinable at this time. In addition, as a result of our acquisition strategy, we have recorded goodwill and may incur impairment charges in connection with prior and future acquisitions. If the value of goodwill or other intangible assets is impaired, our earnings and stockholders equity would be adversely affected. As of December 31, 2018, we had goodwill and other intangible assets in an aggregate amount of $322.8 million, or approximately 39% of our total assets, which is in excess of our stockholders equity.

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

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

In addition, adverse weather conditions, such as unusually prolonged cold conditions, rain, blizzards, hurricanes, earthquakes, fires or other natural disasters could accelerate, delay or halt construction or installation activity. The impact of these types of events on our business may adversely impact quarterly or annual net revenue, cash flows from operations and results of operations.

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

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

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

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

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

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

**Changes in the costs of the products we install can decrease our profit margins.**

The principal building products that we install have been subject to price changes in the past, some of which have been significant. For example, the industry supply of a portion of the insulation materials we install was disrupted due to a catastrophic failure at a manufacturer s facility during the fourth quarter of 2017, resulting in insulation material allocation throughout the industry and, as a result, increased market pricing in 2018. In addition, our results of operations for individual quarterly periods can be, and have been, adversely affected by a delay between when building product cost increases are implemented and when we are able to increase prices for our products and services, if at all. Our supplier purchase prices often depend on volume requirements. If we do not meet these volume requirements, our costs could increase and our margins may be adversely affected. In addition, while we have been able to achieve cost savings through volume purchasing and our relationships with suppliers, we may not be able to continue to receive advantageous pricing for the products that we install, which could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be adversely affected.

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

Acquisitions are a core part of our strategy and we may be unable to continue to grow our business through acquisitions. We may not be able to continue to identify suitable acquisition candidates and may face increased competition for these acquisition candidates. In addition, acquired businesses may not perform in accordance with expectations, and our business judgments concerning the value, strengths and weaknesses of acquired businesses may not prove to be correct. We may also be unable to achieve expected improvements or achievements in businesses that we acquire. At any given time, including currently, we may be evaluating or in discussions with one or more acquisition candidates, including entering into non-binding letters of intent. The value of our common stock following the completion of an acquisition could be adversely affected if we are unable to realize the expected benefits from the acquisition on a timely basis or at all. Future acquisitions may result in the incurrence of debt and contingent liabilities, legal liabilities, goodwill impairments, increased interest expense and amortization expense and significant integration costs. In addition, future acquisitions could result in dilution of existing stockholders if we issue shares of common stock as consideration.

Acquisitions involve a number of special risks, including:

- our inability to manage acquired businesses or control integration costs and other costs relating to acquisitions;
- potential adverse short-term effects on operating results from increased costs, business disruption or otherwise;
- diversion of management s attention;
- loss of suppliers, customers or other significant business partners of the acquired business;
- failure to retain existing key personnel of the acquired business and recruit qualified new employees at the location;
- failure to successfully implement infrastructure, logistics and systems integration;
- potential impairment of goodwill and other intangible assets;
- risks associated with the internal controls of acquired businesses;

- exposure to legal claims for activities of the acquired business prior to acquisition and inability to realize on any indemnification claims, including with respect to environmental and immigration claims;

- the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities; and

- our inability to obtain financing necessary to complete acquisitions on attractive terms or at all.

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

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

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

As of December 31, 2018, our estimated backlog was approximately $88.0 million. In accordance with industry practice, many of our contracts are subject to cancellation, reduction, termination or suspension at the discretion of the customer in respect of work that has not yet been performed. In the event of a project cancellation, we would generally have no contractual right to the total revenue reflected in our backlog but instead would collect revenues in respect of all work performed at the time of cancellation as well as all other costs and expenses incurred by us through such date. Projects can remain in backlog for extended periods of time because of the nature of the project, delays in execution of the project and the timing of the particular services required by the project. Additionally, the risk of contracts in backlog being canceled, terminated or suspended generally increases at times, including as a result of periods of widespread macroeconomic and industry slowdown, weather, seasonality and many of the other factors impacting our business. Many of the contracts in our backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the contracts. The revenue for certain contracts included in backlog are based on estimates. Therefore, the timing of performance on our individual contracts can affect our margins and future profitability. There can be no assurance that backlog will result in revenues within the expected timeframe, if at all.

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

We have consummated over 140 acquisitions. We may be subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related and other liabilities and claims not covered by insurance. These claims or liabilities could be significant. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims. In addition, insurance companies may be unwilling to cover claims that have arisen from acquired businesses or locations, or claims may exceed the coverage limits that our acquired businesses had in effect prior to the date of acquisition. If we are unable to successfully obtain insurance coverage of third-party claims or enforce our indemnification rights against the former owners, or if the former owners are unable to satisfy their obligations for any reason, including because of their financial position, we could be held liable for the costs or obligations associated with such claims or liabilities, which could adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

Some states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the federal government from time to time considers and implements changes to federal immigration laws, regulations or enforcement programs. These changes may increase our compliance and oversight obligations, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we verify the employment eligibility status of all our employees, including through participation in the E-Verify program in the states that require it, some of our employees may, without our knowledge, be unauthorized workers. In addition, use of the E-Verify program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties and, if any of our workers are found to be unauthorized, we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and retain qualified employees. Termination of a significant number of employees due to work authorization or other regulatory issues may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration laws. These factors could have a material adverse effect on our reputation, business, financial condition and results of operations.

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

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

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

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

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

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

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services. Current or future claims could have a material adverse effect on our reputation, business, financial condition and results of operations. For additional information, see Note 14, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

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

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

Our ability to obtain performance bonds and licensing bonds primarily depends on our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain performance bonds and licensing bonds can also be impacted by the willingness of insurance companies to issue performance bonds and licensing bonds. If we are unable to obtain performance bonds and licensing bonds when required, our business, financial condition, results of operations and/or cash flows could be adversely impacted.

**Federal, state, local and other laws and regulations could impose substantial costs and/or restrictions on our operations that would reduce our net income.**

We are subject to various federal, state, local and other laws and regulations, including, among other things, worker and workplace health and safety regulations promulgated by the DOT, employment regulations promulgated by the U.S. Equal Employment Opportunity Commission and tax regulations promulgated by the Internal Revenue Service and various other state and local tax authorities. More burdensome regulatory requirements in these or other areas may increase our expenses and adversely affect our business, financial condition, results of operations and cash flows. Moreover, our failure to comply with the regulatory requirements applicable to our business could subject us to substantial fines and penalties that could adversely affect our business, financial condition, results of operations and cash flows. In addition, our recently acquired manufacturing facility is also subject to additional laws and regulations which may increase our exposure to health and safety liabilities.

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

In addition, the residential construction and commercial construction industries are subject to various federal, state and local statutes, ordinances, rules and regulations concerning zoning, building design and safety, construction, contractors licensing, energy conservation and similar matters, including regulations that impose restrictive zoning and density requirements on the residential new construction industry or that limit the number

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of homes that can be built within the boundaries of a particular area. Regulatory restrictions and industry standards may require us to alter our installation processes and our sourcing, increase our operating expenses and limit the availability of suitable building lots for our customers, any of which could negatively affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Restrictions in our Senior Secured Credit Agreements (as hereinafter defined), or any other indebtedness we may incur in the future, could adversely affect our business, financial condition, results of operations, ability to make distributions to stockholders and the value of our common stock.**

Our Senior Secured Credit Agreements, or any future credit facility we enter into or other indebtedness we incur, may limit our ability to, among other things:

- incur or guarantee additional debt;
- make distributions or dividends on or redeem or repurchase shares of common stock;
- make certain investments and acquisitions;
- make capital expenditures;
- incur certain liens or permit them to exist;
- enter into certain types of transactions with affiliates;
- acquire, merge or consolidate with another company; or

transfer, sell or otherwise dispose of all or substantially all of our assets.

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

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

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

As of December 31, 2018, $196.0 million of our borrowings were at variable interest rates and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed would remain the same, and our net income and cash flows would correspondingly decrease. An increase of 100 basis points in the interest rates payable on our variable rate indebtedness would increase our annual interest expense by approximately $2.0 million, based on our total variable interest rate indebtedness outstanding as of December 31, 2018.

In addition, advances under our Senior Secured Credit Facilities (as hereinafter defined) generally bear interest based on, at our election at either the Eurodollar rate ( LIBOR ) or the base rate (which approximated the prime rate) plus a margin based on the type of rate applied and leverage ratio. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, the interest rates under our Senior Secured Credit Facilities may increase. To the extent that these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

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

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

## RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

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

- market conditions affecting the residential construction, commercial construction and building products industries;
- quarterly variations in our results of operations;
- changes in government regulations;

the announcement of acquisitions by us or our competitors;

changes in general economic and political conditions;

volatility in the financial markets;

results of our operations and the operations of others in our industry;

changes in interest rates;

threatened or actual litigation and government investigations;

the addition or departure of key personnel;

- actions taken by our stockholders, including the sale or disposition of their shares of our common stock; and

- differences between our actual financial and operating results and those expected by investors and analysts and changes in analysts recommendations or projections.

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

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

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

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

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

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

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

We have approximately 29.9 million shares of common stock outstanding as of December 31, 2018. The shares of common stock are freely tradable, except for any shares of common stock that may be held or acquired by our directors, executive officers and other affiliates, the sale of which will be restricted under the Securities Act of 1933, as amended. As of December 31, 2018, approximately 2.4 million of the 3.0 million shares of common stock authorized for issuance under the 2014 Omnibus Incentive Plan were available for issuance. These shares will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

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

As of December 31, 2018, Jeff Edwards beneficially owns approximately 24.2% of our outstanding common stock. As a result of his beneficial ownership of our common stock, he has sufficient voting power to significantly influence all matters requiring stockholder approval, including the election of directors, amendment of our amended and restated certificate of incorporation and approval of significant corporate transactions, and he has significant influence over our management and policies. This concentration of voting power may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares of common stock, which could prevent stockholders from receiving a premium for their shares of common stock. These actions may be taken even if other stockholders oppose them. The interests of Jeff Edwards may not always coincide with the interests of other stockholders, and he may act in a manner that advances his best interests and not necessarily those of our other stockholders. In addition, under our amended and restated certificate of incorporation, Jeff Edwards is permitted to pursue corporate opportunities for himself, rather than for us.

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

Our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares of our common stock. In addition, these provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove members of our board of directors. These provisions include the following:

- a classified board of directors with three-year staggered terms;

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the exclusive right of our board of directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of the holders of our stock or a hostile acquirer;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- a requirement that a special meeting of stockholders may be called only by a resolution duly adopted by our board of directors; and

- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of us.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with a stockholder owning 15% or more of such corporation s outstanding voting stock for a period of three years following the date on which such stockholder became an interested stockholder. In order for us to consummate a business

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combination with an interested stockholder within three years of the date on which the stockholder became interested, either (1) the business combination or the transaction that resulted in the stockholder becoming interested must be approved by our board of directors prior to the date the stockholder became interested, (2) the interested stockholder must own at least 85% of our outstanding voting stock at the time the transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans) or (3) the business combination must be approved by our board of directors and authorized by at least two-thirds of our stockholders (excluding the interested stockholder). This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

**We do not expect to pay any dividends in the foreseeable future.**

We intend to retain our future earnings, if any, in order to reinvest in the development and growth of our business and, therefore, do not intend to pay dividends on our common stock for the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, the limits imposed by the terms of our Senior Secured Credit Agreements, or any then-existing debt instruments, and such other factors as our board of directors deems relevant. Accordingly, investors in our common stock may need to sell their shares to realize a return on their investment in our common stock, and investors may not be able to sell their shares at or above the prices paid for them.

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

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

## Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

### Real Property

We lease office and warehouse space in 38 states, including our corporate office in Columbus, Ohio. Our leases are typically short in duration with customary extensions at our option. We believe suitable alternative space is available in all of our markets. The table below summarizes our locations as of December 31, 2018.

| State | Number of Locations | Approximate Total Square Footage |
|---|---|---|
| Alabama | 3 | 29,150 |
| Arizona | 1 | 19,846 |
| California | 14 | 139,586 |
| Colorado | 9 | 80,162 |
| Connecticut | 2 | 26,128 |
| Delaware | 2 | 11,325 |
| Florida | 22 | 156,208 |
| Georgia | 12 | 159,704 |
| Idaho | 3 | 43,000 |
| Illinois | 4 | 47,118 |
| Indiana | 13 | 237,536 |
| Kansas | 1 | 14,206 |
| Kentucky | 4 | 46,330 |
| Louisiana | 1 | 10,000 |
| Maine | 2 | 32,500 |
| Maryland | 3 | 34,710 |
| Massachusetts | 4 | 45,303 |
| Michigan | 1 | 34,800 |
| Minnesota | 2 | 87,550 |
| State | Number of Locations | Approximate Total Square Footage |
| Mississippi | 1 | 8,000 |
| Nebraska | 1 | 12,000 |
| Nevada | 2 | 18,732 |
| New Hampshire | 7 | 60,812 |
| New Jersey | 2 | 30,300 |
| New York | 10 | 100,900 |
| North Carolina | 14 | 128,380 |
| Ohio | 11 | 365,826 |
| Oklahoma | 2 | 25,007 |
| Oregon | 1 | 30,013 |
| Pennsylvania | 2 | 27,000 |
| South Carolina | 7 | 99,511 |
| Tennessee | 6 | 57,811 |
| Texas | 16 | 310,512 |

| | | |
|---|---|---|
| Utah | 1 | 6,000 |
| Vermont | 1 | 31,020 |
| Virginia | 6 | 68,141 |
| Washington | 3 | 56,393 |
| Wisconsin | 9 | 111,798 |

**Our Fleet**

As of December 31, 2018, our fleet consisted of approximately 4,275 total vehicles that we either leased or owned, including approximately 4,050 installation vehicles, which our installers use to deliver and install products from our locations to job sites, and approximately 225 other vehicles that are utilized by our sales staff, branch managers and various senior management personnel. For additional information, see Note 7, Long-Term Debt, and Note 14, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

**Item 3. Legal Proceedings**

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course, including wage and hour lawsuits. We carry insurance coverage that we believe to be reasonable under the circumstances, although insurance may or may not cover any or all of our liabilities in respect to claims and lawsuits. While management currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows, such matters are subject to inherent uncertainties.

**Item 4. Mine Safety Disclosures**

Not applicable.

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# PART II

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

### Market Information for Common Stock

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

### Holders of Record

As of February 20, 2019, there were 750 holders of record of our common stock, one of which was Cede & Co., which is the holder of shares held through the Depository Trust Company.

### Dividend Policy

During the years ended December 31, 2018, 2017 and 2016, we did not declare or pay any cash dividends on our capital stock. We currently do not anticipate paying dividends for the foreseeable future. Any future determination relating to dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

### Stock Performance Graph

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Russell 2000 Index ( Russell 2000 ), (ii) the Standard & Poor s Industrials Index ( S&P 500 Industrials ) and (iii) the S&P Smallcap 600 Index ( S&P Smallcap 600 ). The graph assumes investments of $100 in our common stock and in each of the three indices and the reinvestment of dividends for the last five fiscal years through December 31, 2018.

| | 2/13/2014 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/29/2017 | 12/31/2018 |
|---|---|---|---|---|---|---|
| **IBP** | 100 | 139 | 194 | 323 | 593 | 263 |
| **Russell 2000** | 100 | 112 | 107 | 130 | 149 | 133 |
| **S&P 500 Industrials** | 100 | 124 | 121 | 143 | 174 | 151 |
| **S&P Smallcap 600** | 100 | 114 | 112 | 141 | 160 | 146 |

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**Purchases of Equity Securities by the Issuer**

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

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (1) |
|---|---|---|---|---|
| October 1 31, 2018 | | $ | | |
| November 1 30, 2018 (2) | 1,149,135 | 35.57 | 1,149,135 | $ 66.3 million |
| December 1 31, 2018 (3) | 159,275 | 35.54 | 159,156 | $ 60.6 million |
| | 1,308,410 | $ 33.57 | 1,308,291 | $ 60.6 million |

(1) On February 28, 2018, 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. On October 31, 2018, our board of directors approved an additional stock repurchase program, effective November 5, 2018, pursuant to which we may purchase up to an additional $100 million of our outstanding common stock. The program will remain in effect until February 28, 2020, unless extended by the board of directors. During the twelve months ended December 31, 2018, we repurchased 2.1 million shares for $89.4 million under our stock repurchase program.

(2) Includes 150,000 shares repurchased from PJAM IBP Holdings, Inc. as part of the Company s stock repurchase program in a privately negotiated transaction for an aggregate price of $5.1 million, or $34.11 per share. For additional information, see Note 13, Related Party Transactions, to our audit consolidated financial statements included in this Form 10-K.

(3) Includes 119 shares surrendered to the Company by employees to satisfy tax withholding obligations arising in connection with the vesting of 458 shares of restricted stock awarded under our 2014 Omnibus Incentive Plan.

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## Item 6. Selected Financial Data

The following tables set forth selected historical consolidated financial data that should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K. The Consolidated Statements of Operations and Comprehensive Income data for the years ended and the Consolidated Balance Sheets data as of December 31, 2018, 2017, 2016, 2015 and 2014 are derived from our audited consolidated financial statements. The selected historical consolidated financial data in this section is not intended to replace our historical consolidated financial statements and the related notes thereto. Our historical results are not necessarily indicative of future results.

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 (1) | 2017 | 2016 | 2015 | 2014 |
| **Statement of operations:** | | | | | |
| **(in thousands, except per share amounts)** | | | | | |
| Net revenue | $ 1,336,432 | $ 1,132,927 | $ 862,980 | $ 662,719 | $ 518,020 |
| Cost of sales | 964,841 | 808,901 | 610,532 | 474,426 | 377,968 |
| Gross profit | 371,591 | 324,026 | 252,448 | 188,293 | 140,052 |
| Operating expenses | | | | | |
| Selling | 67,105 | 58,450 | 49,667 | 37,702 | 30,951 |
| Administrative and other | 211,269 | 191,310 | 136,731 | 105,639 | 83,515 |
| Operating income | 93,217 | 74,266 | 66,050 | 44,952 | 25,586 |
| Other expense | 21,031 | 18,446 | 6,440 | 3,022 | 2,999 |
| Income before income taxes | 72,186 | 55,820 | 59,610 | 41,930 | 22,587 |
| Income tax provision | 17,438 | 14,680 | 21,174 | 15,413 | 8,607 |
| Net income from continuing operations | 54,748 | 41,140 | 38,436 | 26,517 | 13,980 |
| Discontinued Operations | | | | | |
| Loss from discontinued operations, net of tax | | | | | 48 |
| Net income | 54,748 | 41,140 | 38,436 | 26,517 | 13,932 |
| Accretion charges on redeemable preferred stock | | | | | (19,897) |
| Net income (loss) attributable to common shareholders | $ 54,748 | $ 41,140 | $ 38,436 | $ 26,517 | $ (5,965) |
| Basic net income (loss) per share attributable to common shareholders | $ 1.76 | $ 1.30 | $ 1.23 | $ 0.85 | $ (0.20) |
| Diluted net income (loss) per share attributable to common shareholders | $ 1.75 | $ 1.30 | $ 1.23 | $ 0.85 | $ (0.20) |

| | | | | | |
|---|---|---|---|---|---|
| **Balance sheet data:** | | | | | |
| **(in thousands)** | | | | | |
| Cash | $ 90,442 | $ 62,510 | $ 14,482 | $ 6,818 | $ 10,761 |
| Total current assets | $ 411,545 | $ 354,942 | $ 192,391 | $ 150,232 | $ 119,288 |
| Property and equipment, net | $ 90,117 | $ 81,075 | $ 67,788 | $ 57,592 | $ 39,370 |
| Total assets | $ 834,658 | $ 738,746 | $ 462,095 | $ 373,572 | $ 234,162 |
| Total debt (2) | $ 463,454 | $ 359,722 | $ 166,720 | $ 143,677 | $ 53,738 |
| Total stockholders equity | $ 182,498 | $ 210,528 | $ 153,977 | $ 114,483 | $ 91,874 |

(1) Amounts prior to 2018 do not reflect the impact of the adoption of Accounting Standards Update ( ASU ) 2014-09, Revenue from Contracts with Customers (Topic 606), in the first quarter of 2018. See Note 2, Significant Accounting Policies, within Item 8 of this Form 10-K for additional information.

(2) Total debt consists of current and long-term portions of long-term debt, capital lease obligations and vehicle financing arrangements. For the year ended December 31, 2016, we adopted ASU 2015-03 which resulted in a retrospective reclassification of $0.5 million of debt issuance costs related to our long-term debt from other non-current assets to long-term debt as of December 31, 2015. No debt issuance costs were reclassified for the year ended December 31, 2014 due to immateriality of the portion to be reclassified.

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

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

## OVERVIEW

We are one of the nation s largest insulation installers for the residential new construction market and are also a diversified installer of complementary building products, including waterproofing, fire-stopping and fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving, mirrors and other products throughout the United States. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects in all 48 continental states and the District of Columbia from our national network of over 175 branch locations. Substantially all of our net revenue comes from service-based installation of these products in the residential new construction, repair and remodel and commercial construction end markets. We believe our business is well positioned to continue to profitably grow due to our strong balance sheet, liquidity and our continuing acquisition strategy.

A large portion of our net revenue comes from the U.S. residential new construction market, which depends upon a number of economic factors including demographic trends, interest rates, consumer confidence, employment rates, housing inventory levels, foreclosure rates, the health of the economy and availability of mortgage financing. The strategic acquisitions of multiple companies over the last several years contributed meaningfully to our 18.0% increase in net revenue during the year ended December 31, 2018 compared to 2017.

The recently passed Tax Cuts and Jobs Act (the Tax Act ) has added additional momentum to the economic landscape. While there have been concerns about the impact of the new tax law on housing, initial readings and reviews are suggesting that it is generally stimulative to the economy. We may adjust our strategies based on housing demand and our performance in each of our markets.

*2018 Highlights*

Net revenues increased 18.0%, or $203.5 million, during 2018 compared to 2017, primarily driven by the continued recovery of housing markets, the contributions of our recent acquisitions and growth across our end markets and products. However, gross margin was affected by price increases on our insulation materials and costs to organically expand our commercial branches. During 2018, we maintained momentum in our acquisition strategy, as we completed ten acquisitions, not including several small tuck-in acquisitions merged into existing operations, which expanded our product line offerings and geographical reach. Acquisitions accounted for $73.5 million of the increase in net revenues.

In June 2018, we extended the maturity date of our Term Loan (as hereinafter defined) from April 15, 2024 to April 15, 2025 and increased the aggregate principal amount of the facility from $297.8 million to $397.8 million, and extended the maturity date on our ABL Revolver (as hereinafter defined) from April 13, 2022 to June 19, 2023 and increased the aggregate revolving loan commitments from $100.0 million to $150.0 million.

In July 2018, we entered into a seven-year interest rate swap with a beginning notional of $100.0 million as well as a forward interest rate swap beginning May 31, 2022 with a beginning notional of $100.0 million. Including our pre-existing swap, these three swaps serve to hedge $200.0 million of the variable cash flows on our Term Loan until maturity.

In February 2018, our board of directors authorized a $50 million stock repurchase program, effective March 2, 2018, and in October 2018 our board of directors approved an additional stock repurchase program, effective November 5, 2018, pursuant to which we may purchase up to an additional $100 million of our outstanding common stock. The program will remain in effect until February 28, 2020, unless extended by the board of directors. During the year ended December 31, 2018, we repurchased 2.1 million shares for $89.4 million under our stock repurchase program.

We believe there are several trends that should drive long-term growth in the housing market, even if there are temporary periods of slower or declining growth. These long-term trends include an aging housing stock, population growth, household formation growth and the fact that housing starts are currently below historic averages. We expect that our net revenue, gross profit and operating income will benefit from this growth. While we are actively increasing 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 in recent months and expect price increase momentum extending into the year ended December 31, 2019. While we continue to proactively work with customers and suppliers to mitigate these cost impacts, we continue to experience inflation on our materials and it may take until the end of 2019 for us to fully address the current material price environment.

*2017 Highlights*

Net revenues increased 31.3% or $269.9 million during 2017 compared to 2016, primarily driven by acquisitions and organic growth amongst our existing branches. Our acquisition of Trilok Industries, Inc., Alpha Insulation and Waterproofing, Inc. and Alpha Insulation and Waterproofing Company (collectively, Alpha ) in January 2017 accounted for $116.1 million of the increase and expanded our market position in commercial insulation installation and strengthened our complementary installed product offerings in waterproofing, fire-stopping and fireproofing. During 2017, we maintained momentum in our acquisition strategy, as we completed ten acquisitions, not including multiple insignificant tuck-in acquisitions merged into existing operations, which expanded our product line offerings and geographical reach.

In April 2017, we entered into a term loan credit agreement (the Term Loan Agreement ) which provides for a seven-year $300.0 million term loan facility (the Term Loan ). In April 2017, we also entered into an asset-based lending credit agreement (the ABL Credit Agreement and together with the Term Loan Agreement, the Senior Secured Credit Agreements ), which provides for a revolving credit facility up to approximately $100.0 million and up to $50.0 million for the issuance of letters of credit (the ABL Revolver and together with the Term Loan, the Senior Secured Credit Facilities ). A portion of the proceeds from the Senior Secured Credit Facilities were used to repay, in full, all amounts outstanding under the previous credit and security agreement.

*Sales performance*

Net revenues increased during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily driven by acquisitions, organic growth from our existing branches and increased selling prices. For the year ended December 31, 2018, on a same branch basis, net revenue improved 11.5%, with 53% of this increase attributable to growth in the number of completed jobs with the rest attributable to price gains and more favorable customer and product mix. We saw growth in our same branch residential end markets, which increased 11.4% compared to growth in U.S. housing starts of 3.6% during the year ended December 31, 2018 over the year ended

December 21, 2017 per the U.S. Census Bureau. We also saw organic growth in our large commercial construction end market of 10.4% during the year ended December 31, 2018 over the year ended December 21, 2017. Net revenue was as follows (dollars in thousands):

| For the years ended December 31, | | | | |
|---|---|---|---|---|
| 2018 | Change | 2017 | Change | 2016 |
| $1,336,432 | 18.0% | $1,132,927 | 31.3% | $862,980 |

See Note 15, Business Combinations, in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K for information on our acquisitions.

*Cost of sales and gross profit*

Gross profit for 2018, 2017 and 2016 was as follows (dollars in thousands):

| | 2018 | Change | 2017 | Change | 2016 |
|---|---|---|---|---|---|
| Net revenues | $ 1,336,432 | 18.0% | $ 1,132,927 | 31.3% | $ 862,980 |
| Cost of sales | 964,841 | 19.3% | 808,901 | 32.5% | 610,532 |
| Gross profit | $ 371,591 | 14.7% | $ 324,026 | 28.4% | $ 252,448 |
| Gross profit percentage | 27.8% | | 28.6% | | 29.3% |

As a percent of net revenues, gross profit decreased during the year ended December 31, 2018 compared to the year ended December 31, 2017 attributable primarily to higher material costs caused by industry-wide cost increases beginning in January 2018 as well as the impacts of our financial wellness plan, longevity stock compensation plan for installers and branch start-up costs, partially offset by improvements in labor utilization and improvement in installer turnover. On a dollar basis, cost of sales included increases from acquired businesses of approximately $54.3 million and depreciation expense increased $4.8 million as a result of increased investment in vehicles and equipment to support our growth, including growth from acquisitions.

As a percent of net revenues, gross profit decreased during the year ended December 31, 2017 compared to the year ended December 31, 2016 attributable primarily to higher employee related costs, including costs associated with the implementation of financial wellness and longevity stock compensation plans. On a dollar basis, cost of sales included increases from acquired businesses of approximately $130.5 million. Approximately $33.8 million was predominantly attributable to organic growth in the volume of completed jobs in the residential new construction end market. Depreciation expense increased $4.4 million as a result of increased investment in vehicles and equipment to support our growth, including growth from acquisitions. Additionally, cost of sales increased $29.6 million as a result of a variety of factors, including customer and product mix, market pricing variations and insulation volume requirement changes driven by building code requirements. No factor was more significant than any other.

*Operating expenses*

Operating expenses for 2018, 2017 and 2016 were as follows (dollars in thousands):

| | 2018 | Change | 2017 | Change | 2016 |
|---|---|---|---|---|---|
| Selling | $ 67,105 | 14.8% | $ 58,450 | 17.7% | $ 49,667 |
| Percentage of total net revenue | 5.0% | | 5.2% | | 5.8% |
| Administrative | $ 185,850 | 13.0% | $ 164,453 | 31.1% | $ 125,472 |
| Percentage of total net revenue | 13.9% | | 14.5% | | 14.5% |
| Amortization | $ 25,419 | -5.4% | $ 26,857 | 138.5% | $ 11,259 |
| Percentage of total net revenue | 1.9% | | 2.4% | | 1.3% |

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Selling

The dollar increase in selling expenses in 2018 was primarily driven by a year-over-year increase in selling wages, benefits and commissions of $8.1 million, or 16%, which supported our increased net revenue of 18%. Selling expense decreased 0.2% as a percentage of sales primarily due to selling leverage gained through increased sales. In addition, selling expense decreased 0.1% as a percentage of sales for the year ended December 31, 2018 compared to 2017 due to the leveraging of higher sales and improved collection efforts.

The dollar increase in selling expenses in 2017 was primarily driven by a year-over-year increase in selling wages and commissions, in the amounts of $3.1 million and $4.0 million, respectively, which supported both organic and acquisition-related growth.

Administrative

The increase in administrative expenses in 2018 was primarily due to an increase in wages and benefits in the amount of $15.2 million, which was attributable to acquisitions and to support growth. In addition, our facility costs increased $3.8 million primarily due to leases from the facilities of acquired companies and expanded facilities to support our growth.

The increase in administrative expenses in 2017 was primarily due to an increase in wages and benefits in the amount of $25.3 million, which was attributable to acquisitions, stock compensation and to support our organic growth. In addition, our facility costs increased $4.8 million primarily due to leases from the facilities of acquired companies and expanded facilities to support our growth. During 2017, we saw our costs related to liability insurance increase due to overall growth, as well as an increase in our accounting and legal fees as a result of no longer qualifying as an emerging growth company.

Amortization

Our intangible assets include non-competes, customer listings, trade names and backlog. Amortization of intangibles attributable to acquisitions decreased by $1.4 million in 2018 due to only amortizing the backlog intangible asset associated with our 2017 Alpha acquisition of $13.6 million for six months compared to amortizing this intangible for 12 months in 2017. This decrease was offset by additional amortization expense resulting from new intangible assets from our 2018 acquisitions.

Amortization expense increased in 2017 primarily due to intangible assets acquired through the acquisition of Alpha in January 2017, $9.1 million of which is related to amortization of acquired backlog.

*Other expense*

Other expense, net for 2018, 2017 and 2016 was as follows (dollars in thousands):

| | 2018 | Change | 2017 | Change | 2016 |
|---|---|---|---|---|---|
| Interest expense, net | $ 20,496 | 17.9% | $ 17,381 | 181% | $ 6,177 |
| Other | 535 | -49.8% | 1,065 | 305% | 263 |
| Total other expense | $ 21,031 | 14.0% | $ 18,446 | 186% | $ 6,440 |

The year-over-year increase in other expense, net during 2018 and 2017 was primarily a result of increased debt levels associated with the Senior Secured Credit Agreement (as defined below) to support acquisition-related growth. In addition, we recorded $1.8 million in interest expense during the year ended December 31, 2017 related to the modification/extinguishment of our Term Loan (as defined below). See Note 7 to our audited consolidated financial statements included in this Form 10-K for further information regarding debt balances and Term Loan modification/extinguishment.

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*Income tax provision*

Income tax provision and effective tax rates for 2018, 2017 and 2016 were as follows (dollars in thousands):

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Income tax provision | $ 17,438 | $ 14,680 | $ 21,174 |
| Effective tax rate | 24.2% | 26.3% | 35.5% |

During the year ended December 31, 2018, our tax rate was favorably impacted by excess tax benefits from share-based compensation arrangements. The favorability was offset by the tax effect of losses incurred by separate companies to which no benefit can be recognized due to a full valuation allowance against the losses. During the year ended December 31, 2017, our tax rate was favorably impacted by excess tax benefits from share-based compensation arrangements, the statute expiring for various uncertain tax positions and the revaluation of our net deferred liabilities due to tax reform. During the year ended December 31, 2016, our tax rate was favorably impacted by a decrease to the state income tax rate.

For each of the years ended December 31, 2018, 2017 and 2016 our tax rate was favorably impacted by the usage of net operating losses for a tax filing entity which previously had a full valuation allowance. For the years ended 2017 and 2016 our tax rate was also favorably impacted by deductions related to domestic production activities. This favorable impact was 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 and various other unfavorable permanent items.

Impacts of the Tax Act

The Tax Act was enacted on December 22, 2017. The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21%, which had a positive impact on our 2018 and 2017 effective tax rates due to the revaluation of our ending net deferred tax liabilities.

Under the guidance in the U.S. Securities and Exchange Commission s Staff Accounting Bulletin No. 118 ( SAB 118 ), we recorded provisional amounts for the impact of the Tax Act as of December 31, 2017, representing a $3.8 million tax benefit related to the revaluation of the ending net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, which was partially offset by tax expense of $0.4 million net amount for the revaluation of the uncertain tax positions and the valuation allowance. Under the transitional provisions of SAB 118, we had a one-year measurement period to complete the accounting for the initial tax effects of the Tax Act. We recorded its final adjustments to the provisional amounts in 2018 which resulted in a $0.8 million tax benefit largely due to timing provision to return adjustments which impacted deferred balances at the 35% rate that were then revalued at the lower corporate rate. Final regulations will be issued in the future and may be applied retroactively to the date of enactment of U.S. Tax Reform that may result in changes to the tax amounts recorded as a result of the Tax Act.

**KEY FACTORS AFFECTING OUR OPERATING RESULTS**

*Trends in the construction industry*

Our operating results may vary based on the amount and type of products we install and the mix of our end markets among new single-family, multi-family and commercial builders and owners of existing homes. We expect to benefit from the continued growth in single-family new residential construction as housing returns to historic stabilized levels of 1.5 million total annual starts. We maintain a mix of business among all types of homebuilders ranging from small custom builders to large regional and national homebuilders as well as a wide range of commercial builders. Net revenue derived from our ten largest homebuilder customers in the United States was approximately 14% for the year ended December 31, 2018. The residential new construction and repair and remodel markets represented approximately 84%, 83% and 88% of our total net revenue for the years ended December 31, 2018, 2017 and 2016, respectively, with the remaining portion attributable to the commercial construction end market.

*Cost of materials*

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 for certain insulation products and, as a result, contributed to increased market pricing throughout 2018. Increased market pricing, regardless of the catalyst, has and could continue to impact our results of operations in 2019, to the extent that price increases cannot be passed on to our customers. We will continue to work with our customers to adjust selling prices to offset these higher costs.

*Labor costs*

Our business is labor intensive. As of December 31, 2018, we had approximately 7,700 employees, most of whom work as installers on local construction sites. Labor markets continue to tighten as the demand increases for installers and the national unemployment rate remains low. We expect to spend more to hire, train and retain installers to support our growing business in 2019, as tight labor availability continues within the construction industry. We offer a comprehensive benefits package, which many of our local competitors are not able to provide, which will increase costs as we hire additional personnel. Our workers compensation costs also continue to increase as we increase our coverage for additional personnel.

*Other factors*

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

**INFLATION**

Our performance is dependent to a significant extent upon the levels of U.S. residential new construction spending, which is affected by factors such as interest rates, inflation, consumer confidence and unemployment. We do not believe that inflation has had a material impact on our business, financial condition or results of operations in 2018.

**SEASONALITY**

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

**LIQUIDITY AND CAPITAL RESOURCES**

Our capital resources primarily consist of cash from operations and borrowings under our Senior Secured Credit Agreements and capital equipment leases and loans. Our primary capital requirements are to fund working capital needs, operating expenses, acquisitions and capital expenditures and meet required principal and interest payments. We also use our resources to fund our stock repurchase program. Our investments consist of highly liquid instruments primarily including corporate bonds and commercial paper. As of December 31, 2018, we had no outstanding borrowings under our ABL Revolver.

We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures and working capital for at least the next 12 months as evidenced by our net positive cash flows from operations for the years ended December 31, 2018, 2017 and 2016.

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

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $ 90,442 | $ 62,510 |
| Short-term investments | 10,060 | 30,053 |
| ABL Revolver (1) | 150,000 | 100,000 |
| Less: outstanding letters of credit | (28,887) | (17,902) |
| Total liquidity | $ 221,615 | $ 174,661 |

(1) Liquidity under our ABL Revolver can be limited by certain cash collateral limitations depending on the status of our borrowing base availability.

The following table presents selected financial information as of and for the years ended December 31, 2018, 2017 and 2016 (in thousands):

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Cash, cash equivalents and investments | $ 100,502 | $ 92,563 | $ 14,482 |
| Property, plant and equipment, net | 90,117 | 81,075 | 67,788 |
| Total term debt | 454,824 | 347,577 | 151,427 |
| Capital lease obligation | 8,630 | 12,145 | 15,293 |
| Working capital | 229,859 | 195,136 | 62,286 |
| Cash provided by operating activities | 96,633 | 68,772 | 73,266 |
| Cash used in investing activities | (74,069) | (200,443) | (79,597) |
| Cash provided by financing activities | 5,368 | 179,699 | 13,995 |

*Senior Secured Credit Facilities*

On April 13, 2017, we entered into the Term Loan Agreement, which provides for our $300.0 million, seven-year Term Loan amortizing in quarterly principal payments of $1.0 million. On April 13, 2017, we also entered into the ABL Credit Agreement, which provides for our ABL Revolver up to approximately $100.0 million and up to $50.0 million for the issuance of letters of credit.

The Term Loan Agreement was amended on November 30, 2017 to refinance the total principal amount of the Term Loan outstanding immediately prior to the effective date of the amendment on substantially the same terms as the initial Term Loan, except for (i) a decrease in the margins applicable to the base rate and Eurodollar rate loans, (ii) an increase in the cap on permitted indebtedness related to capital expenditures other than capital lease obligations and (iii) the inclusion of a mechanism to establish an alternative Eurodollar rate if certain circumstances have arisen such that the London Interbank Offered Rate may no longer be used. The ABL Credit Agreement was amended in December 2017 to revise the formula for maximum indebtedness incurred by the Company while subject to the terms of such agreement.

On June 19, 2018, we entered into a second amendment to the Term Loan Agreement to (i) extend the maturity date from April 15, 2024 to April 15, 2025 and (ii) increase the aggregate principal amount of the facility from

$297.8 million to $397.8 million. All other provisions of the Term Loan were unchanged. Also on June 19, 2018, we entered into a third amendment to the ABL Credit Agreement to (i) extend the maturity date from April 13, 2022 to June 19, 2023, (ii) increase the aggregate revolving loan commitments from $100.0 million to $150.0 million and (iii) provide enhanced borrowing availability against certain types of accounts receivable.

Our Senior Secured Credit Facilities bear interest at either the Eurodollar rate ( LIBOR ) or the base rate (which approximated the prime rate), at our election, plus a margin based on the type of rate applied and leverage ratio. The margin in respect of loans under (i) the Term Loan will be (A) 2.50% in the case of Eurodollar rate loans and

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(B) 1.50% in the case of base rate loans, and (ii) the ABL Revolver will be (A) 1.25%, 1.50% or 1.75% in the case of Eurodollar rate loans (based on a measure of availability under the agreement) and (B) 0.25%, 0.50% or 0.75% in the case of base rate loans (based on a measure of availability under the agreement).

The borrowing base for the ABL Revolver, which determines availability under the facility, is based on a percentage of the value of certain assets securing the obligations of the Company and the subsidiary guarantors under the agreement. All obligations under the Senior Secured Credit Agreements, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the guarantors subject to certain exceptions and permitted liens.

The Senior Secured Credit Agreements each contain a number of customary affirmative and negative non-financial covenants, and the ABL Credit Agreement also contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.00 to 1.00 in the event that we do not meet a minimum measure of availability under the ABL Revolver. At December 31, 2018, we were in compliance with all applicable covenants under the Senior Secured Credit Agreements.

*Vehicle and Equipment Notes*

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

Total gross assets and respective outstanding loan balances relating to our master loan and equipment agreements were $98.7 million and $60.4 million as of December 31, 2018, respectively, and $74.5 million and $50.4 million as of December 31, 2017, respectively. See Note 7 to our audited consolidated financial statements included in this Form 10-K for more information regarding our Master Loan and Security Agreement, Master Equipment Lease Agreement and Master Loan Agreements.

*Letters of Credit and Bonds*

We may use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. In addition, we occasionally use letters of credit and cash to secure our performance under our general liability and workers   compensation insurance programs. Permit and license bonds are typically issued for one year and are required by certain municipalities when we obtain licenses and permits to perform work in their jurisdictions. The following table summarizes our outstanding bonds, letters of credit and cash-collateral as of December 31, 2018 (in thousands):

| | 2018 |
|---|---|
| Performance bonds | $ 42,740 |
| Insurance letters of credit and cash-collateral | 38,887 |
| Permit and license bonds | 6,914 |
| Total bonds and letters of credit | $ 88,541 |

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.

### Historical cash flow information

*Working capital*

We carefully manage our working capital and operating expenses. As of December 31, 2018 and 2017, our working capital, including cash, was $229.9 million, or 17.2% of net revenue, and $195.1 million, or 17.2% of net revenue, respectively. The increase in working capital year-over-year in 2018 was driven primarily by a $27.9 million increase in cash and cash equivalents resulting from operating cash flows, an increase in accounts receivable and inventories resulting from, and supporting, our increased net revenue, offset by a maturity of investments and an increase in current maturities of long-term debt and accounts payable. We continue to look for opportunities to reduce our working capital as a percentage of net revenue, as demonstrated by this ratio remaining flat as of December 31, 2018 compared to December 31, 2017.

*Cash flows from operating activities*

Net cash provided by operating activities was $96.6 million, $68.8 million and $73.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Generally, the primary drivers of our cash flow from operations are operating income, adjusted for certain non-cash items, offset by cash payments for taxes and interest on our outstanding debt. Our cash flows from operations can be impacted by the timing of our cash collections on sales and collection of retainage amounts. 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. In 2018, 2017 and 2016, we made cash payments, net of cash acquired, of $57.7 million, $137.1 million and $53.3 million, respectively, on business combinations. Our acquisition of Alpha in January 2017 required an investing cash outlay of $103.8 million. See Note 15, Business Combinations, to our audited consolidated financial statements included in this Form 10-K for more information regarding our business acquisitions in 2018, 2017 and 2016.

Capital Expenditures. Total cash paid for property and equipment was $35.2 million, $31.7 million and $27.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, and primarily related to purchases of vehicles and various equipment to support our growing operations and increased net revenue. We expect to continue to support any increases in 2019 net revenue through further capital expenditures.

Other. In 2018 and 2017, we invested $22.8 million and $30.2 million, respectively, in short-term investments consisting primarily of corporate bonds and commercial paper and had $42.8 million in short-term investments mature in 2018. We made no such investments in 2016.

*Cash flows from financing activities*

We utilize our credit facilities to support our operations and continuing acquisitions, fund our stock repurchase program and finance our fleet expansion. During the years ended December 31, 2018, 2017 and 2016, we had cash inflows from our credit facilities, net of payments on these instruments, amounting to $97.3 million, $202.2 million and $27.7 million, respectively, to support those initiatives. In addition, we made $5.6 million, $7.3 million and $5.8 million in principal payments on our capital leases during the years ended December 31, 2018, 2017 and 2016, respectively, and received proceeds of $25.4 million, $22.5 million and $22.9 million during the years ended December 31, 2018, 2017 and 2016, respectively, from our fixed asset loans, which serve to offset a significant portion of the capital expenditures included in cash flows from investing activities as described above. Lastly, we repurchased approximately 2.1 million shares of our common stock for $89.4 million during the year ended December 31, 2018 as part of our stock repurchase plan. See Note 9, Stockholders  Equity, for more information surrounding our stock repurchase plan.

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*Financial Instruments*

Interest Rate Derivatives

We have various borrowing facilities which charge interest based on the one month U.S. dollar LIBOR rate plus an interest spread. All of our derivatives combine to reduce our variable rate debt by $200.0 million, resulting in total variable rate debt exposed to market risks of $196.0 million as of December 31, 2018. These derivatives are designated as cash flow hedges for accounting purposes. For additional disclosures of the gain or loss included with other comprehensive income and earnings in 2018, see Note 9, Derivatives and Hedging Activities, to our audited consolidated financial statements included in this Form 10-K. The assumptions used in measuring fair value of the interest rate derivatives are considered level 2 inputs, which are based upon LIBOR and interest paid based upon a designated fixed rate over the life of the swap agreements.

**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 was 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.

**Contractual Obligations**

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2018. Some of the amounts included in the table are based on management s estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, our actual payments may vary from those reflected in the table. In addition, certain other long-term liabilities included on the Consolidated Balance Sheets as well as our unrecognized tax benefits under ASC 740, Income Taxes, have been excluded from the contractual obligations table because of the inherent uncertainty and the inability to reasonably estimate the timing of cash outflows.

| | Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Total | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
| Long-term debt obligations (1) | $ 580,229 | $ 43,798 | $ 42,248 | $ 36,256 | $ 31,484 | $ 25,387 | $ 401,056 |
| Capital lease obligations (2) | 9,344 | 5,207 | 2,253 | 1,339 | 452 | 93 | |
| Operating lease obligations (3) | 48,792 | 15,577 | 12,477 | 8,072 | 5,307 | 2,664 | 4,695 |
| Purchase obligations (4) | 53,381 | 17,046 | 21,355 | 14,980 | | | |

(1) Long-term debt obligations include principal and interest payments on our Term Loan as well as our notes payable to sellers of acquisitions and vehicles purchased under the Master Loan and Security Agreement, the Master Equipment Agreement and the Master Loan Agreements. Long-term debt obligations do not include commitment fees on the unused portion of the ABL Revolver since those fees are subject to change based on the factors described in Senior Secured Credit Agreements. Interest on seller obligations maturing through March 2025 is estimated using current market rates. For additional information, see Note 7, Long-Term Debt, to our audited consolidated financial statements included in this Form 10-K.

(2) We maintain certain production vehicles under a capital lease structure. The leases expire on various dates through December 2023. Capital lease obligations, as disclosed above, include estimated interest expense payments. In determining expected interest expense payments, we utilize the rates embedded in the lease documentation.

(3) We lease certain locations, vehicles and equipment under operating lease agreements, including, but not limited to, corporate offices, branch locations and various office and operating equipment. In some instances, these lease agreements exist with related parties. For additional information, see Note 13, Related Party Transactions, to our audited consolidated financial statements included in this Form 10-K.

(4) As of December 31, 2018, we had two product supply agreements, one extending through December 31, 2021 and one extending through December 31, 2019. For additional information, see Note 14, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

**Off-Balance Sheet Arrangements**

As of December 31, 2018 and 2017, other than operating leases, letters of credit issued under the ABL Revolver and performance and license bonds, we had no material off-balance sheet arrangements with unconsolidated entities. Upon adoption of ASU 2016-02 on January 1, 2019, long-term operating leases will be recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. See Note 2, Significant Accounting Policies, to our audited consolidated financial statements included in this Form 10-K for further information.

**Critical Accounting Policies and Estimates**

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

*Revenue Recognition*

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. 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 goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Billing on our long-term contracts occurs primarily on a monthly basis throughout the contract period whereby we submit invoices for customer payment based on actual or estimated costs incurred during the billing period. On certain of our long-term contracts the customer may withhold payment on an invoice equal to a percentage of the invoice amount, which will be subsequently paid after satisfactory completion of each installation project. This amount is referred to as retainage and is common practice in the construction industry, as it allows for customers to ensure the quality of the service performed prior to full payment. Retainage receivables are classified as current or long-term assets based on the expected time to project completion.

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

*Accounts Receivable*

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

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were $28.0 million and $23.1 million as of December 31, 2018 and 2017, respectively.

*Goodwill*

Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Annually, on October 1, or if conditions indicate an earlier review is necessary, we either perform a quantitative test or assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount and if it is necessary to perform the quantitative two-step goodwill impairment test. If we perform the quantitative test, we compare the carrying value of the reporting unit to an estimate of the reporting unit s fair value to identify potential impairment. The estimate of the reporting unit s fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management s plans, business trends, prospects, market and economic conditions and market-participant considerations. If the estimated fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of the potential goodwill impairment. If impaired, goodwill is written down to its estimated implied fair value.

*Derivatives and Hedging Activities*

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 9, Derivatives and Hedging, to our audited consolidated financial statements included in this Form 10-K for additional information on our accounting policy for derivative instruments and hedging activities.

*Share-Based Compensation*

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

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

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

*Business Combinations*

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

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

*Insurance Liabilities*

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

*Taxes*

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

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

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Tax Act that was enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. During the year end December 31, 2017, The Company recognized a $3.8 million tax benefit as a result of revaluing the ending net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, and also recognized a $0.8 million benefit in 2018 due to timing provision to return adjustments which impacted deferred balances at the 35% rate that were then revalued at the lower corporate rate. See Note 12, Income Taxes, for additional information.

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

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

*Estimated Fair Value of Financial Instruments*

Accounts receivable, accounts payable and accrued liabilities as of December 31, 2018 and 2017 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of our long-term debt, including the Term Loan and ABL Revolver as of December 31, 2018 and 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 December 31, 2018 and 2017. All debt classifications represent Level 2 fair value measurements.

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

**Recent Accounting Pronouncements**

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

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

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. As of December 31, 2018, we had approximately $395.8 million outstanding on the Term Loan, no outstanding borrowings on the ABL Revolver and $0.2 million outstanding under various capital leases subject to variable interest rates. Upon entering the second amendment to the Term Loan Agreement during the year ended December 31, 2018, we increased the aggregate principal amount of our debt by $100.0 million. On July 16, 2018, we entered a seven-year interest rate swap with a beginning notional of $100.0 million that serves to hedge the additional $100.0 million Term Loan. We also entered into a forward interest rate swap beginning May 31, 2022 with beginning notional of $100.0 million. All of our derivatives combine to reduce our variable rate debt by $200.0 million, resulting in total variable rate debt exposed to market risks of $196.0 million as of December 31, 2018. A hypothetical one percentage point increase (decrease) in interest rates on our variable rate debt would increase (decrease) our annual interest expense by approximately $2.0 million.

For variable rate debt, interest rate changes generally do not affect the fair value of the debt instrument, but do impact future earnings and cash flows, assuming other factors are held constant. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments during 2016. We have not entered into and currently do not hold derivatives for trading or speculative purposes.

## Item 8. Financial Statements and Supplementary Data

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Installed Building Products, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Installed Building Products, Inc. (the Company ) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income, stockholders equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019, expressed an unqualified opinion on the Company s internal control over financial reporting.

### Basis for Opinion

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

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

/s/ *Deloitte & Touche LLP*

Columbus, Ohio

February 28, 2019

We have served as the Company s auditor since 2013.

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INSTALLED BUILDING PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

| | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 90,442 | $ 62,510 |
| Investments | 10,060 | 30,053 |
| Accounts receivable (less allowance for doubtful accounts of $5,085 and $4,805 at December 31, 2018 and 2017, respectively) | 214,121 | 180,725 |
| Inventories | 61,162 | 48,346 |
| Other current assets | 35,760 | 33,308 |
| Total current assets | 411,545 | 354,942 |
| Property and equipment, net | 90,117 | 81,075 |
| Non-current assets | | |
| Goodwill | 173,049 | 155,466 |
| Intangibles, net | 149,790 | 137,991 |
| Other non-current assets | 10,157 | 9,272 |
| Total non-current assets | 332,996 | 302,729 |
| Total assets | $ 834,658 | $ 738,746 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Current maturities of long-term debt | $ 22,642 | $ 16,650 |
| Current maturities of capital lease obligations | 4,806 | 5,666 |
| Accounts payable | 96,949 | 87,425 |
| Accrued compensation | 27,923 | 25,399 |
| Other current liabilities | 29,366 | 24,666 |
| Total current liabilities | 181,686 | 159,806 |
| Long-term debt | 432,182 | 330,927 |
| Capital lease obligations, less current maturities | 3,824 | 6,479 |
| Deferred income taxes | 6,695 | 6,444 |
| Other long-term liabilities | 27,773 | 24,562 |
| Total liabilities | 652,160 | 528,218 |
| Commitments and contingencies (Note 15) | | |
| Stockholders equity | | |

| | | |
|---|---|---|
| Preferred Stock; $0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at December 31, 2018 and 2017, respectively | | |
| Common stock; $0.01 par value: 100,000,000 authorized, 32,723,972 and 32,524,934 issued and 29,915,611 and 31,862,146 shares outstanding at December 31, 2018 and 2017, respectively | 327 | 325 |
| Additional paid in capital | 181,815 | 174,043 |
| Retained earnings | 105,212 | 48,434 |
| Treasury stock; at cost: 2,808,361 and 662,788 shares at December 31, 2018 and 2017, respectively | (104,425) | (12,781) |
| Accumulated other comprehensive (loss) income | (431) | 507 |
| Total stockholders equity | 182,498 | 210,528 |
| Total liabilities and stockholders equity | $ 834,658 | $ 738,746 |

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except share and per share amounts)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net revenue | $ 1,336,432 | $ 1,132,927 | $ 862,980 |
| Cost of sales | 964,841 | 808,901 | 610,532 |
| Gross profit | 371,591 | 324,026 | 252,448 |
| Operating expenses | | | |
| Selling | 67,105 | 58,450 | 49,667 |
| Administrative | 185,850 | 164,453 | 125,472 |
| Amortization | 25,419 | 26,857 | 11,259 |
| Operating income | 93,217 | 74,266 | 66,050 |
| Other expense | | | |
| Interest expense, net | 20,496 | 17,381 | 6,177 |
| Other | 535 | 1,065 | 263 |
| Income before income taxes | 72,186 | 55,820 | 59,610 |
| Income tax provision | 17,438 | 14,680 | 21,174 |
| Net income | $ 54,748 | $ 41,140 | $ 38,436 |
| Other comprehensive (loss) income, net of tax: | | | |
| Unrealized (loss) gain on cash flow hedge, net of tax benefit (provision) of $284, $(206) and $0 for the twelve months ended December 31, 2018, 2017 and 2016, respectively | (1,050) | 507 | |
| Comprehensive income | $ 53,698 | $ 41,647 | $ 38,436 |
| Basic net income per share | $ 1.76 | $ 1.30 | $ 1.23 |
| Diluted net income per share | $ 1.75 | $ 1.30 | $ 1.23 |
| Weighted average shares outstanding: | | | |
| Basic | 31,107,231 | 31,639,283 | 31,301,887 |
| Diluted | 31,229,558 | 31,756,363 | 31,363,290 |

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except share amounts)

| | Common Stock | | | (Accumulated | Treasury Stock | | Accumulated Other | |
|---|---|---|---|---|---|---|---|---|
| | | | Additional | Deficit) / | | | Comprehensive | |
| | | | Paid In | Retained | | | Income | Stockholders |
| | Shares | Amount | Capital | Earnings | Shares | Amount | (Loss) | Equity |
| BALANCE January 1, 2016 | 31,982,888 | $ 320 | $ 156,688 | $ (31,142) | (616,560) | $ (11,383) | $ | $ 114,483 |
| Net income | | | | 38,436 | | | | 38,436 |
| Issuance of common stock awards to employees | 143,528 | 1 | (1) | | | | | |
| Surrender of common stock awards by employees | | | | | (33,842) | (836) | | (836) |
| Share-based compensation expense | | | 1,594 | | | | | 1,594 |
| Share-based compensation issued to directors | 8,760 | | 300 | | | | | 300 |
| BALANCE January 1, 2017 | 32,135,176 | $ 321 | $ 158,581 | $ 7,294 | (650,402) | $ (12,219) | $ | $ 153,977 |
| Net income | | | | 41,140 | | | | 41,140 |
| Purchase of remaining interest in subsidiary | | | (1,888) | | | | | (1,888) |
| Issuance of common stock for acquisition | 282,577 | 3 | 10,856 | | | | | 10,859 |
| Issuance of common stock awards to employees | 101,241 | 1 | (1) | | | | | |
| Surrender of common stock awards by employees | | | | | (12,386) | (562) | | (562) |
| Share-based compensation expense | | | 6,195 | | | | | 6,195 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Share-based compensation issued to directors | 5,940 | | 300 | | | | | 300 |
| Other comprehensive income, net of tax | | | | | | | 507 | 507 |
| BALANCE January 1, 2018 | 32,524,934 | $ 325 | $ 174,043 | $ 48,434 | (662,788) | $ (12,781) | $ 507 | $ 210,528 |
| Net income | | | | 54,748 | | | | 54,748 |
| Cumulative effect of accounting changes, net of tax | | | | 2,030 | | | 112 | 2,142 |
| Issuance of common stock awards to employees | 194,093 | 2 | (2) | | | | | |
| Surrender of common stock awards by employees | | | | | (43,871) | (2,282) | | (2,282) |
| Share-based compensation expense | | | 7,598 | | | | | 7,598 |
| Share-based compensation issued to directors | 4,945 | | 176 | | | | | 176 |
| Common stock repurchase | | | | | (2,101,702) | (89,362) | | (89,362) |
| Other comprehensive loss, net of tax | | | | | | | (1,050) | (1,050) |
| BALANCE December 31, 2018 | 32,723,972 | $ 327 | $ 181,815 | $ 105,212 | (2,808,361) | $ (104,425) | $ (431) | $ 182,498 |

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Years ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | $ 54,748 | $ 41,140 | $ 38,436 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization of property and equipment | 33,306 | 28,285 | 23,571 |
| Amortization of intangibles | 25,419 | 26,857 | 11,259 |
| Amortization of deferred financing costs and debt discount | 1,164 | 1,093 | 383 |
| Provision for doubtful accounts | 2,630 | 2,834 | 2,928 |
| Write-off of debt issuance costs | 1,164 | 2,113 | 286 |
| Gain on sale of property and equipment | (1,098) | (492) | (254) |
| Noncash stock compensation | 7,839 | 6,592 | 1,894 |
| Deferred income taxes | 470 | (6,160) | (605) |
| Changes in assets and liabilities, excluding effects of acquisitions | | | |
| Accounts receivable | (30,166) | (19,955) | (18,760) |
| Inventories | (15,717) | (3,667) | (8,677) |
| Other assets | (4,552) | (4,602) | 2,803 |
| Accounts payable | 8,146 | 6,303 | 12,400 |
| Income taxes payable/receivable | 10,273 | (18,605) | 1,484 |
| Other liabilities | 3,007 | 7,036 | 6,118 |
| Net cash provided by operating activities | 96,633 | 68,772 | 73,266 |
| **Cash flows from investing activities** | | | |
| Purchases of investments | (22,818) | (30,194) | |
| Maturities of short-term investments | 42,782 | | |
| Purchases of property and equipment | (35,232) | (31,668) | (27,013) |
| Acquisitions of businesses, net of cash acquired of $0, $247 and $2,181 in 2018, 2017 and 2016, respectively | (57,740) | (137,120) | (53,312) |
| Proceeds from sale of property and equipment | 1,958 | 959 | 691 |
| Other | (3,019) | (2,420) | 37 |
| Net cash used in investing activities | (74,069) | (200,443) | (79,597) |
| **Cash flows from financing activities** | | | |
| Proceeds from revolving line of credit under credit agreement applicable to respective period (Note 7) | | | 37,975 |
| Payments on revolving line of credit under credit agreement applicable to respective period (Note 7) | | | (37,975) |

| | | | |
|---|---|---|---|
| Proceeds from term loan under credit agreement applicable to respective period (Note 7) | 100,000 | 300,000 | 100,000 |
| Payments on term loan under credit agreement applicable to respective period (Note 7) | (2,750) | (97,750) | (51,875) |
| Proceeds from delayed draw term loan under credit agreement applicable to respective period (Note 7) | | 112,500 | 12,500 |
| Payments on delayed draw term loan under credit agreement applicable to respective period (Note 7) | | (125,000) | (50,000) |
| Proceeds from vehicle and equipment notes payable | 25,443 | 22,460 | 22,948 |
| Debt issuance costs | (1,992) | (8,281) | (1,238) |
| Principal payments on long-term debt | (14,130) | (10,002) | (5,849) |
| Principal payments on capital lease obligations | (5,604) | (7,314) | (8,598) |
| Acquisition-related obligations | (3,954) | (4,464) | (3,057) |
| Repurchase of common stock | (89,363) | | |
| Surrender of common stock awards by employees | (2,282) | (562) | (836) |
| Purchase of remaining interest in subsidiary | | (1,888) | |
| Net cash provided by financing activities | 5,368 | 179,699 | 13,995 |
| Net change in cash and cash equivalents | 27,932 | 48,028 | 7,664 |
| Cash and cash equivalents at beginning of year | 62,510 | 14,482 | 6,818 |
| Cash and cash equivalents at end of year | $ 90,442 | $ 62,510 | $ 14,482 |
| **Supplemental disclosures of cash flow information** | | | |
| Net cash paid during the year for: | | | |
| Interest | $ 20,075 | $ 13,758 | $ 5,342 |
| Income taxes, net of refunds | 4,950 | 38,887 | 18,929 |
| **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 | 2,208 | 4,440 | 3,737 |
| Seller obligations in connection with acquisition of businesses | 7,540 | 5,128 | 4,459 |
| Unpaid purchases of property and equipment included in accounts payable | 1,773 | 2,003 | 775 |

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 ORGANIZATION

Installed Building Products ( IBP ), a Delaware corporation formed on October 28, 2011, and its wholly-owned subsidiaries (collectively referred to as the Company, and we, us and our ) primarily install insulation, waterproofin fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors and other products for residential and commercial builders located in the continental United States. The Company operates in over 175 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. For the years ended December 31, 2018, 2017 and 2016, residential new construction and repair and remodel was 84%, 83% and 88% of our net revenue and commercial construction was 16%, 17% and 12% of our net revenue, respectively. The following table sets forth the percentage of our net revenue by product category:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Insulation | 66% | 67% | 77% |
| Waterproofing | 7 | 8 | 2 |
| Shower doors, shelving and mirrors | 7 | 7 | 5 |
| Garage doors | 6 | 5 | 6 |
| Rain gutters | 3 | 4 | 4 |
| Blinds | 2 | 2 | 1 |
| Other building products | 9 | 7 | 5 |
| | 100% | 100% | 100% |

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The accompanying consolidated financial statements include all of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

Preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the revenue, costs and reserves established under the percentage-of-completion method, allowance for doubtful accounts, valuation allowance on deferred tax assets, valuation of acquired intangible assets, periodic impairment evaluation of intangible assets and other long-lived assets, share-based compensation and the accounting for self-insurance reserves. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual amounts could differ from such estimates.

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents

We consider all highly-liquid investments purchased with original term to maturity of three months or less to be cash equivalents. We had $69.8 million and $55.6 million of cash equivalents as of December 31, 2018 and 2017, respectively. Substantially all cash is held in banks providing FDIC coverage of $0.25 million per depositor.

Revenue and Cost Recognition

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. See Note 3, Revenue Recognition, for the detailed revenue recognition policy.

Derivative Instruments and Hedging Activities

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 9, Derivatives and Hedging, for additional information on our accounting policy for derivative instruments and hedging activities.

Investment Policy

Marketable securities with original maturities longer than three months but less than one year from the settlement date are classified as investments within current assets. These investments consist of highly liquid investment grade instruments primarily including corporate bonds and commercial paper. Investments for which we have the ability and positive intent to hold to maturity are carried at amortized cost. The difference between the acquisition costs and face values of held-to-maturity investments is amortized over the remaining term of the investments and added to or subtracted from the acquisition cost and interest income. As of December 31, 2018, all of our investments were classified as held-to-maturity.

Business Combinations

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, backlog and non-competition agreements as identifiable intangible assets.

These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin and tax rate.

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts Receivable

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

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were $28.0 million and $23.1 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018, all but $0.6 million of retainage receivables, which are recorded in other long-term assets, were estimated to be contractually due within one year.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. The allowance is determined by management based on our historical losses, specific customer circumstances and general economic conditions. We analyze aged accounts receivable and generally increase the allowance as receivables age. Management reviews accounts receivable and records an allowance for specific customers based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed. This analysis is performed regularly and the allowance is adjusted accordingly. The following table sets forth our allowance for doubtful accounts (in thousands):

| | Allowance for doubtful accounts receivable |
|---|---|
| January 1, 2016 | $ 2,486 |
| Charged to costs and expenses | 2,928 |
| Charged to other accounts (1) | 435 |
| Deductions (2) | (2,452) |
| December 31, 2016 | $ 3,397 |
| Charged to costs and expenses | 2,834 |
| Charged to other accounts (1) | 699 |
| Deductions (2) | (2,125) |

| | |
|---|---|
| December 31, 2017 | $ 4,805 |
| Charged to costs and expenses | 2,630 |
| Charged to other accounts (1) | 675 |
| Deductions (2) | (3,025) |
| December 31, 2018 | $ 5,085 |

(1) Recovery of receivables previously written off as bad debt and other
(2) Write-off of uncollectible accounts receivable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

Credit risk is our risk of financial loss from the non-performance of a contractual obligation on the part of our counterparty. Such risk arises principally from our receivables from customers and cash and bank balances. Substantially all of our trade accounts receivable are from entities engaged in residential and commercial construction. We perform periodic credit evaluations of our customers financial condition. The general credit risk of our counterparties is not considered to be significant. In addition, no individual customer made up more than 3% of accounts receivable or 4% of net revenue for the years ended December 31, 2018, 2017 and 2016.

Inventories

Inventories consist of insulation, waterproofing materials, garage doors, rain gutters, window blinds, shower doors, mirrors, closet shelving and other products. We value inventory at each balance sheet date to ensure that it is carried at the lower of cost or net realizable value with cost determined using the first-in, first-out ( FIFO ) method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. As of December 31, 2018 and 2017, substantially all inventory was finished goods. Inventory provisions are recorded to reduce inventory to the lower of cost or net realizable value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items such as product discontinuance, engineering/material changes, or regulatory-related changes.

Property and Equipment

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

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

Goodwill

Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Annually, on October 1, or if conditions indicate an earlier review is necessary, we either perform a quantitative test or assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount and if it is necessary to perform the quantitative two-step goodwill impairment test. If we perform the quantitative test, we compare the carrying value of the reporting unit to an estimate of the reporting unit s fair value to identify potential impairment. The estimate of the reporting unit s fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management s plans, business trends, prospects, market and economic conditions and market-participant considerations. If the estimated fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of the potential goodwill impairment. If impaired, goodwill is written down to its estimated implied fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Other Intangible and Long-Lived Assets

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

We review long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair net realizable value less cost to sell at the date management commits to a plan of disposal. There was no impairment loss for the years ended December 31, 2018, 2017 and 2016.

Other Liabilities

Our workers compensation insurance program, for a significant portion of our business, is considered a high deductible program whereby we are responsible for the cost of claims under approximately $0.8 million. Our general liability insurance program is considered a high retention program whereby we are responsible for the cost of claims up to approximately $2.0 million, subject to an aggregate cap of $8.0 million. Our vehicle liability insurance program is considered a high deductible program whereby we are responsible for the cost of claims under approximately $0.5 million. In each case, if we do not pay these claims, our insurance carriers are required to make these payments to the claimants on our behalf. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through December 31, 2018 and 2017. We establish case reserves for reported claims using case-basis evaluation of the underlying claims data and we update as information becomes known. We regularly monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

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

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

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Advertising Costs

Advertising costs are generally expensed as incurred. Advertising expense was approximately \$3.8 million, \$3.2 million and \$3.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, and is included in selling expense on the Consolidated Statements of Operations and Comprehensive Income.

Deferred Financing Costs

Deferred financing costs and debt issuance costs combined, totaling \$6.4 million and \$6.8 million, net of accumulated amortization as of December 31, 2018 and 2017, respectively, are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method. The deferred financing costs are included in other non-current assets while the debt issuance costs are included in long-term debt on the Consolidated Balance Sheets as of December 31, 2018 and 2017, respectively. The related amortization expense of these costs combined was \$1.2 million, \$1.1 million and \$0.4 million and is included in interest expense, net on the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, respectively. In addition, we expensed loan costs of approximately \$1.1 million and \$1.0 million for the years ended December 31, 2018 and 2017, respectively, associated with our Senior Secured Credit Agreements because they did not meet the requirements for capitalization. For the years ended December 31, 2018 and 2017, we wrote off \$0.1 million and \$2.1 million, respectively, in previously capitalized loan costs as a result of refinancing our credit facilities. For additional information, see Note 7, Long-Term Debt.

Share-Based Compensation

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

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

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

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Tax Cuts and Jobs Act (the Tax Act ) was enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. During the year end December 31, 2017, the Company recognized a $3.8 million tax benefit as a result of revaluing the ending net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, and also recognized a $0.8 million benefit in 2018 due to timing provision to return adjustments which impacted deferred balances at the 35% rate that were then revalued at the lower corporate rate. See Note 12, Income Taxes, for additional information.

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated Fair Value of Financial Instruments

See Note 8, Fair Value Measurements, for related accounting policies.

Recently Adopted Accounting Pronouncements

| Standard | Adoption |
|---|---|
| ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* | ASC 606 sets 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. We adopted the provisions of ASU 2014-09 and related subsequently-issued amendments beginning on January 1, 2018 using the modified retrospective approach and, as such, recognized a $2.1 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 and the revisions to correct certain immaterial misstatements. |
| ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* | ASU 2017-12 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 effective 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. |
| ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* | In March 2018, the Financial Accounting Standards Board issued 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 Act ( SAB 118 ). See Note 12, Income Taxes, for additional information regarding the adoption of ASU 2018-05. |
| ASU 2018-15, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs* | ASU 2018-15 amends the existing accounting standards for capitalizing implementation costs of internal-use software by including service contracts in a cloud computing arrangement. For public business entities, this update is effective for financial statements issued for fiscal years beginning after |

| | |
|---|---|
| *Incurred in a Cloud Computing Arrangement That Is a Service Contract (a Consensus of the FASB Emerging Issues Task Force)* | December 15, 2019 and interim periods therein, with early adoption permitted. We elected to early adopt this ASU using the prospective approach effective July 1, 2018 and, as such, have capitalized certain implementation costs associated with service contracts in a cloud computing arrangement. The effects of adoption were not significant. |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements Not Yet Adopted

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

| Standard | Description | Effective date | Effect on the financial statements or other significant matters |
|---|---|---|---|
| ASU 2016-02, *Leases (Topic 842)* | This pronouncement and related subsequently-issued amendments 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. ASC 842 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. | Annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. | This ASU requires substantially all leases, with the exception of leases with a term of one year or less, to be recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. This ASU also requires disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows. We are currently finalizing the evaluation of our leases including the impact on our consolidated financial statements. As part of our evaluation, we elected a number of practical expedients, including the practical expedients package determined in ASC 842-10-65-1. We estimate we will record an increase of lease-related assets and liabilities as of January 1, 2019 of approximately $43.0 million in the consolidated balance sheets. The impact to our consolidated statements of operations and comprehensive income and consolidated statements of cash flows |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| Standard | Description | Effective date | Effect on the financial statements or other significant matters is not expected to be material. |
|---|---|---|---|
| ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)* | This pronouncement 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. | Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted. | We are currently evaluating whether this ASU will have a material impact on our consolidated financial statements. |
| ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* | To address concerns over the cost and complexity of the two-step goodwill impairment test, this pronouncement removes the second step of the goodwill impairment test. Going forward, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit s carrying amount over its fair value, not to | Annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted. | We are currently evaluating the provisions of this ASU and the impact it will have on our disclosures. |

| | | | |
|---|---|---|---|
| | exceed the total amount of goodwill allocated to the reporting unit. | | |
| ASU 2018-13, *Fair Value Measurement (Topic 820):Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement* | This pronouncement amends Topic 820 to eliminate, add and modify certain disclosure requirements for fair value measurements. | Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted. | We are currently evaluating the provisions of this ASU and the impact it will have on our disclosures. |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| Standard | Description | Effective date | Effect on the financial statements or other significant matters |
|---|---|---|---|
| ASU 2018-16, *Derivatives and Hedging (Topic 815) Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* | This pronouncement permits the use of the Overnight Index Swap ( OIS ) Rate based on the Secured Overnight Financing Rate ( SOFR ) as a U.S. benchmark interest rate for hedge accounting purposes. | For public business entities that already have adopted the amendments in ASU 2017-12, the amendments are effective for annual periods beginning after December 15, 2018, including interim periods therein. As we have already adopted ASU 2017-12 effective January 1, 2018, we will adopt this ASU as of January 1, 2019. | We do not expect this ASU to have a material impact on our financial statements until we transition from LIBOR to SOFR rates, which will likely not occur in 2019. We will reevaluate whether these changes will have a material impact at the time of transition. |

**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 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 $2.1 million cumulative effect adjustment as an increase to opening retained earnings, a $2.8 million increase to current assets and a $0.7 million increase to deferred income taxes, respectively, 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. The cumulative effect adjustment has been revised from the amount previously disclosed in our interim financial statements filed on Form 10-Q for the quarterly periods ended March 31, 2018 and June 30, 2018 to correct certain immaterial misstatements. The result of correcting these misstatements was an $0.8 million decrease to opening retained earnings, a $1.0 million decrease to current assets and a $0.2 million decrease to deferred income taxes recorded in our interim financial statements filed on Form 10-Q for the quarterly period ended September 30, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impact of New Revenue Recognition Standard on Financial Statement Line Items

The following table summarizes the impact of the new revenue standard on the Consolidated Balance Sheets as of December 31, 2018, including the cumulative effect of applying the new standard to all contracts upon adoption (in thousands):

| | Impact of Change in Accounting Policy | | |
|---|---|---|---|
| | As reported | Adjustments | Without adoption |
| Inventories | $ 61,162 | $ 5,801 | $ 66,963 |
| Other current assets | 35,760 | (8,607) | 27,153 |
| Total assets | 834,658 | (2,806) | 831,852 |
| Deferred income taxes | 6,695 | (534) | 6,161 |
| Retained earnings | 105,212 | (2,272) | 102,940 |
| Total liabilities and stockholders equity | 834,658 | (2,806) | 831,852 |

The following table summarizes the impact of the new revenue standard on the Consolidated Statements of Operations and Comprehensive Income (in thousands):

| | Year Ended December 31, 2018 | | |
|---|---|---|---|
| | As reported | Adjustments | Without adoption |
| Net revenue | $ 1,336,432 | $ (751) | $ 1,335,681 |
| Cost of sales | 964,841 | (578) | 964,263 |
| Income before income taxes | $ 72,186 | $ (173) | $ 72,013 |
| Income tax provision | 17,438 | (43) | 17,395 |
| Net income | $ 54,748 | $ (130) | $ 54,618 |

Revenue Recognition

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| Residential new construction | $ | 1,026,473 | 77% |
| Repair and remodel | | 89,977 | 7% |
| Commercial | | 219,982 | 16% |
| Net revenues | $ | 1,336,432 | 100% |

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| Insulation | $ | 876,118 | 66% |
| Waterproofing | | 97,683 | 7% |
| Shower doors, shelving and mirrors | | 90,352 | 7% |
| Garage doors | | 79,539 | 6% |
| Rain gutters | | 44,203 | 3% |
| Blinds | | 28,981 | 2% |
| Other building products | | 119,556 | 9% |

| | | | |
|---|---|---|---|
| Net revenues | $ | 1,336,432 | 100% |

Contract Assets and Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized, based on costs incurred, exceeds the amount billed to the customer. Our contract assets are recorded in other current assets in our Consolidated Balance Sheets. Our contract liabilities consist of customer deposits and billings in excess of revenue recognized, based on costs incurred and are included in other current liabilities in our Consolidated Balance Sheets. For presentation purposes, uncompleted contracts as of December 31, 2017 have been restated to reflect the adoption of ASC 606 on January 1, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | As of December 31, 2018 | 2017 |
|---|---|---|
| Contract assets | $ 15,092 | $ 14,476 |
| Contract liabilities | (7,468) | (7,519) |

Uncompleted contracts were as follows (in thousands):

| | As of December 31, 2018 | 2017 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 114,826 | $ 84,563 |
| Estimated earnings | 58,952 | 47,000 |
| Total | 173,778 | 131,563 |
| Less: Billings to date | 163,112 | 122,144 |
| Net under (over) billings | $ 10,666 | $ 9,419 |

Net under (over) billings were as follows (in thousands):

| | As of December 31, 2018 | 2017 |
|---|---|---|
| Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets) | $ 15,092 | $ 14,476 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) | (4,426) | (5,057) |
| Net under (over) billings | $ 10,666 | $ 9,419 |

The difference between contract assets and contract liabilities as of December 31, 2018 compared to December 31, 2017 is primarily the result of timing differences between our performance of obligations under contracts and customer payments. During the year ended December 31, 2018, we recognized $7.0 million of revenue, respectively, 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 years ended December 31, 2018 and 2017.

Remaining performance obligations represent the transaction price of contracts for which work has not been performed and excludes unexercised contract options and potential modifications. As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was $88.0 million. We expect to satisfy remaining performance obligations and 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 on the Consolidated Statements of Operations and Comprehensive Income.

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

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## 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 investments in these funds were $69.8 million and $55.6 million as of December 31, 2018 and 2017, respectively.

All other investments are classified as held-to-maturity and consist of highly liquid instruments including primarily corporate bonds and commercial paper. As of December 31, 2018 and 2017, the amortized cost of these investments equaled the net carrying value, which was $10.1 million and $30.1 million, respectively. All held-to-maturity securities as of December 31, 2018 mature in one year or less. See Note 8, Fair Value Measurements, for additional information.

## NOTE 5 PROPERTY AND EQUIPMENT

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

| | As of December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Land | $ | $ 66 |
| Buildings | | 218 |
| Leasehold improvements | 6,717 | 6,152 |
| Furniture, fixtures and equipment | 38,369 | 30,863 |
| Vehicles and equipment | 177,969 | 153,744 |
| | 223,055 | 191,043 |
| Less: accumulated depreciation and amortization | (132,938) | (109,968) |
| | $ 90,117 | $ 81,075 |

During the twelve months ended December 31, 2018 and 2017 we recorded the following depreciation and amortization expense on our property and equipment, by income statement category (in thousands):

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cost of sales | $ 31,526 | $ 26,731 | $ 22,294 |
| Administrative | 1,779 | 1,554 | 1,276 |

Property and equipment as of December 31, 2018 and 2017 of $59.9 million and $49.7 million, respectively, were fully depreciated but still being utilized in our business.

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## NOTE 6 GOODWILL AND INTANGIBLES

Goodwill

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

| | Goodwill (Gross) | Accumulated Impairment Losses | Goodwill (Net) |
|---|---|---|---|
| January 1, 2017 | $ 177,090 | $ (70,004) | $ 107,086 |
| Business combinations | 47,727 | | 47,727 |
| Other | 653 | | 653 |
| December 31, 2017 | 225,470 | (70,004) | 155,466 |
| Business combinations | 17,023 | | 17,023 |
| Other | 560 | | 560 |
| December 31, 2018 | $ 243,053 | $ (70,004) | $ 173,049 |

Other changes included in the above table for the years ended December 31, 2018 and 2017 include minor adjustments for the allocation of certain acquisitions still under measurement as well as several immaterial tuck-in acquisitions. For additional information regarding changes to goodwill resulting from acquisitions, see Note 15, Business Combinations.

At October 1, 2018, our measurement date, we performed a qualitative analysis that weighed all evidence of potential impairment, whether positive or negative, and determined that no factors existed that indicated an impairment of goodwill more likely than not existed. As such, no impairment of goodwill was recognized for the year ended December 31, 2018. In addition, no impairment of goodwill was recognized for the years ended December 31, 2017 or 2016.

Intangibles, net

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

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Gross | | Net | Gross | | Net |

| | Carrying Amount | Accumulated Amortization | Book Value | Carrying Amount | Accumulated Amortization | Book Value |
|---|---|---|---|---|---|---|
| Amortized intangibles: | | | | | | |
| Customer relationships | $ 148,635 | $ 52,514 | $ 96,121 | $ 121,015 | $ 38,651 | $ 82,364 |
| Covenants not-to-compete | 14,682 | 7,572 | 7,110 | 11,807 | 4,773 | 7,034 |
| Trademarks and tradenames | 64,432 | 18,256 | 46,176 | 58,136 | 14,076 | 44,060 |
| Backlog | 14,060 | 13,677 | 383 | 13,600 | 9,067 | 4,533 |
| | $ 241,809 | $ 92,019 | $ 149,790 | $ 204,558 | $ 66,567 | $ 137,991 |

There was no intangible asset impairment loss for the years ended December 31, 2018, 2017 and 2016.

The gross carrying amount of intangibles increased approximately $37.3 million and $77.7 million during the years ended December 31, 2018 and 2017, respectively. Intangibles associated with business combinations

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accounted for approximately $36.1 million and $76.8 million of the increases during the years ended December 31, 2018 and 2017, respectively, with the remaining changes due to other factors. For more information, see Note 15, Business Combinations. Amortization expense on intangible assets totaled approximately $25.4 million, $26.9 million and $11.3 million during the years ended December 31, 2018, 2017 and 2016, respectively. Remaining estimated aggregate annual am