UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

☐ 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: 001-36870

TopBuild Corp.

(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**47-3096382** (I.R.S. Employer Identification No.)
475 North Williamson Boulevard **Daytona Beach, Florida** (Address of Principal Executive Offices)	**32114** (Zip Code)

(386) 304-2200
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	BLD	New York Stock Exchange

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Exchange Act). ☐ Yes ☒ No

The registrant had outstanding 32,777,901 shares of Common Stock, par value $0.01 per share as of April 28, 2022.

TOPBUILD CORP.
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GLOSSARY

We use acronyms, abbreviations, and other defined terms throughout this quarterly report on Form 10-Q, which are defined in the glossary below:

Term	Definition
3.625% Senior Notes	TopBuild's 3.625% senior unsecured notes issued March 15, 2021 and due March 15, 2029
4.125% Senior Notes	TopBuild's 4.125% senior unsecured notes issued October 14, 2021 and due February 15, 2032
5.625% Senior Notes	TopBuild's 5.625% senior unsecured notes which were due on May 1, 2026 and redeemed in full on March 15, 2021
2015 LTIP	2015 Long-Term Incentive Program authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents
2019 Repurchase Program	$200 million share repurchase program authorized by the Board on February 22, 2019
2021 Repurchase Program	$200 million share repurchase program authorized by the Board on July 26, 2021
ABS	American Building Systems, Inc.
Amendment No. 1 to Credit Agreement	Amendment No. 1 to the Credit Agreement dated March 8, 2021
Amendment No. 2 to Credit Agreement	Amendment No. 2 to the Credit Agreement dated October 7, 2021
Annual Report	Annual report filed with the SEC on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Board	Board of Directors of TopBuild
BofA	Bank of America, N.A.
Billings	Billings Insulation Service, Inc.
Cooper	Cooper Glass Company, LLC
Current Report	Current report filed with the SEC on Form 8-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
DI	DI Super Holdings, Inc.
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the United States of America
Garland	Garland Insulating, Ltd.
Green Energy	Green Energy Solutions, Inc.
Hunter	J.P. Hunter Enterprises, Inc.
IBR	Incremental borrowing rate, as defined in ASC 842
Lenders	Bank of America, N.A., together with the other lenders party to "Credit Agreement"
LCR	L.C.R. Contractors, LLC
LIBOR	London interbank offered rate
Net Leverage Ratio	As defined in the "Credit Agreement," the ratio of outstanding indebtedness, less up to $100 million of unrestricted cash, to EBITDA
NYSE	New York Stock Exchange
Credit Agreement	Senior secured credit agreement and related security and pledge agreement dated May 5, 2017, as amended and restated on March 20, 2020, and further amended by Amendment No. 1 to Credit Agreement and Amendment No. 2 to Credit Agreement
Quarterly Report	Quarterly report filed with the SEC on Form 10-Q pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ROU	Right of use (asset), as defined in ASC 842
RSA	Restricted stock award
SEC	United States Securities and Exchange Commission
Secured Leverage Ratio	As defined in the "Credit Agreement," the ratio of outstanding indebtedness, including letters of credit, to EBITDA
Southwest	Southwest Insulation, Inc.
TopBuild	TopBuild Corp. and its wholly-owned consolidated domestic subsidiaries. Also, the "Company," "we," "us," and "our"

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TOPBUILD CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share data)

	As of	
	March 31, 2022	**December 31, 2021**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 126,553	$ 139,779
Receivables, net of an allowance for credit losses of $10,487 at March 31, 2022, and $8,798 at December 31, 2021	735,452	668,419
Inventories, net	390,061	352,801
Prepaid expenses and other current assets	29,102	26,692
Total current assets	1,281,168	1,187,691
Right of use assets	184,762	177,177
Property and equipment, net	248,438	244,574
Goodwill	1,964,297	1,949,763
Other intangible assets, net	669,797	684,209
Deferred tax assets, net	-	1,905
Other assets	13,101	13,211
Total assets	$ 4,361,563	$ 4,258,530
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 473,918	$ 461,917
Current portion of long-term debt	38,723	38,640
Accrued liabilities	207,377	175,891
Short-term operating lease liabilities	55,293	54,591
Short-term finance lease liabilities	2,610	2,387
Total current liabilities	777,921	733,426
Long-term debt	1,445,473	1,454,483
Deferred tax liabilities, net	245,674	248,243
Long-term portion of insurance reserves	53,111	51,875
Long-term operating lease liabilities	133,297	125,339
Long-term finance lease liabilities	7,631	7,770
Other liabilities	1,216	960
Total liabilities	2,664,323	2,622,096
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, $0.01 par value: 250,000,000 shares authorized; 39,306,564 shares issued and 32,776,363 outstanding at March 31, 2022, and 39,165,024 shares issued and 32,927,185 outstanding at December 31, 2021	393	391
Treasury stock, 6,530,201 shares at March 31, 2022, and 6,237,839 shares at December 31, 2021, at cost	(492,688)	(431,030)
Additional paid-in capital	877,564	873,031
Retained earnings	1,315,387	1,200,676
Accumulated other comprehensive loss	(3,416)	(6,634)
Total equity	1,697,240	1,636,434
Total liabilities and equity	$ 4,361,563	$ 4,258,530

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands except share and per common share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net sales	$ 1,168,918	$ 742,798
Cost of sales	837,717	545,039
Gross profit	331,201	197,759
Selling, general, and administrative expense	167,247	101,872
Operating profit	163,954	95,887
Other income (expense), net:		
Interest expense	(11,966)	(6,603)
Loss on extinguishment of debt	-	(13,862)
Other, net	684	77
Other expense, net	(11,282)	(20,388)
Income before income taxes	152,672	75,499
Income tax expense	(37,961)	(15,657)
Net income	$ 114,711	$ 59,842
Net income per common share:		
Basic	$ 3.50	$ 1.82
Diluted	$ 3.47	$ 1.80
Weighted average shares outstanding:		
Basic	32,738,525	32,826,515
Diluted	33,042,490	33,202,563

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2022	2021
Net income	$ 114,711	$ 59,842
Other comprehensive income:		
Foreign currency translation adjustment	3,218	-
Comprehensive income	$ 117,929	$ 59,842

See notes to our unaudited condensed consolidated financial statement

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash Flows Provided by (Used in) Operating Activities:		
Net income	$ 114,711	$ 59,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,499	15,519
Share-based compensation	3,727	3,111
Loss on extinguishment of debt	-	13,862
Loss on sale of property and equipment	207	56
Amortization of debt issuance costs	706	422
Provision for bad debt expense	2,512	1,765
Loss from inventory obsolescence	868	653
Gain on foreign exchange	(649)	-
Deferred income taxes, net	(81)	(183)
Change in certain assets and liabilities		
Receivables, net	(65,031)	(20,831)
Inventories, net	(38,570)	(2,088)
Prepaid expenses and other current assets	(2,347)	3,517
Accounts payable	12,663	(2,244)
Accrued liabilities	29,523	16,591
Other, net	745	(570)
Net cash provided by operating activities	89,483	89,422
Cash Flows Provided by (Used in) Investing Activities:		
Purchases of property and equipment	(18,413)	(12,284)
Acquisition of businesses, net of cash acquired	(13,967)	(61,092)
Proceeds from sale of property and equipment	253	56
Net cash used in investing activities	(32,127)	(73,320)
Cash Flows Provided by (Used in) Financing Activities:		
Proceeds from issuance of long-term debt	-	411,250
Repayment of long-term debt	(9,634)	(415,856)
Payment of debt issuance costs	-	(6,500)
Taxes withheld and paid on employees' equity awards	(11,658)	(11,480)
Exercise of stock options	808	5,952
Repurchase of shares of common stock	(50,000)	(9,856)
Payment of contingent consideration	(23)	-
Net cash used in financing activities	(70,507)	(26,490)
Impact of exchange rate changes on cash	(75)	-
Net decrease in cash and cash equivalents	(13,226)	(10,388)
Cash and cash equivalents- Beginning of period	139,779	330,007
Cash and cash equivalents- End of period	$ 126,553	$ 319,619
Supplemental disclosure of cash paid for:		
Leased assets obtained in exchange for new operating lease liabilities	$ 22,449	$ 20,322
Accruals for property and equipment	213	524

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(In thousands except share data)

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Equity
Balance at December 31, 2020	$ 389	$ (386,669)	$ 858,414	$ 876,660	$ -	$ 1,348,794
Net income	-	-	-	59,842	-	59,842
Share-based compensation	-	-	3,111	-	-	3,111
Issuance of 30,284 restricted share awards under long-term equity incentive plan	1	-	(1)	-	-	-
Repurchase of 49,284 shares	-	(9,856)	-	-	-	(9,856)
43,290 shares withheld to pay taxes on employees' equity awards	-	-	(11,480)	-	-	(11,480)
51,915 shares issued upon exercise of stock options	-	-	5,952	-	-	5,952
Balance at March 31, 2021	$ 390	$ (396,525)	$ 855,996	$ 936,502	$ -	$ 1,396,363

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Equity
Balance at December 31, 2021	$ 391	$ (431,030)	$ 873,031	$ 1,200,676	$ (6,634)	$ 1,636,434
Net income	-	-	-	114,711	-	114,711
Share-based compensation	-	-	3,727	-	-	3,727
Issuance of 52,940 restricted share awards under long-term equity incentive plan	2	-	(2)	-	-	-
Repurchase of 238,154 shares	-	(50,000)	-	-	-	(50,000)
53,073 shares withheld to pay taxes on employees' equity awards	-	(11,658)	-	-	-	(11,658)
12,269 shares issued upon exercise of stock options	-	-	808	-	-	808
Other comprehensive income, net of tax	-	-	-	-	3,218	3,218
Balance at March 31, 2022	$ 393	$ (492,688)	$ 877,564	$ 1,315,387	$ (3,416)	$ 1,697,240

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

TopBuild was formed on June 30, 2015, and is listed on the NYSE under the ticker symbol "BLD." We report our business in two segments: Installation and Specialty Distribution. Our Installation segment primarily installs insulation and other building products. Our Specialty Distribution segment primarily sells and distributes insulation and other building products. Our segments are based on our operating units, for which financial information is regularly evaluated by our chief operating decision maker.

We believe the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, necessary to state fairly our financial position as of March 31, 2022, and our results of operations, comprehensive income and cash flows for the three months ended March 31, 2022 and 2021. The condensed consolidated balance sheet at December 31, 2021, was derived from our audited financial statements, but does not include all disclosures required by GAAP.

These condensed consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements included in the Company's Annual Report for the year ended December 31, 2021, as filed with the SEC on February 22, 2022.

2. ACCOUNTING POLICIES

Financial Statement Presentation. Our condensed consolidated financial statements have been developed in conformity with GAAP, which requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from these estimates. All significant intercompany transactions between TopBuild entities have been eliminated.

Recently Adopted Accounting Pronouncements

The following table summarizes additional ASUs which were adopted, but did not have a material impact on our accounting policies or our consolidated financial statements and related disclosures:

ASU	Description	Period Adopted	Method
ASU 2019-12	Income Taxes - Simplifying the Accounting for Income Taxes	01/01/21	Modified Retrospective
ASU 2021-01	Reference Rate Reform	01/01/21	Prospective

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". This standard improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability, as well as payment terms and their effect on subsequent revenue recognized by the acquirer. This standard is effective for us beginning January 1, 2023, with early adoption permitted. We are evaluating the impact that adoption of this standard may have on our financial position and results of operations.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE RECOGNITION

Revenue is disaggregated between our Installation and Specialty Distribution segments and further based on market and product, as we believe this best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following tables present our revenues disaggregated by market (in thousands):

	Three Months Ended March 31, 2022			
	Installation	Specialty Distribution	Elims	Total
Residential	$ 563,303	$ 236,411	$ (43,421)	$ 756,293
Commercial	113,390	215,514	(8,216)	320,688
Industrial	—	91,937	—	91,937
Net sales	$ 676,693	$ 543,862	$ (51,637)	$ 1,168,918

	Three Months Ended March 31, 2021			
	Installation	Specialty Distribution	Elims	Total
Residential	$ 418,077	$ 192,045	$ (33,338)	$ 576,784
Commercial	114,676	59,556	(8,218)	166,014
Net sales	$ 532,753	$ 251,601	$ (41,556)	$ 742,798

The following tables present our revenues disaggregated by product (in thousands):

	Three Months Ended March 31, 2022			
	Installation	Specialty Distribution	Elims	Total
Insulation and accessories	$ 536,341	$ 452,011	$ (43,810)	$ 944,542
Glass and windows	51,196	—	—	51,196
Gutters	22,957	46,631	(7,002)	62,586
All other	66,199	45,220	(825)	110,594
Net sales	$ 676,693	$ 543,862	$ (51,637)	$ 1,168,918

	Three Months Ended March 31, 2021			
	Installation	Specialty Distribution	Elims	Total
Insulation and accessories	$ 417,597	$ 211,494	$ (34,527)	$ 594,564
Glass and windows	43,047	—	—	43,047
Gutters	19,358	25,839	(5,305)	39,892
All other	52,751	14,268	(1,724)	65,295
Net sales	$ 532,753	$ 251,601	$ (41,556)	$ 742,798

The following table represents our contract assets and contract liabilities with customers, in thousands:

	Included in Line Item on Condensed Balance Sheets	As of	
		March 31, 2022	December 31, 2021
Contract Assets:			
Receivables, unbilled	Receivables, net	$ 72,996	$ 71,401
Contract Liabilities:			
Deferred revenue	Accrued liabilities	$ 15,926	$ 14,310

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate amount remaining on uncompleted performance obligations was $346.3 million as of March 31, 2022. We expect to satisfy the performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

Certain customer contracts contain provisions whereby customers are entitled to withhold an agreed upon percentage of the total contract value until the customer's project is satisfactorily complete. This amount held back is referred to as retainage and is a common practice in the construction industry. Retainage receivables are classified as a component of Receivables, net on our condensed consolidated balance sheets and were $57.1 million and $57.6 million as of March 31, 2022 and December 31, 2021, respectively.

4. GOODWILL AND OTHER INTANGIBLES

We have two reporting units which are also our operating and reporting segments: Installation and Specialty Distribution. Both reporting units contain goodwill. Assets acquired and liabilities assumed are assigned to the applicable reporting unit based on whether the acquired assets and liabilities relate to the operations of and determination of the fair value of such unit. Goodwill assigned to the reporting unit is the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed for the reporting unit.

In the fourth quarter of 2021, we performed an annual assessment on our goodwill resulting in no impairment.

Changes in the carrying amount of goodwill for the three months ended March 31, 2022, by segment, were as follows, in thousands:

	Gross Goodwill December 31, 2021	Additions	Fx Translation Adjustment	Gross Goodwill March 31, 2022	Accumulated Impairment Losses	Net Goodwill March 31, 2022
Goodwill, by segment:						
Installation	$ 1,818,872	$ 5,348	-	$ 1,824,220	$ (762,021)	$ 1,062,199
Specialty Distribution	892,912	5,126	4,060	902,098	-	902,098
Total goodwill	$ 2,711,784	$ 10,474	$ 4,060	$ 2,726,318	$ (762,021)	$ 1,964,297

See *Note 13 – Business Combinations* for goodwill recognized on acquisitions that occurred during the quarter.

Other intangible assets, net includes customer relationships, non-compete agreements, and trademarks / trade names. The following table sets forth our other intangible assets, in thousands:

	As of	
	March 31, 2022	December 31, 2021
Gross definite-lived intangible assets	$ 785,288	$ 783,843
Accumulated amortization	(115,491)	(99,634)
Net definite-lived intangible assets	$ 669,797	$ 684,209

The following table sets forth our amortization expense, in thousands:

	Three Months Ended March 31,	
	2022	2021
Amortization expense	$ 17,825	$ 6,143

5. LONG-TERM DEBT

The following table reconciles the principal balances of our outstanding debt to our condensed consolidated balance sheets, in thousands:

	As of	
	March 31, 2022	December 31, 2021
3.625% Senior Notes due 2029	$ 400,000	$ 400,000
4.125% Senior Notes due 2032	500,000	500,000
Term loan	588,750	596,250
Equipment notes	14,959	17,085
Unamortized debt issuance costs	(19,513)	(20,212)
Total debt, net of unamortized debt issuance costs	1,484,196	1,493,123
Less: current portion of long-term debt	38,723	38,640
Total long-term debt	$ 1,445,473	$ 1,454,483

The following table sets forth our remaining principal payments for our outstanding debt balances as of March 31, 2022, in thousands:

	Payments Due by Period						
	2022	2023	2024	2025	2026	Thereafter	Total
3.625% Senior Notes	$ —	$ —	$ —	$ —	$ —	$ 400,000	$ 400,000
4.125% Senior Notes	—	—	—	—	—	500,000	500,000
Term loan	22,500	33,750	45,000	48,750	438,750	—	588,750
Equipment notes	6,513	6,325	2,121	—	—	—	14,959
Total	$ 29,013	$ 40,075	$ 47,121	$ 48,750	$ 438,750	$ 900,000	$ 1,503,709

Amendments to Credit Agreement and Senior Secured Term Loan Facility

On March 8, 2021, the Company entered into Amendment No. 1 to Credit Agreement. Amendment No. 1 to Credit Agreement provided for a term loan facility in an aggregate principal amount of $300.0 million, all of which was drawn on March 8, 2021, and a revolving facility with an aggregate borrowing capacity of $450.0 million, including a $100.0 million letter of credit sublimit and up to a $35.0 million swingline sublimit.

The maturity date for the loans under Amendment No. 1 to Credit Agreement was extended from March 2025 to March 2026, the floor for base rate loans was reduced from 1.5% to 1.0%, and the floor for Eurodollar rate loans was reduced from 0.5% to 0.0%. Additional provisions were made for the eventual replacement of LIBOR with another alternate benchmark rate.

On October 7, 2021, the Company entered into Amendment No. 2 to Credit Agreement. Amendment No. 2 to Credit Agreement provides for a term loan facility in an aggregate principal amount of $600.0 million, comprised of a $300.0 million term loan facility and a $300.0 million delayed draw term loan commitment, all of which was drawn on October 7, 2021, and a revolving facility with an aggregate borrowing capacity of $500.0 million, including a $100.0 million letter of credit sublimit and up to a $35.0 million swingline sublimit. The maturity date for the loans under Amendment No. 2 to Credit Agreement was extended from March 2026 to October 2026. Additional provisions were also made for the eventual replacement of LIBOR with an alternative benchmark rate.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table outlines the key terms of our Amendment No. 2 to Credit Agreement (dollars in thousands):

Senior secured term loan facility	$	300,000
Additional delayed draw term loan	$	300,000
Additional term loan and/or revolver capacity available under incremental facility (a)	$	300,000
Revolving facility	$	500,000
Sublimit for issuance of letters of credit under revolving facility (b)	$	100,000
Sublimit for swingline loans under revolving facility (b)	$	35,000
Interest rate as of March 31, 2022		1.46 %
Scheduled maturity date		10/7/2026

(a) Additional borrowing capacity is available under the incremental facility, subject to certain terms and conditions (including existing or new lenders providing commitments in respect of such additional borrowing capacity).
(b) Use of the sublimits for the issuance of letters of credit and swingline loans reduces the availability under the Revolving Facility.

Interest payable on borrowings under the Credit Agreement is based on an applicable margin rate plus, at our option, either:

- A base rate determined by reference to the highest of either (i) the federal funds rate plus 0.50 percent, (ii) BofA's "prime rate," and (iii) the LIBOR rate for U.S. dollar deposits with a term of one month, plus 1.00 percent; or
- A LIBOR rate (or a comparable successor rate) determined by reference to the costs of funds for deposits in U.S. dollars for the interest period relevant to such borrowings, subject to a floor of 0%.

Amendment No. 2 to Credit Agreement contemplates future amendment by the Company and the agent to provide for the replacement of LIBOR with an alternative benchmark rate, giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such alternative benchmarks, including any related mathematical or other applicable adjustments.

The applicable margin rate is determined based on our Secured Leverage Ratio. In the case of base rate borrowings, the applicable margin rate ranges from 0.00 percent to 1.00 percent and in the case of LIBOR rate borrowings, the applicable margin ranges from 1.00 percent to 2.50 percent. Borrowings under Amendment No. 2 to Credit Agreement are prepayable at the Company's option without premium or penalty. The Company is required to make prepayments with the net cash proceeds of certain asset sales and certain extraordinary receipts.

Revolving Facility

The Company has outstanding standby letters of credit that secure our financial obligations related to our workers' compensation, general insurance, and auto liability programs. These standby letters of credit, as well as any outstanding amount borrowed under our Revolving Facility, reduce the availability under the Revolving Facility.

The following table summarizes our availability under the Revolving Facility, in thousands:

	As of	
	March 31, 2022	**December 31, 2021**
Revolving facility	$ 500,000	$ 500,000
Less: standby letters of credit	(69,936)	(69,936)
Availability under revolving facility	$ 430,064	$ 430,064

We are required to pay commitment fees to the Lenders in respect of any unutilized commitments. The commitment fees range from 0.15 percent to 0.275 percent per annum, depending on our Secured Leverage Ratio. We must also pay customary fees on outstanding letters of credit.

3.625% Senior Notes

On March 15, 2021, the Company completed a private offering of $400.0 million aggregate principal amount of 3.625% Senior Notes due 2029. The Company used the proceeds from the issuance of the 3.625% Senior Notes, together with cash on hand, to redeem 100% of its $400.0 million aggregate principal amount of 5.625% Senior Notes due 2026. The 3.625% Senior Notes are our senior unsecured obligations and bear interest at 3.625% per year, payable semiannually in arrears on March 15 and September 15 of each year, which begins on September 15, 2021. The 3.625% Senior Notes mature on March 15, 2029, unless redeemed early or repurchased. If we undergo a change in control, we must make an offer to repurchase all of the 3.625% Senior Notes then outstanding at a repurchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest (if any) to, but not including, the repurchase date.

The Company may redeem the 3.625% Senior Notes, in whole or in part, at any time on or after March 15, 2024 at the redemption prices specified in the notes. The Company may also redeem all or part of the 3.625% Senior Notes at any time prior to March 15, 2024 at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus the Applicable Premium (as defined in the Indenture), as of, and accrued and unpaid interest to, the redemption date. Additionally, the Company may redeem up to 40% of the aggregate principal amount of the 3.625% Senior Notes prior to March 15, 2024 with the net cash proceeds of certain sales of its capital stock at 103.625% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption only if, after the redemption, at least 60% of the aggregate principal amount of the 3.625% Senior Notes originally issued remains outstanding.

4.125% Senior Notes

On October 14, 2021, the Company completed a private offering of $500.0 million aggregate principal amount of 4.125% Senior Notes due 2032. The 4.125% Senior Notes are senior unsecured obligations and bear interest at 4.125% per year, payable semiannually in arrears on February 15 and August 15, beginning on August 15, 2022. The 4.125% Senior Notes mature on February 15, 2032, unless redeemed early or repurchased. If we undergo a change in control, we must make an offer to repurchase all of the 4.125% Senior Notes then outstanding at a repurchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest (if any) to, but not including, the repurchase date.

The Company may redeem the 4.125% Senior Notes, in whole or in part, at any time on or after October 15, 2026 at the redemption prices specified in the notes plus accrued and unpaid interest if redeemed during the 12 month period commencing on October 15 of the years set for: 2026 – 102.063%, 2027 – 101.375%, 2028 – 100.688%, 2029 and thereafter – 100.000%. The Company may also redeem a make-whole redemption of the 4.125% Senior Notes at any time prior to October 15, 2026 at the treasury rate plus 50 bps. Additionally, the Company may redeem up to 40% of the aggregate principal amount of the 4.125% Senior Notes prior to October 15, 2024 with the net cash proceeds of certain sales of its capital stock at 104.125% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption only if, after the redemption, at least 60% of the aggregate principal amount of the notes originally issued remains outstanding.

Equipment Notes

As of March 31, 2022, the company has issued $41.6 million of equipment notes for the purpose of financing the purchase of vehicles and equipment. The Company’s equipment notes each have a five year term maturing from 2023 to 2024 and bear interest at fixed rates between 2.8% and 4.4%.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Covenant Compliance

The indentures governing our 3.625% Senior Notes and our 4.125% Senior Notes (together, our "Senior Notes") contain restrictive covenants that, among other things, generally limit the ability of the Company and certain of its subsidiaries (subject to certain exceptions) to (i) create liens, (ii) pay dividends, acquire shares of capital stock and make payments on subordinated debt, (iii) place limitations on distributions from certain subsidiaries, (iv) issue or sell the capital stock of certain subsidiaries, (v) sell assets, (vi) enter into transactions with affiliates and (vii) effect mergers. The indentures provide for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of covenants or other agreements in the indenture; defaults in failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the indenture, the trustee or the holders of at least 30% in aggregate principal amount of each of our Senior Notes then outstanding may declare the principal of, premium, if any, and accrued interest on the Senior Notes subject to such declaration immediately due and payable. The Senior Notes and related guarantees have not been registered under the Securities Act of 1933, and we are not required to register either the Senior Notes or the guarantees in the future.

The Credit Agreement contains certain covenants that limit, among other things, the ability of the Company to incur additional indebtedness or liens; to make certain investments or loans; to make certain restricted payments; to enter into consolidations, mergers, sales of material assets, and other fundamental changes; to transact with affiliates; to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends; or to make certain accounting changes. The Credit Agreement contains customary affirmative covenants and events of default.

The Credit Agreement requires that we maintain a Net Leverage Ratio and minimum Interest Coverage Ratio throughout the term of the agreement. The following table outlines the key financial covenants effective for the period covered by this Quarterly Report:

	As of March 31, 2022
Maximum Net Leverage Ratio	3.50:1.00
Minimum Interest Coverage Ratio	3.00:1.00
Compliance as of period end	In Compliance

6. FAIR VALUE MEASUREMENTS

Fair Value on Recurring Basis

The carrying values of cash and cash equivalents, receivables, net, and accounts payable are considered to be representative of their respective fair values due to the short-term nature of these instruments. We measure our contingent consideration liabilities related to business combinations at fair value. For more information see *Note 13 – Business Combinations.*

Fair Value on Non-Recurring Basis

Fair value measurements were applied to our long-term debt portfolio. We believe the carrying value of our term loan approximates the fair market value primarily due to the fact that the non-performance risk of servicing our debt obligations, as reflected in our business and credit risk profile, has not materially changed since we assumed our debt obligations under the Amendment No.2 to Credit Agreement. In addition, due to the floating-rate nature of our term loan, the market value is not subject to variability solely due to changes in the general level of interest rates as is the case with a fixed-rate debt obligation. Based on market trades of our 3.625% Senior Notes and our 4.125% Senior Notes close to March 31, 2022 (Level 1 fair value measurement), we estimate the fair value of each in the table below:

	As of March 31, 2022	
	Fair Value	Gross Carrying Value
3.625% Senior Notes	$ 365,000	$ 400,000
4.125% Senior Notes	$ 456,250	$ 500,000

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. SEGMENT INFORMATION

The following tables set forth our net sales and operating results by segment, in thousands:

	Three Months Ended March 31,			
	2022	2021	2022	2021
	Net Sales		Operating Profit (b)	
Our operations by segment were (a):				
Installation	$ 676,693	$ 532,753	$ 112,679	$ 73,636
Specialty Distribution	543,862	251,601	70,420	35,385
Intercompany eliminations	(51,637)	(41,556)	(8,708)	(6,528)
Total	$ 1,168,918	$ 742,798	174,391	102,493
General corporate expense, net (c)			(10,437)	(6,606)
Operating profit, as reported			163,954	95,887
Other expense, net			(11,282)	(20,388)
Income before income taxes			$ 152,672	$ 75,499

(a) All of our operations are located in the U.S and Canada.
(b) Segment operating profit includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(c) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs.

8. LEASES

We lease various assets to support our business including warehouses for our Installation branch locations and Specialty Distribution centers, office space for our Branch Support Center in Daytona Beach, Florida and other administrative locations, as well as fleet vehicles and certain equipment. In addition, we lease certain operating facilities from related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. These related party leases are immaterial to our condensed consolidated statements of operations.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents lease-related assets and liabilities recognized in our condensed consolidated balance sheet, in thousands:

		As of	
		March 31, 2022	December 31, 2021
Assets	**Classification**		
Operating	Right of use assets	$ 184,762	$ 177,177
Finance	Property and equipment, net	9,158	9,743
Total lease assets		$ 193,920	$ 186,920
Liabilities			
Current			
Operating	Short-term operating lease liabilities	$ 55,293	$ 54,591
Finance	Short-term finance lease liabilities	2,610	2,387
Non-Current			
Operating	Long-term operating lease liabilities	133,297	125,339
Finance	Long-term finance lease liabilities	7,631	7,770
Total lease liabilities		$ 198,831	$ 190,087
Weighted-average remaining lease term:			
Operating leases		4.1 years	4.1 years
Finance leases		4.2 years	4.4 years
Weighted-average discount rate:			
Operating leases		3.0 %	3.1 %
Finance leases		2.9 %	2.9 %

The components of lease expense were as follows and are primarily included in cost of sales on the accompanying unaudited condensed consolidated statement of operations for operating leases and in selling, general and administrative expenses on the accompanying unaudited condensed consolidated statement of operations for finance leases and operating leases on support centers, in thousands:

	Three Months Ended March 31,	
	2022	2021
Operating lease cost (a)	$ 20,512	$ 11,810
Financing lease cost:		
Amortization of leased assets	795	—
Interest on finance lease obligations	70	—
Short-term lease cost	4,340	3,354
Sublease income	(218)	(206)
Net lease cost	$ 25,499	$ 14,958

(a) Includes variable cost components of $3,680 and $1,697 in the three months ended March 31, 2022, and 2021, respectively.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments under non-cancellable operating leases as of March 31, 2022 were as follows, in thousands:

Payments due by Period		
2023	$	49,287
2024		54,670
2025		42,795
2026		32,669
2027		20,914
2028 and Thereafter		14,647
Total future minimum lease payments		214,982
Less: imputed interest		(16,151)
Lease liability at March 31, 2022	$	198,831

The amount below is included in the cash flows provided by (used in) operating activities section on the accompanying unaudited condensed consolidated statements of cash flows, in thousands:

	Three Months Ended March 31,	
	2022	**2021**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ (70)	$ —
Operating cash flows from operating leases	(16,198)	(10,150)
Financing cash flows from finance leases	(557)	—

9. INCOME TAXES

Our effective tax rates were 24.9 percent and 20.7 percent for the three months ended March 31, 2022 and 2021, respectively. The higher 2022 tax rate was primarily related to a decrease in the benefit related to share-based compensation and state tax adjustments.

A tax benefit of $1.6 million and $3.1 million related to share-based compensation was recognized in our condensed consolidated statements of operations as a discrete item in income tax expense for the three months ended March 31, 2022 and 2021, respectively.

10. NET INCOME PER SHARE

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

Diluted net income per share is calculated by adjusting the number of weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basic and diluted net income per share were computed as follows:

	Three Months Ended March 31,	
	2022	2021
Net income (in thousands) - basic and diluted	$ 114,711	$ 59,842
Weighted average number of common shares outstanding - basic	32,738,525	32,826,515
Dilutive effect of common stock equivalents:		
RSAs with service-based conditions	15,127	35,619
RSAs with market-based conditions	100,158	147,098
RSAs with performance-based conditions	64,025	49,020
Stock options	124,655	144,311
Weighted average number of common shares outstanding - diluted	33,042,490	33,202,563
Basic net income per common share	$ 3.50	$ 1.82
Diluted net income per common share	$ 3.47	$ 1.80

The following table summarizes shares excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive:

	Three Months Ended March 31,	
	2022	2021
Anti-dilutive common stock equivalents:		
RSAs with service-based conditions	10,244	2,831
RSAs with market-based conditions	382	5,512
RSAs with performance-based conditions	7,908	—
Stock options	16,587	11,766
Total anti-dilutive common stock equivalents	35,121	20,109

11. SHARE-BASED COMPENSATION

Effective July 1, 2015, our eligible employees commenced participation in the 2015 LTIP. The 2015 LTIP authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents. All grants are made by issuing new shares and no more than 4.0 million shares of common stock may be issued under the 2015 LTIP. As of March 31, 2022, we had 1.9 million shares remaining available for issuance under the 2015 LTIP.

Share-based compensation expense is included in selling, general, and administrative expense. The income tax effect associated with share-based compensation awards is included in income tax expense. The following table presents share-based compensation amounts recognized in our condensed consolidated statements of operations, in thousands:

	Three Months Ended March 31,	
	2022	2021
Share-based compensation expense	$ 3,727	$ 3,111
Income tax benefit	$ 1,605	$ 3,093

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents a summary of our share-based compensation activity for the three months ended March 31, 2022, in thousands, except per share amounts:

	RSAs		Stock Options			
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance December 31, 2021	244.4	$ 119.41	210.5	$ 32.35	$ 87.30	$ 39,692.4
Granted	90.5	$ 181.51	—	$ —	$ —	—
Converted/Exercised	(162.9)	$ 71.59	(12.3)	$ 23.48	$ 65.74	$ 1,798.4
Forfeited/Expired	(0.2)	$ 252.91	—	$ —	$ —	—
Balance March 31, 2022	171.8	$ 197.22	198.2	$ 32.90	$ 88.63	$ 19,180.9
Exercisable March 31, 2022 (a)			161.9	$ 26.46	$ 72.42	$ 17,912.5

(a) The weighted average remaining contractual term for vested stock options is approximately 6.1 years.

Unrecognized share-based compensation expense related to unvested awards is shown in the following table, dollars in thousands:

	As of March 31, 2022	
	Unrecognized Compensation Expense on Unvested Awards	Weighted Average Remaining Vesting Period
RSAs	$ 20,376	1.2
Stock options	1,120	0.9
Total unrecognized compensation expense related to unvested awards	$ 21,496	

Our RSAs with performance-based conditions are evaluated on a quarterly basis with adjustments to compensation expense based on the likelihood of the performance target being achieved or exceeded. The following table shows the range of payouts and the related expense for our outstanding RSAs with performance-based conditions, in thousands:

		Payout Ranges and Related Expense			
RSAs with Performance-Based Conditions	**Grant Date Fair Value**	**0%**	**25%**	**100%**	**200%**
February 17, 2020	$ 2,675	$ —	$ 669	$ 2,675	$ 5,350
February 16, 2021	$ 2,552	$ —	$ 638	$ 2,552	$ 5,104
February 15, 2022	$ 3,692	$ —	$ 923	$ 3,692	$ 7,384

During the first quarter of 2022, RSAs with performance-based conditions that were granted on February 18, 2019 vested based on cumulative three-year achievement of 200%. Total compensation expense recognized over the three-year performance period, net of forfeitures, was $4.4 million.

The fair value of our RSAs with a market-based condition granted under the 2015 LTIP was determined using a Monte Carlo simulation. The following are key inputs in the Monte Carlo analysis for awards granted in 2022 and 2021:

	2022	2021
Measurement period (years)	2.87	2.87
Risk free interest rate	1.76 %	0.22 %
Dividend yield	0.00 %	0.00 %
Estimated fair value of market-based RSAs at grant date	$ 298.20	$ 298.66

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values of stock options granted under the 2015 LTIP were calculated using the Black-Scholes Options Pricing Model. The following table presents the assumptions used to estimate the fair values of stock options granted in 2021. There were no stock options issued in the first quarter of 2022.

	2021
Risk free interest rate	0.76 %
Expected volatility, using historical return volatility and implied volatility	43.29 %
Expected life (in years)	6.0
Dividend yield	0.00 %
Estimated fair value of stock options at grant date	$ 89.59

12. SHARE REPURCHASE PROGRAM

On July 26, 2021, our Board authorized the 2021 Repurchase Program, pursuant to which the Company may purchase up to $200.0 million of our common stock. Share repurchases may be executed through various means including open market purchases, privately negotiated transactions, accelerated share repurchase transactions, or other available means. The 2021 Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the 2021 Repurchase Program may be terminated, increased, or decreased by the Board at its discretion at any time. As of March 31, 2022, the Company has $154.4 million remaining under the 2021 Repurchase Program.

On February 22, 2019, our Board authorized the 2019 Repurchase Program, pursuant to which the Company may purchase up to $200.0 million of our common stock. Share repurchases may be executed through various means including open market purchases, privately negotiated transactions, accelerated share repurchase transactions, or other available means. The 2019 Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the 2019 Repurchase Program may be terminated, increased, or decreased by the Board at its discretion at any time. As of March 31, 2022 the Company has utilized all amounts authorized under the 2019 Repurchase Program.

The following table sets forth our share repurchases under the Repurchase Programs during the periods presented. These repurchases closed out the 2019 Share Repurchase Program with the balance repurchased under the 2021 Share Repurchase Program.

	Three Months Ended March 31,	
	2022	2021
Number of shares repurchased	238,154	49,284
Share repurchase cost (in thousands)	$ 50,000	$ 9,856

13. BUSINESS COMBINATIONS

We continue to acquire businesses as part of our ongoing strategy to grow our company and expand our market share. Each acquisition has been accounted for as a business combination under ASC 805, “Business Combinations.” Acquisition related costs for the three months ended March 31, 2022 and 2021 were $0.9 million and $0.7 million, respectively. Acquisition related costs are included in selling, general, and administrative expense in our condensed consolidated statements of operations.

On January 12, 2022, we acquired substantially all the assets of Southwest, an insulation company located in Florida. The purchase price of $0.3 million was funded by cash on hand and we recognized goodwill of $0.2 million in connection with this acquisition.

On February 3, 2022, we acquired substantially all the assets of Billings, a residential insulation installer serving the Montana and Northern Wyoming markets. The purchase price of $6.9 million was funded with cash on hand and we recognized goodwill of $3.8 million in connection with this acquisition.

On March 31, 2022, we acquired substantially all the assets of Green Energy, an insulation company located in Oregon. The purchase price of $1.2 million was funded with cash on hand and we recognized goodwill of $0.8 million in connection with this acquisition.

The table below provides a summary as of March 31, 2022 for businesses acquired during the three months ended March 31, 2021:

2021 Acquisitions	Date	Cash Paid	Contingent Consideration	Total Purchase Price	Goodwill Acquired
LCR	1/20/2021	$ 53,700	$ —	$ 53,700	$ 19,500
Ozark	3/3/2021	7,400	—	7,400	2,900
Total		$ 61,100	$ —	$ 61,100	$ 22,400

As third-party or internal valuations are finalized, certain tax aspects of the foregoing transactions are completed, and customer post-closing reviews are concluded, adjustments may be made to the fair value of assets acquired, and in some cases total purchase price, through the end of each measurement period, generally one year following the applicable acquisition date. To that note, during the three months ended March 31, 2022 DI's goodwill increased by $5.1 million primarily as a result of net working capital adjustments, true-ups to supplier rebate receivables, and sales and use tax liabilities.

Goodwill to be recognized in connection with acquisitions is attributable to the synergies expected to be realized and improvements in the businesses after the acquisitions. Primarily all of the $4.8 million and $22.4 million of goodwill recorded from acquisitions completed in the three months ended March 31, 2022 and 2021, respectively, is expected to be deductible for income tax purposes.

14. ACCRUED LIABILITIES

The following table sets forth the components of accrued liabilities, in thousands:

	As of	
	March 31, 2022	December 31, 2021
Accrued liabilities:		
Salaries, wages, and commissions	$ 62,438	$ 71,664
Accrued income taxes payable	38,997	2,161
Insurance liabilities	25,525	24,425
Customer rebates	8,916	15,625
Deferred revenue	15,927	14,311
Employee tax-related liabilities	12,709	12,545
Sales & Property taxes	13,389	9,364
Interest payable on long-term debt	10,318	8,798
Other	19,158	16,998
Total accrued liabilities	$ 207,377	$ 175,891

See *Note 3 – Revenue Recognition* for discussion of our deferred revenue balances. Accrued income taxes payable increased compared to December 31, 2021 due to the timing of tax payments, which typically occur later in the year.

15. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. We are subject to certain claims, charges, litigation, and other proceedings in the ordinary course of our business, including those arising from or related to contractual matters, intellectual property, personal injury, environmental matters, product liability, product recalls, construction defects, insurance coverage, personnel and employment disputes, antitrust, and other matters, including class actions. We believe we have adequate defenses in these matters, and we do not believe that the ultimate outcome of these matters will have a material adverse effect on us. However, there is no assurance that we will prevail in any of these pending matters, and we could in the future incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome of these matters, which could materially impact our liquidity and our results of operations.

Other Matters. We enter into contracts, which include customary indemnities that are standard for the industries in which we operate. Such indemnities include, among other things, customer claims against builders for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide customary indemnities relating to various items including, among others, the enforceability of trademarks, legal and environmental issues, and asset valuations. We evaluate the probability that we may incur liabilities under these customary indemnities and appropriately record an estimated liability when deemed probable.

We also maintain indemnification agreements with our directors and officers that may require us to indemnify them against liabilities that arise by reason of their status or service as directors or officers, except as prohibited by applicable law.

We occasionally 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. We also have bonds outstanding for license and insurance.

The following table summarizes our outstanding performance, licensing, insurance and other bonds, in thousands:

	As of	
	March 31, 2022	December 31 2021
Outstanding bonds:		
Performance bonds	$ 120,049	$ 128,173
Licensing, insurance, and other bonds	22,156	21,792
Total bonds	$ 142,205	$ 149,965

16. SUBSEQUENT EVENTS

On May 5, 2022, the Company announced its plan to enter into an agreement to repurchase $100.0 million of its common stock under an accelerated share repurchase program (“ASR”). The ASR will be executed under previous share repurchase program authorizations, with $154.4 million of remaining authorization as of March 31, 2022.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

TopBuild, headquartered in Daytona Beach, Florida, is a leading installer and distributor of insulation and other building products to the U.S. construction industry. We trade on the NYSE under the ticker symbol "BLD."

We operate in two segments: Installation and Specialty Distribution. Our Installation segment installs insulation and other building products nationwide which, as of March 31, 2022, had approximately 235 branches located across the United States. We install various insulation applications, including fiberglass batts and rolls, blown-in loose fill fiberglass, blown-in loose fill cellulose, and polyurethane spray foam. Additionally, we install other building products including glass and windows, rain gutters, after paint products, fireproofing, garage doors, and fireplaces. We handle every stage of the installation process, including material procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, and installation quality assurance.

Our Specialty Distribution segment sells and distributes insulation and other building products, including gutters, fireplaces, closet shelving, and roofing materials, which, as of March 31, 2022, had 160 branches located across the United States and 18 branches in Canada. Our Specialty Distribution customer base consists of thousands of insulation contractors of all sizes, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors, and modular home builders.

We believe that having both Installation and Specialty Distribution provides us with a number of distinct competitive advantages. First, the combined buying power of our two business segments, along with our scale, strengthens our ties to the major manufacturers of insulation and other building material products. This helps to ensure we are buying competitively and ensures the availability of supply to our local branches and Specialty Distribution centers. The overall effect is driving efficiencies through our supply chain. Second, being a leader in both installation and specialty distribution allows us to reach a broader set of builders and contractors more effectively, regardless of their size or geographic location in the U.S. and Canada, and leverage housing and commercial construction growth wherever it occurs. Third, during housing industry downturns, many insulation contractors who buy directly from manufacturers during industry peaks return to purchasing through specialty distributors. As a result, this helps to reduce our exposure to cyclical swings in our business.

For additional details pertaining to our operating results by segment, see *Note 7 – Segment Information* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report. For additional details regarding our strategy, material trends in our business and seasonality, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for the year ended December 31, 2021, as filed with the SEC on February 22, 2022.

The following discussion and analysis contains forward-looking statements and should be read in conjunction with the unaudited condensed consolidated financial statements, the notes thereto, and the section entitled "Forward-Looking Statements" included in this Quarterly Report.

FIRST QUARTER 2022 VERSUS FIRST QUARTER 2021

The following table sets forth our net sales, gross profit, operating profit, and margins, as reported in our condensed consolidated statements of operations, in thousands:

	Three Months Ended March 31,	
	2022	**2021**
Net sales	**$ 1,168,918**	**$ 742,798**
Cost of sales	837,717	545,039
Cost of sales ratio	*71.7 %*	*73.4 %*
Gross profit	**331,201**	**197,759**
Gross profit margin	*28.3 %*	*26.6 %*
Selling, general, and administrative expense	167,247	101,872
Selling, general, and administrative expense to sales ratio	*14.3 %*	*13.7 %*
Operating profit	**163,954**	**95,887**
Operating profit margin	*14.0 %*	*12.9 %*
Other expense, net	(11,282)	(20,388)
Income tax expense	(37,961)	(15,657)
Net income	**$ 114,711**	**$ 59,842**
Net margin	*9.8 %*	*8.1 %*

Sales and Operations

Net sales increased 57.4 percent for the three months ended March 31, 2022, from the comparable period of 2021. The increase was primarily driven by a 38.6 percent impact from our acquisitions, 16.5 percent increase due to higher selling prices, and 2.2 percent increase in sales volume.

Gross profit margins were 28.3 percent and 26.6 percent for the three months ended March 31, 2022 and 2021, respectively. Gross profit margin improved primarily due to higher selling prices, higher sales volume, and operational efficiencies partially offset by material inflation.

Selling, general, and administrative expense, as a percent of sales, was 14.3 and 13.7 percent for the three months ended March 31, 2022 and 2021, respectively. The increase in selling, general, and administrative expense as a percent of sales was driven primarily by the amortization of intangible assets related to purchase accounting.

Operating margins were 14.0 percent and 12.9 percent for the three months ended March 31, 2022 and 2021, respectively. The increase in operating margins was due to higher selling prices, higher sales volume and operational efficiencies partially offset by material inflation and amortization of intangible assets related to purchase accounting.

Business Segment Results

The following table sets forth our net sales and operating profit margins by business segment, in thousands:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Percent Change
Net sales by business segment:			
Installation	$ 676,693	$ 532,753	27.0 %
Specialty Distribution	543,862	251,601	116.2 %
Intercompany eliminations	(51,637)	(41,556)	
Net sales	$ 1,168,918	$ 742,798	57.4 %
Operating profit by business segment:			
Installation	$ 112,679	$ 73,636	53.0 %
Specialty Distribution	70,420	35,385	99.0 %
Intercompany eliminations	(8,708)	(6,528)	
Operating profit before general corporate expense	174,391	102,493	70.1 %
General corporate expense, net	(10,437)	(6,606)	
Operating profit	$ 163,954	$ 95,887	71.0 %
Operating profit margins:			
Installation	16.7 %	13.8 %	
Specialty Distribution	12.9 %	14.1 %	
Operating profit margin before general corporate expense	14.9 %	13.8 %	
Operating profit margin	14.0 %	12.9 %	

Installation

Sales

Sales in our Installation segment increased $143.9 million, or 27.0 percent, for the three months ended March 31, 2022, as compared to the same period in 2021. The increase was due to a 14.0 percent increase from higher selling prices, 10.0 percent impact from our acquisitions, and 3.0 percent increase in sales volume.

Operating margins

Operating margins in our Installation segment were 16.7 percent and 13.8 percent for the three months ended March 31, 2022 and 2021, respectively. The increase in operating margins was driven by higher selling prices, sales volume, and operational efficiencies partially offset by material inflation.

Specialty Distribution

Sales

Sales in our Specialty Distribution segment increased $292.3 million, or 116.2 percent, for the three months ended March 31, 2022, as compared to the same period in 2021. This increase was due to a 93.3 percent impact from our acquisitions and 22.9 percent increase due to higher selling prices.

Operating margins

Operating margins in our Specialty Distribution segment were 12.9 percent and 14.1 percent for the three months ended March 31, 2022 and 2021, respectively. The decrease in operating margins was partially driven by the amortization of intangible assets related to purchase accounting and material inflation partially offset by higher selling prices and operational efficiencies.

OTHER ITEMS

Other expense, net

Other expense, net, was $11.3 million and $20.4 million for the three months ended March 31, 2022 and 2021, respectively. During the three months ended March 31, 2021, we incurred $13.9 million to redeem our 5.625% Senior Notes. The remaining change primarily relates to interest expense, which increased by $5.4 million for the three months ended March 31, 2022, as compared to the same period in 2021. This increase was due to higher long-term debt balances during the three months ended March 31, 2022, including the balance on the 4.125% Senior Notes which were issued in the fourth quarter of 2021.

Income tax expense

Income tax expense was $38.0 million, an effective tax rate of 24.9 percent, for the three months ended March 31, 2022, compared to $15.7 million, an effective tax rate of 20.7 percent, for the comparable period in 2021. The tax rate for the three months ended March 31, 2022, was higher primarily related to a decrease in the benefit related to share-based compensation and state tax adjustments.

Cash Flows and Liquidity

Significant sources (uses) of cash and cash equivalents are summarized for the periods indicated, in thousands:

	Three Months Ended March 31,	
	2022	2021
Changes in cash and cash equivalents:		
Net cash provided by operating activities	$ 89,483	$ 89,422
Net cash used in investing activities	(32,127)	(73,320)
Net cash used in financing activities	(70,507)	(26,490)
Impact of exchange rate changes on cash	(75)	-
Net decrease in cash and cash equivalents	$ (13,226)	$ (10,388)

Net cash flows provided by operating activities remained flat for the three months ended March 31, 2022, as compared to the prior year period. While net income increased compared to the prior year, this was offset by the impact of higher working capital.

Net cash used in investing activities was $32.1 million for the three months ended March 31, 2022, primarily composed of $18.4 million for purchases of property and equipment, primarily vehicles, and $14.0 million for acquisitions. Net cash used in investing activities was $73.3 million for the three months ended March 31, 2021, primarily composed of $61.1 million for acquisitions and $12.2 million for purchases of property and equipment, primarily vehicles.

Net cash used in financing activities was $70.5 million for the three months ended March 31, 2022. During the three months ended March 31, 2022, we used $50.0 million for the repurchase of common stock pursuant to the 2019 Repurchase Program and the 2021 Repurchase Program, $10.9 million net activity related to exercise of share-based incentive awards and stock options and $9.6 million for debt service requirements. Net cash used in financing activities was $26.5 million for the three months ended March 31, 2021. During the three months ended March 31, 2021, we used $9.9 million for the repurchase of common stock pursuant to the 2019 Repurchase Program, $6.5 million in debt issuance costs as a result of entering into Amendment No.1 to Credit Agreement and 3.625% Senior Notes, $5.5 million net activity related to exercise of share-based incentive awards and stock options, and $4.6 million net payments for redemption of our 5.625% Senior Notes, issuance of our 3.625% Senior Notes, proceeds from the increase in our term loan from Amendment No.1 to Credit Agreement, and payments on equipment notes.

We have access to liquidity through our cash from operations and available borrowing capacity under our Credit Agreement, which provides for borrowing and/or standby letter of credit issuances of up to $500 million under the revolving facility. For additional information regarding our outstanding debt and borrowing capacity see *Item 8. Financial Statements and Supplementary Data – Note 6. Long-Term Debt.*

The following table summarizes our liquidity, in thousands:

	As of	
	March 31, 2022	December 31, 2021
Cash and cash equivalents (a)	$ 126,553	$ 139,779
Revolving facility	500,000	500,000
Less: standby letters of credit	(69,936)	(69,936)
Availability under revolving facility	430,064	430,064
Total liquidity	$ 556,617	$ 569,843

(a) Our cash and cash equivalents consist of AAA-rated money market funds as well as cash held in our demand deposit accounts.

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 needs for at least the next twelve months.

We occasionally 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. We also have bonds outstanding for license and insurance. Information regarding our outstanding bonds as of March 31, 2022 is incorporated by reference from *Note 15 – Other Commitments and Contingencies* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report.

OUTLOOK

We believe a number of factors, including rising interest rates, inflation and the overall health of the economy, can impact consumer demand for housing, causing volatility within this industry. While there are concerns of weakening consumer demand due to a number of these factors, we remain optimistic about the U.S. housing market. In addition, relatively low new home inventory, specifically entry level homes, the widening gap between housing starts and housing completions, and strong household formations should support growth.

Similarly, we expect growth in the commercial, industrial end-markets we serve in connection with construction projects and industries separate from housing. Although these end markets are dealing with higher material costs and are impacted by economic volatility, our bid activity and backlog remain strong.

OFF-BALANCE SHEET ARRANGEMENTS

We had no material off-balance sheet arrangements during the quarter ended March 31, 2022, other than short-term leases, letters of credit, and performance and license bonds, which have been disclosed in Part 1, Item 1 of this Quarterly report.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations from those previously disclosed in our Annual Report for the year ended December 31, 2021, as filed with the SEC on February 22, 2022.

CRITICAL ACCOUNTING POLICIES

We prepare our condensed consolidated financial statements in conformity with GAAP. The preparation of these financial statements requires us 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 sales and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting policies have not changed from those previously reported in our Annual Report for year ended December 31, 2021, as filed with the SEC on February 22, 2022.

APPLICATION OF NEW ACCOUNTING STANDARDS

Information regarding application of new accounting standards is incorporated by reference from *Note 2 – Accounting Policies* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that reflect our views about future periods, including our future plans and performance, constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "will," "would," "should," "anticipate," "expect," "believe," "designed," "plan," or "intend," the negative of these terms, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against unduly relying on any of these forward-looking statements. Our future performance may be affected by events outside of our control affecting the economy or our industry including, but not limited to, the duration and impact of the COVID-19 pandemic or similar health emergencies, supply chain disruptions resulting from global events including conflicts, sanctions, or blockades, and economic events affecting affordability or the market at large including inflation and interest rates. Our future performance may also be affected by conditions or events relating to our business including, but not limited to, our ability to collect receivables from our customers, our reliance on residential new construction, residential repair/remodel, and commercial construction, our reliance on third-party suppliers and manufacturers, our ability to attract, develop, and retain talented personnel and our sales and labor force, our ability to maintain consistent practices across our locations, and our ability to maintain our competitive position. We discuss the material risks we face under the caption entitled "Risk Factors" in our Annual Report for the year ended December 31, 2021, as filed with the SEC on February 22, 2022, as well as under the caption entitled "Risk Factors" in subsequent reports that we file with the SEC. Our forward-looking statements in this filing speak only as of the date of this filing. Factors or events that could cause our actual results to differ may emerge from time to time and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events, or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

On October 7, 2021, the Company entered into Amendment No. 2 to Credit Agreement. Amendment No. 2 to Credit Agreement provides for a term loan facility in an aggregate principal amount of $600.0 million, comprised of a $300.0 term loan facility and $300.0 million delayed draw term loan commitment, all of which was drawn on October 7, 2021 and a revolving facility with an aggregate borrowing capacity of $500.0 million. We also have outstanding 3.625% Senior Notes with an aggregate principal balance of $400.0 million and 4.125% Senior Notes which bear a fixed rate of interest and therefore are excluded from the calculation below as they are not subject to fluctuations in interest rates.

Interest payable on both the aggregate term loan facility and revolving facility under Amendment No. 2 to Credit Agreement is based on a variable interest rate. As a result, we are exposed to market risks related to fluctuations in interest rates on this outstanding indebtedness. As of March 31, 2022, we had $588.8 million outstanding under our term loan facility, and the applicable interest rate as of such date was 1.46%. Based on our outstanding borrowings under Amendment No. 2 to Credit Agreement as of March 31, 2022, a 100 basis point increase in the interest rate would result in a $5.8 million increase in our annualized interest expense. There was no outstanding balance under the revolving facility as of March 31, 2022.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2022.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in the most recent fiscal quarter ended March 31, 2022, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information set forth under the caption "Litigation" in *Note 15 – Other Commitments and Contingencies* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report, is incorporated by reference herein.

Item 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in our Annual Report for the year ended December 31, 2021, as filed with the SEC on February 22, 2022 which are incorporated by reference herein.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding the repurchase of our common stock for the three months ended March 31, 2022, in thousands, except share and per share data:

Period	Total Number of Shares Purchased	Average Price Paid per Common Share	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
January 1, 2022 - January 31, 2022	—	$ —	—	$ 204,406
February 1, 2022 - February 28, 2022	23,900	$ 208.40	23,900	$ 199,425
March 1, 2022 - March 31, 2022	214,254	$ 210.12	214,254	$ 154,406
Total	238,154	$ 209.95	238,154	

All repurchases were made using cash resources. Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

The Exhibits listed on the accompanying Index to Exhibits are filed or furnished (as noted on such Index) as part of this Quarterly Report and incorporated herein by reference.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
4.1	First Supplemental Indenture, dated November 8, 2021, to indenture dated March 15, 2021, between Company and U.S. Bank National Association, as trustee, relating to the Company's 3.625% Senior Notes due March 15, 2029				X
4.2	First Supplemental Indenture, dated November 8, 2021, to indenture dated October 14, 2021, between Company and U.S. Bank National Association, as trustee, relating to the Company's 4.125% Senior Notes due February 15, 2032				X
31.1	Principal Executive Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Principal Financial Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1‡	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002				
32.2‡	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002				
101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

‡Furnished herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOPBUILD CORP.

By: /s/ Robert Kuhns
Name: Robert Kuhns
Title: Vice President and Chief Financial Officer
(Principal Financial Officer)

May 5, 2022

Exhibit 4.1

FIRST SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**") dated as of November 8, 2021, among DI SUPER HOLDINGS, INC., a Delaware corporation, DI INTERMEDIATE, INC., a Delaware corporation, DI PURCHASER, INC., a Delaware corporation, DISTRIBUTION INTERNATIONAL HOLDINGS, LLC, a Delaware limited liability company, DISTRIBUTION INTERNATIONAL HOLDING CORP., a Delaware corporation, DISTRIBUTION INTERNATIONAL, INC., a Delaware corporation, LECCO INDUSTRIES, INC., a Texas corporation, UNITED INSULATION SALES AND FABRICATION, INC., a Texas corporation, DISTRIBUTION INTERNATIONAL SOUTHWEST, INC., a Delaware corporation, MECHANICAL INSULATION SUPPLY, INC., a Michigan corporation, SILVERCOTE, LLC, a Delaware limited liability company, IDEAL PRODUCTS OF AMERICA HOLDINGS, LLC, a Delaware limited liability company, BWI DISTRIBUTION, INC., a Maryland corporation, DISTRIBUTION INTERNATIONAL NORTHEAST, INC., a New Jersey corporation, THORPE PRODUCTS COMPANY, a Texas corporation, THORPE PRODUCTS MIDWEST, LLC, a Texas limited liability company (collectively, the "**New Guarantors**"), direct or indirect subsidiaries of TOPBUILD CORP. (or its successor), a Delaware corporation (the "**Issuer**"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as trustee under the indenture referred to below (the "**Trustee**").

W I T N E S S E T H:

WHEREAS, the Issuer, certain Guarantors and the Trustee have heretofore executed an indenture, dated as of March 15, 2021 (as amended, supplemented or otherwise modified, the "**Indenture**"), providing for the issuance of the Issuer's 3.625% Senior Notes due 2029 (the "**Notes**"), initially in the aggregate principal amount of $400,000,000;

WHEREAS, Section 9.01(e) of the Indenture provides that the Issuer and the Trustee may amend the Indenture without notice or the consent of any holder to conform the text of the Indenture to any provision of the "Description of Notes" in the Offering Memorandum (as defined in the Indenture);

WHEREAS, the Issuer desires and has requested the Trustee to join with it in entering into this Supplemental Indenture for the purpose of amending the Indenture in certain respects as permitted by Section 9.01(e) of the Indenture;

WHEREAS, Sections 4.11 and 10.06 of the Indenture require that the Issuer cause the New Guarantors to execute and deliver to the Trustee a supplemental indenture pursuant to which the New Guarantors shall guarantee the Guaranteed Obligations; and

WHEREAS, pursuant to Sections 4.11, 10.06 and 9.01 of the Indenture, the Trustee and the Issuer are authorized to execute and deliver this Supplemental Indenture;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantors, the Issuer and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Notes as follows:

1. *Defined Terms*. As used in this Supplemental Indenture, terms defined in the Indenture or in the preamble or recital hereto are used herein as therein defined. The words "herein," "hereof" and "hereby" and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular Section hereof.

2. *Amendment to Indenture*. The Indenture is hereby amended by deleting the word "or" in Section 10.02(b)(iv), deleting the period in Section 10.02(b)(v) and replacing the period with "; or", and adding the following new subsection 10.02(b)(vi):

> "(vi) upon such Guarantor no longer being required to guaranty the obligations under the Credit Agreement."

3. *Agreement to Guarantee*. Each New Guarantor hereby agrees, jointly and severally with all existing Guarantors (if any), to guarantee the Guaranteed Obligations on the terms and subject to the conditions set forth in Article X of the Indenture and to be bound by all other applicable provisions of the Indenture and the Notes and to perform all of the obligations and agreements of a Guarantor under the Indenture.

4. *Notices*. All notices or other communications to the New Guarantors shall be given as provided in Section 11.02 of the Indenture.

5. *Ratification of Indenture; Supplemental Indentures Part of Indenture*. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

6. *Governing Law*. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE

APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

7. *Trustee Makes No Representation*. The Trustee accepts the amendments of the Indenture effected by this Supplemental Indenture on the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee. Without limiting the generality of the foregoing, the Trustee shall not be responsible in any manner whatsoever for or with respect to any of the recitals or statements contained herein, all of which recitals or statements are made solely by the Issuer, or for or with respect to (i) the validity or sufficiency of this Supplemental Indenture or any of the terms or provisions hereof, (ii) the proper authorization hereof by the Issuer and each New Guarantor, in each case, by action or otherwise, (iii) the due execution hereof by the Issuer and each New Guarantor or the consequences of any amendment herein provided for, and the Trustee makes no representation with respect to any such matters.

8. *Counterparts.* The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Supplemental Indenture. Notwithstanding the foregoing, the exchange of copies of this Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

9. *Effect of Headings*. The Section headings of this Supplemental Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions here.

[*Remainder of page intentionally left blank.*]

IN WITNESS WHEREOF, the parties have caused this Supplemental Indenture to be duly executed as of the date first written above.

TOPBUILD CORP.

By: /s/ John S. Peterson
Name: John S. Peterson
Title: Vice President and Chief Financial Officer

[*Signature Page to Supplemental Indenture*]

DI SUPER HOLDINGS, INC., as a Guarantor;

DI INTERMEDIATE, INC., as a Guarantor;

DI PURCHASER, INC., as a Guarantor;

DISTRIBUTION INTERNATIONAL HOLDINGS, LLC, as a Guarantor;

DISTRIBUTION INTERNATIONAL HOLDING CORP., as a Guarantor;

DISTRIBUTION INTERNATIONAL, INC., as a Guarantor;

LECCO INDUSTRIES, INC., as a Guarantor;

UNITED INSULATION SALES AND FABRICATION, INC., as a Guarantor;

DISTRIBUTION INTERNATIONAL SOUTHWEST, INC., as a Guarantor;

MECHANICAL INSULATION SUPPLY, INC., as a Guarantor;

SILVERCOTE, LLC, as a Guarantor;

BWI DISTRIBUTION, INC., as a Guarantor

IDEAL PRODUCTS OF AMERICA HOLDINGS, LLC, as a Guarantor;

DISTRIBUTION INTERNATIONAL NORTHEAST, INC., as a Guarantor;

THORPE PRODUCTS COMPANY, as a Guarantor; and

THORPE PRODUCTS MIDWEST, LLC, as a Guarantor

By: /s/ Luis Machado
Name: Luis Machado
Title: Vice President and Secretary

[*Signature Page to Supplemental Indenture*]

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity, but solely as Trustee

By: /s/ Michael C. Daly
Name: Michael C. Daly
Title: Vice President

[*Signature Page to Supplemental Indenture*]

Exhibit 4.2

FIRST SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**") dated as of November 8, 2021, among DI SUPER HOLDINGS, INC., a Delaware corporation, DI INTERMEDIATE, INC., a Delaware corporation, DI PURCHASER, INC., a Delaware corporation, DISTRIBUTION INTERNATIONAL HOLDINGS, LLC, a Delaware limited liability company, DISTRIBUTION INTERNATIONAL HOLDING CORP., a Delaware corporation, DISTRIBUTION INTERNATIONAL, INC., a Delaware corporation, LECCO INDUSTRIES, INC., a Texas corporation, UNITED INSULATION SALES AND FABRICATION, INC., a Texas corporation, DISTRIBUTION INTERNATIONAL SOUTHWEST, INC., a Delaware corporation, MECHANICAL INSULATION SUPPLY, INC., a Michigan corporation, SILVERCOTE, LLC, a Delaware limited liability company, IDEAL PRODUCTS OF AMERICA HOLDINGS, LLC, a Delaware limited liability company, BWI DISTRIBUTION, INC., a Maryland corporation, DISTRIBUTION INTERNATIONAL NORTHEAST, INC., a New Jersey corporation, THORPE PRODUCTS COMPANY, a Texas corporation, THORPE PRODUCTS MIDWEST, LLC, a Texas limited liability company (collectively, the "**New Guarantors**"), direct or indirect subsidiaries of TOPBUILD CORP. (or its successor), a Delaware corporation (the "**Issuer**"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as trustee under the indenture referred to below (the "**Trustee**").

W I T N E S S E T H:

WHEREAS, the Issuer, certain Guarantors and the Trustee have heretofore executed an indenture, dated as of October 14, 2021 (as amended, supplemented or otherwise modified, the "**Indenture**"), providing for the issuance of the Issuer's 4.125% Senior Notes due 2032 (the "**Notes**"), initially in the aggregate principal amount of $500,000,000;

WHEREAS, Sections 4.11 and 10.06 of the Indenture require that the Issuer cause the New Guarantors to execute and deliver to the Trustee a supplemental indenture pursuant to which the New Guarantors shall guarantee the Guaranteed Obligations; and

WHEREAS, pursuant to Sections 4.11, 10.06 and 9.01 of the Indenture, the Trustee and the Issuer are authorized to execute and deliver this Supplemental Indenture;

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantors, the Issuer and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Notes as follows:

1. *Defined Terms.* As used in this Supplemental Indenture, terms defined in the Indenture or in the preamble or recital hereto are used herein as therein defined. The words "herein," "hereof" and "hereby" and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular Section hereof.

2. *Agreement to Guarantee*. Each New Guarantor hereby agrees, jointly and severally with all existing Guarantors (if any), to guarantee the Guaranteed Obligations on the terms and subject to the conditions set forth in Article X of the Indenture and to be bound by all other applicable provisions of the Indenture and the Notes and to perform all of the obligations and agreements of a Guarantor under the Indenture.

3. *Notices*. All notices or other communications to the New Guarantors shall be given as provided in Section 11.02 of the Indenture.

4. *Ratification of Indenture; Supplemental Indentures Part of Indenture*. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

5. *Governing Law*. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

6. *Trustee Makes No Representation*. The Trustee accepts the amendments of the Indenture effected by this Supplemental Indenture on the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee. Without limiting the generality of the foregoing, the Trustee shall not be responsible in any manner whatsoever for or with respect to any of the recitals or statements contained herein, all of which recitals or statements are made solely by the Issuer, or for or with respect to (i) the validity or sufficiency of this Supplemental Indenture or any of the terms or provisions hereof, (ii) the proper authorization hereof by the Issuer and each New Guarantor, in each case, by action or otherwise, (iii) the due execution hereof by the Issuer and each New Guarantor or (iv) the consequences of any amendment herein provided for, and the Trustee makes no representation with respect to any such matters.

7. *Counterparts*. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Supplemental Indenture. Notwithstanding the foregoing, the exchange of copies of this Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

8. *Effect of Headings*. The Section headings of this Supplemental Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions here.

[*Remainder of page intentionally left blank.*]

IN WITNESS WHEREOF, the parties have caused this Supplemental Indenture to be duly executed as of the date first written above.

TOPBUILD CORP.

By: /s/ John S. Peterson

Name: John S. Peterson

Title: Vice President and Chief Financial Officer

[*Signature Page to Supplemental Indenture*]

DI SUPER HOLDINGS, INC., as a Guarantor;

DI INTERMEDIATE, INC., as a Guarantor;

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DISTRIBUTION INTERNATIONAL HOLDINGS, LLC, as a Guarantor;

DISTRIBUTION INTERNATIONAL HOLDING CORP., as a Guarantor;

DISTRIBUTION INTERNATIONAL, INC., as a Guarantor;

LECCO INDUSTRIES, INC., as a Guarantor;

UNITED INSULATION SALES AND FABRICATION, INC., as a Guarantor;

DISTRIBUTION INTERNATIONAL SOUTHWEST, INC., as a Guarantor;

MECHANICAL INSULATION SUPPLY, INC., as a Guarantor;

SILVERCOTE, LLC, as a Guarantor;

BWI DISTRIBUTION, INC., as a Guarantor

IDEAL PRODUCTS OF AMERICA HOLDINGS, LLC, as a Guarantor;

DISTRIBUTION INTERNATIONAL NORTHEAST, INC., as a Guarantor;

THORPE PRODUCTS COMPANY, as a Guarantor; and

THORPE PRODUCTS MIDWEST, LLC, as a Guarantor

By: /s/ Luis Machado
Name: Luis Machado
Title: Vice President and Secretary

[*Signature Page to Supplemental Indenture*]

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity, but solely as Trustee

By: /s/ Michael C. Daly
Name: Michael C. Daly
Title: Vice President

[*Signature Page to Supplemental Indenture*]

Exhibit 31.1

Certifications

I, Robert Buck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TopBuild Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2022

/s/ Robert Buck
Robert Buck
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

Certifications

I, Robert Kuhns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TopBuild Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2022

/s/ Robert Kuhns
Robert Kuhns
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF PERIOD REPORT

I, Robert Buck, Chief Executive Officer and Director of TopBuild Corp. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2022

/s/ Robert Buck
Robert Buck
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PERIOD REPORT

I, Robert Kuhns, Vice President and Chief Financial Officer of TopBuild Corp. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2022

/s/ Robert Kuhns
Robert Kuhns
Vice President and Chief Financial Officer
(Principal Financial Officer)