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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2020**

**OR**

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

**For the Transition Period From __________ To __________**

**Commission File Number: 001-36307**

# Installed Building Products, Inc.
**(Exact name of registrant as specified in its charter)**

| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **45-3707650**<br>**(I.R.S. Employer Identification No.)** |
|---|---|
| **495 South High Street, Suite 50**<br>**Columbus, Ohio**<br>**(Address of principal executive offices)** | **43215**<br>**(Zip Code)** |

**(614) 221-3399**
**(Registrant's telephone number, including area code)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock | IBP | 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| 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 ☒

On October 28, 2020, the registrant had 29,800,535 shares of common stock, par value $0.01 per share, outstanding.

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# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 267,471 | $ 177,889 |
| Investments | 1,220 | 37,961 |
| Accounts receivable (less allowance for credit losses of $9,366 and $6,878 at September 30, 2020 and December 31, 2019, respectively) | 258,940 | 244,519 |
| Inventories | 70,218 | 74,606 |
| Other current assets | 37,607 | 46,974 |
| Total current assets | 635,456 | 581,949 |
| Property and equipment, net | 104,900 | 106,410 |
| Operating lease right-of-use assets | 50,873 | 45,691 |
| Goodwill | 206,782 | 195,652 |
| Intangibles, net | 155,398 | 153,562 |
| Other non-current assets | 12,036 | 16,215 |
| Total assets | $ 1,165,445 | $ 1,099,479 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Current maturities of long-term debt | $ 24,156 | $ 24,164 |
| Current maturities of operating lease obligations | 17,875 | 15,459 |
| Current maturities of finance lease obligations | 2,268 | 2,747 |
| Accounts payable | 86,898 | 98,871 |
| Accrued compensation | 43,310 | 33,636 |
| Other current liabilities | 47,734 | 39,272 |
| Total current liabilities | 222,241 | 214,149 |
| Long-term debt | 544,276 | 545,031 |
| Operating lease obligations | 32,431 | 29,785 |
| Finance lease obligations | 2,747 | 3,597 |
| Deferred income taxes | 3,704 | 9,175 |
| Other long-term liabilities | 55,859 | 47,711 |
| Total liabilities | 861,258 | 849,448 |
| Commitments and contingencies (Note 15) | | |
| Stockholders' equity | | |
| Preferred Stock; $0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively | — | — |
| Common stock; $0.01 par value: 100,000,000 authorized, 33,127,310 and 32,871,504 issued and 29,800,535 and 30,016,340 shares outstanding at September 30, 2020 and December 31, 2019, respectively | 331 | 329 |
| Additional paid in capital | 197,486 | 190,230 |
| Retained earnings | 241,583 | 173,371 |
| Treasury stock; at cost: 3,326,775 and 2,855,164 shares at September 30, 2020 and December 31, 2019, respectively | (123,488) | (106,756) |
| Accumulated other comprehensive loss | (11,725) | (7,143) |
| Total stockholders' equity | 304,187 | 250,031 |
| Total liabilities and stockholders' equity | $ 1,165,445 | $ 1,099,479 |



See accompanying notes to consolidated financial statements

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net revenue | $ 420,486 | $ 396,449 | $ 1,211,756 | $ 1,110,398 |
| Cost of sales | 288,839 | 278,362 | 836,710 | 795,616 |
| Gross profit | 131,647 | 118,087 | 375,046 | 314,782 |
| Operating expenses | | | | |
| Selling | 20,843 | 19,398 | 60,209 | 54,431 |
| Administrative | 58,240 | 55,098 | 177,495 | 156,022 |
| Amortization | 6,974 | 6,156 | 20,378 | 18,065 |
| Operating income | 45,590 | 37,435 | 116,964 | 86,264 |
| Other expense | | | | |
| Interest expense, net | 7,564 | 8,458 | 22,679 | 19,783 |
| Other | 176 | 155 | 305 | 381 |
| Income before income taxes | 37,850 | 28,822 | 93,980 | 66,100 |
| Income tax provision | 9,773 | 7,610 | 24,578 | 17,135 |
| Net income | $ 28,077 | $ 21,212 | $ 69,402 | $ 48,965 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on cash flow hedge, net of tax (provision) benefit of ($408) and $575 for the three months ended September 30, 2020 and 2019, respectively, and $1,582 and $2,676 for the nine months ended September 30, 2020 and 2019, respectively | 1,176 | (1,726) | (4,582) | (8,021) |
| Comprehensive income | $ 29,253 | $ 19,486 | $ 64,820 | $ 40,944 |
| Basic net income per share | $ 0.95 | $ 0.71 | $ 2.35 | $ 1.65 |
| Diluted net income per share | $ 0.95 | $ 0.71 | $ 2.33 | $ 1.64 |
| Weighted average shares outstanding: | | | | |
| Basic | 29,478,816 | 29,785,548 | 29,549,460 | 29,741,555 |
| Diluted | 29,698,028 | 29,877,056 | 29,737,716 | 29,839,873 |



See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2020
(in thousands, except share amounts)

| | Common Stock | | Additional Paid In Capital | Retained Earnings | Treasury Stock | | Accumulated Other Comprehensive Loss | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | |
| BALANCE - July 1, 2019 | 32,871,504 | $ 329 | $186,182 | $132,965 | (2,854,496) | $(106,748) | $ (6,726) | $ 206,002 |
| Net income | | | | 21,212 | | | | 21,212 |
| Surrender of common stock awards | | | | | (259) | (8) | | (8) |
| Share-based compensation expense | | | 1,933 | | | | | 1,933 |
| Share-based compensation issued to directors | | | 101 | | | | | 101 |
| Other comprehensive loss, net of tax | | | | | | | (1,726) | (1,726) |
| BALANCE - September 30, 2019 | 32,871,504 | $ 329 | $188,216 | $154,177 | (2,854,755) | $(106,756) | $ (8,452) | $ 227,514 |

| | Common Stock | | Additional Paid In Capital | Retained Earnings | Treasury Stock | | Accumulated Other Comprehensive Loss | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | |
| BALANCE - July 1, 2020 | 33,124,237 | $ 331 | $195,288 | $213,506 | (3,325,049) | $(123,488) | $ (12,901) | $ 272,736 |
| Net income | | | | 28,077 | | | | 28,077 |
| Issuance of common stock awards to employees | 3,073 | | | | | | | — |
| Surrender of common stock awards | | | | | (1,726) | | | — |
| Share-based compensation expense | | | 2,094 | | | | | 2,094 |
| Share-based compensation issued to directors | | | 104 | | | | | 104 |
| Other comprehensive income, net of tax | | | | | | | 1,176 | 1,176 |
| BALANCE - September 30, 2020 | 33,127,310 | $ 331 | $197,486 | $241,583 | (3,326,775) | $(123,488) | $ (11,725) | $ 304,187 |



See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2020
(in thousands, except share amounts)

| | Common Stock | | Additional Paid In Capital | Retained Earnings | Treasury Stock | | Accumulated Other Comprehensive Loss | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | |
| BALANCE - January 1, 2019 | 32,723,972 | $ 327 | $181,815 | $105,212 | (2,808,361) | $(104,425) | $ (431) | $ 182,498 |
| Net income | | | | 48,965 | | | | 48,965 |
| Issuance of common stock awards to employees | 139,862 | 2 | (2) | | | | | — |
| Surrender of common stock awards | | | | | (46,394) | (2,331) | | (2,331) |
| Share-based compensation expense | | | 6,144 | | | | | 6,144 |
| Share-based compensation issued to directors | 7,670 | | 259 | | | | | 259 |
| Other comprehensive loss, net of tax | | | | | | | (8,021) | (8,021) |
| BALANCE - September 30, 2019 | 32,871,504 | $ 329 | $188,216 | $154,177 | (2,854,755) | $(106,756) | $ (8,452) | $ 227,514 |

| | Common Stock | | Additional Paid In Capital | Retained Earnings | Treasury Stock | | Accumulated Other Comprehensive Loss | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | |
| BALANCE - January 1, 2020 | 32,871,504 | $ 329 | $190,230 | $173,371 | (2,855,164) | $(106,756) | $ (7,143) | $ 250,031 |
| Net income | | | | 69,402 | | | | 69,402 |
| Cumulative effect of accounting changes, net of tax | | | | (1,190) | | | | (1,190) |
| Issuance of common stock awards to employees | 249,435 | 2 | (2) | | | | | — |
| Surrender of common stock awards | | | | | (29,069) | (973) | | (973) |
| Share-based compensation expense | | | 7,029 | | | | | 7,029 |
| Share-based compensation issued to directors | 6,371 | | 229 | | | | | 229 |
| Common stock repurchase | | | | | (442,542) | (15,759) | | (15,759) |
| Other comprehensive loss, net of tax | | | | | | | (4,582) | (4,582) |
| BALANCE - September 30, 2020 | 33,127,310 | $ 331 | $197,486 | $241,583 | (3,326,775) | $(123,488) | $ (11,725) | $ 304,187 |



See accompanying notes to consolidated financial statements

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

| | Nine months ended September 30, 2020 | Nine months ended September 30, 2019 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 69,402 | $ 48,965 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization of property and equipment | 30,850 | 28,575 |
| Amortization of operating lease right-of-use assets | 13,281 | 11,597 |
| Amortization of intangibles | 20,378 | 18,065 |
| Amortization of deferred financing costs and debt discount | 1,000 | 845 |
| Provision for credit losses | 3,839 | 3,173 |
| Write-off of debt issuance costs | — | 2,774 |
| Gain on sale of property and equipment | (592) | (69) |
| Noncash stock compensation | 8,050 | 6,442 |
| Deferred income taxes | (3,405) | — |
| Amortization of terminated interest rate swap | 508 | — |
| Changes in assets and liabilities, excluding effects of acquisitions | | |
| Accounts receivable | (9,624) | (29,144) |
| Inventories | 5,983 | (852) |
| Other assets | 9,027 | (4,845) |
| Accounts payable | (14,746) | 2,535 |
| Income taxes receivable/payable | 14,192 | 13,487 |
| Other liabilities | (4,259) | 4,969 |
| Net cash provided by operating activities | 143,884 | 106,517 |
| **Cash flows from investing activities** | | |
| Purchases of investments | (776) | (17,352) |
| Maturities of short term investments | 37,473 | 22,560 |
| Purchases of property and equipment | (25,515) | (37,267) |
| Acquisitions of businesses | (38,825) | (24,740) |
| Proceeds from sale of property and equipment | 828 | 563 |
| Other | (2,662) | (1,795) |
| Net cash used in investing activities | (29,477) | (58,031) |
| **Cash flows from financing activities** | | |
| Proceeds from senior notes | — | 300,000 |
| Payments on term loan | — | (195,750) |
| Proceeds from vehicle and equipment notes payable | 17,759 | 23,767 |
| Debt issuance costs | (157) | (5,191) |
| Principal payments on long-term debt | (19,801) | (15,278) |
| Principal payments on finance lease obligations | (1,998) | (3,398) |
| Acquisition-related obligations | (3,896) | (5,797) |
| Repurchase of common stock | (15,759) | — |
| Surrender of common stock awards by employees | (973) | (2,331) |
| Net cash (used in) provided by financing activities | (24,825) | 96,022 |
| Net change in cash and cash equivalents | 89,582 | 144,508 |
| Cash and cash equivalents at beginning of period | 177,889 | 90,442 |
| Cash and cash equivalents at end of period | $ 267,471 | $ 234,950 |
| **Supplemental disclosures of cash flow information** | | |
| Net cash paid during the period for: | | |
| Interest | $ 24,130 | $ 17,746 |
| Income taxes, net of refunds | 13,798 | 3,790 |
| **Supplemental disclosure of noncash activities** | | |
| Right-of-use assets obtained in exchange for operating lease obligations | 18,340 | 11,593 |
| Termination of operating lease obligations and right-of-use assets | — | (2,814) |
| Property and equipment obtained in exchange for finance lease obligations | 853 | 2,175 |
| Seller obligations in connection with acquisition of businesses | 6,965 | 4,322 |
| Unpaid purchases of property and equipment included in accounts payable | 1,229 | 1,527 |



See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 1 - ORGANIZATION**

Installed Building Products (“IBP”), a Delaware corporation formed on October 28, 2011, and its wholly-owned subsidiaries (collectively referred to as the “Company,” and “we,” “us” and “our”) primarily install insulation, waterproofing, fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors and other products for residential and commercial builders located in the continental United States. The Company operates in over 180 locations and its corporate office is located in Columbus, Ohio.

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

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

The COVID-19 pandemic has caused significant volatility, uncertainty and economic disruption. Many public health organizations and international, federal, state and local governments implemented measures to combat the spread of COVID-19 during portions of the first nine months of 2020 with some of these restrictions still in place as of the date of filing of this Quarterly Report on Form 10-Q. Some of these measures include restrictions on movement such as quarantines, “stay-at-home” orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. We do not believe the various orders and restrictions or COVID-19 itself significantly impacted our business in the first nine months of 2020. However, the extent to which COVID-19 will impact our future operations, customers, suppliers, employees and financial results is uncertain. The future impact of COVID-19 on our financial results depends on numerous factors including government actions and the resulting impact on construction activity, the effect on our customers’ demand for our services, and the ability of our customers to pay for our services.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Principles of Consolidation

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

The information furnished in the Condensed Consolidated Financial Statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”) have been omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to prevent the information presented from being misleading when read in conjunction with our audited consolidated financial statements and the notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the “2019 Form 10-K”), as filed with the SEC on February 27, 2020. The December 31, 2019 Condensed Consolidated Balance Sheet data herein was derived from the audited consolidated financial statements but does not include all disclosures required by U.S. GAAP.

Our interim operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected in future operating quarters.

Note 2 to the audited consolidated financial statements in our 2019 Form 10-K describes the significant accounting policies and estimates used in preparation of the audited consolidated financial statements. Other than the recently implemented accounting policies described below, there have been no changes to our significant accounting policies during the three or nine months ended September 30, 2020.

Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Pronouncements Not Yet Adopted

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

| Standard | Description | Effective Date | Effect on the financial statements or other significant matters |
| --- | --- | --- | --- |
| ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* | This pronouncement simplifies the accounting for income taxes by removing certain exceptions to the general principles of Topic 740 and improves the consistent application of GAAP by clarifying and amending existing guidance. | Annual periods beginning after December 15, 2020, including interim periods therein. Early adoption is permitted. | We are currently assessing the impact of adoption on our consolidated financial statements. |

**NOTE 3 - REVENUE RECOGNITION**

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. An insignificant portion of our sales, primarily retail sales, is accounted for on a point-in-time basis when the sale occurs, adjusted accordingly for any return provisions. We do offer assurance-type warranties on certain of our installed products and services that do not represent a separate performance obligation and, as such, do not impact the timing or extent of revenue recognition.

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

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

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

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| Residential new construction | $315,434 | 75% | $297,003 | 75% | $ 912,095 | 75% | $ 840,806 | 76% |
| Repair and remodel | 28,625 | 7% | 25,029 | 6% | 75,702 | 6% | 71,254 | 6% |
| Commercial | 76,427 | 18% | 74,417 | 19% | 223,959 | 19% | 198,338 | 18% |
| Net revenues | $420,486 | 100% | $396,449 | 100% | $1,211,756 | 100% | $1,110,398 | 100% |

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| Insulation | $268,292 | 64% | $253,311 | 64% | $ 779,045 | 64% | $ 710,005 | 64% |
| Waterproofing | 33,272 | 8% | 32,781 | 8% | 89,855 | 7% | 84,024 | 8% |
| Shower doors, shelving and mirrors | 29,282 | 7% | 27,011 | 7% | 85,199 | 7% | 77,828 | 7% |
| Garage doors | 24,001 | 6% | 22,336 | 6% | 68,655 | 6% | 65,790 | 6% |
| Rain gutters | 17,295 | 4% | 13,366 | 3% | 41,942 | 4% | 37,561 | 3% |
| Window blinds | 12,166 | 3% | 10,615 | 3% | 34,651 | 3% | 30,780 | 3% |
| Other building products | 36,178 | 8% | 37,029 | 9% | 112,409 | 9% | 104,410 | 9% |
| Net revenues | $420,486 | 100% | $396,449 | 100% | $1,211,756 | 100% | $1,110,398 | 100% |

Contract Assets and Liabilities

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

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Contract assets | $ 22,328 | $ 22,138 |
| Contract liabilities | (11,237) | (8,888) |

Uncompleted contracts were as follows (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 136,522 | $ 110,818 |
| Estimated earnings | 75,338 | 61,185 |
| Total | 211,860 | 172,003 |
| Less: Billings to date | 196,640 | 155,599 |
| Net under billings | $ 15,220 | $ 16,404 |

Net under billings were as follows (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets) | $ 22,328 | $ 22,138 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) | (7,108) | (5,734) |
| Net under billings | $ 15,220 | $ 16,404 |

The difference between contract assets and contract liabilities as of September 30, 2020 compared to December 31, 2019 is primarily the result of timing differences between our performance of obligations under contracts and customer payments. During the three and nine months ended September 30, 2020, we recognized $0.2 million and $7.7 million of revenue, respectively, that was included in the contract liability balance at December 31, 2019. We did not recognize any impairment losses on our receivables and contract assets during the three and nine months ended September 30, 2020 or 2019.

Remaining performance obligations represent the transaction price of contracts for which work has not been performed and excludes unexercised contract options and potential modifications. As of September 30, 2020, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was $71.3 million. We expect to satisfy remaining performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

Practical Expedients and Exemptions

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

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

## NOTE 4 - CREDIT LOSSES

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

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

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

To date, the COVID-19 pandemic has not yet had a material impact on the collectability of our existing trade receivables.

Changes in our allowance for credit losses were as follows (in thousands):

| | |
|---|---|
| Balance as of January 1, 2020 | $ 6,878 |
| Cumulative effect of change in accounting principle | 1,600 |
| Current period provision | 3,839 |
| Recoveries collected and other | 466 |
| Amounts written off | (3,417) |
| Balance as of September 30, 2020 | $ 9,366 |

## NOTE 5 - INVESTMENTS

Cash and cash equivalents includes investments in money market funds that are valued based on the net asset value of the funds. The investments in these funds were $170.3 million and $99.2 million as of September 30, 2020 and December 31, 2019, respectively.

All other investments are classified as held-to-maturity and typically consist of highly liquid instruments, including corporate bonds and commercial paper. As of September 30, 2020 and December 31, 2019, the amortized cost of these investments equaled the net carrying value, which was $1.2 million and $38.0 million, respectively. All held-to-maturity securities as of September 30, 2020 mature in one year or less. See Note 9, Fair Value Measurements, for additional information.

## NOTE 6 - GOODWILL AND INTANGIBLES

We anticipate that the COVID-19 pandemic could continue to have an impact on the homebuilding industry in general, as it could result in further business interruptions (government-mandated or otherwise) and could affect, among other factors, employment levels, consumer spending and consumer confidence, which could decrease demand for homes, adversely affecting our business. As such, we considered whether impairment indicators arose through the date of filing of this Quarterly Report on Form 10-Q for our goodwill, long-lived assets and other intangible assets and concluded that no such factors exist. While we ultimately concluded that our goodwill, long-lived assets and other intangibles assets were not impaired as of September 30, 2020, we will continue to assess impairment indicators related to the impact of the COVID-19 pandemic on our business.

Goodwill

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

| | Goodwill (Gross) | Accumulated Impairment Losses | Goodwill (Net) |
|---|---|---|---|
| January 1, 2020 | $265,656 | $ (70,004) | $195,652 |
| Business Combinations | 11,250 | — | 11,250 |
| Other | (120) | — | (120) |
| September 30, 2020 | $276,786 | $ (70,004) | $206,782 |

Other changes included in the above table include minor adjustments for the purchase price allocation of certain acquisitions still under measurement. For additional information regarding changes to goodwill resulting from acquisitions, see Note 16, Business Combinations.

We test goodwill for impairment annually during the fourth quarter of our fiscal year or earlier if there is an impairment indicator. Accumulated impairment losses included within the above table were incurred over multiple periods, with the latest impairment charge being recorded during the year ended December 31, 2010.

Intangibles, net

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

| | As of September 30, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Amortized intangibles: | | | | | | |
| Customer relationships | $184,562 | $ 83,719 | $100,843 | $169,334 | $ 69,388 | $ 99,946 |
| Covenants not-to-compete | 18,944 | 12,761 | 6,183 | 16,959 | 10,617 | 6,342 |
| Trademarks and tradenames | 73,543 | 26,042 | 47,501 | 69,718 | 22,609 | 47,109 |
| Backlog | 15,256 | 14,385 | 871 | 14,080 | 13,915 | 165 |
| | $292,305 | $ 136,907 | $155,398 | $270,091 | $ 116,529 | $153,562 |

The gross carrying amount of intangibles increased approximately $22.2 million during the nine months ended September 30, 2020 primarily due to business combinations. For more information, see Note 16, Business Combinations. Remaining estimated aggregate annual amortization expense is as follows (amounts, in thousands, are for the fiscal year ended):

| | |
|---|---|
| Remainder of 2020 | $ 7,069 |
| 2021 | 27,621 |
| 2022 | 26,037 |
| 2023 | 23,126 |
| 2024 | 19,611 |
| Thereafter | 51,934 |

**NOTE 7 - LONG-TERM DEBT**

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

| | As of September 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Senior Notes due 2028, net of unamortized debt issuance costs of $4,380 and $4,823, respectively | $ 295,620 | $ 295,177 |
| Term loan, net of unamortized debt issuance costs of $1,426 and $1,662, respectively | 198,574 | 198,338 |
| Vehicle and equipment notes, maturing through September 2025; payable in various monthly installments, including interest rates ranging from 1.9% to 4.8% | 70,846 | 72,714 |
| Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 2.0% to 6.0% | 3,392 | 2,966 |
| | 568,432 | 569,195 |
| Less: current maturities | (24,156) | (24,164) |
| Long-term debt, less current maturities | $ 544,276 | $ 545,031 |

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Remaining required repayments of debt principal, gross of unamortized debt issuance costs, as of September 30, 2020 are as follows (in thousands):

| | |
|---|---|
| Remainder of 2020 | $ 6,757 |
| 2021 | 22,694 |
| 2022 | 18,962 |
| 2023 | 13,760 |
| 2024 | 7,839 |
| Thereafter | 504,226 |

5.75% Senior Notes due 2028

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

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

Credit Facilities

In December 2019, we amended and restated our $400 million, seven-year term loan facility due April 2025 (the "Term Loan") under our credit agreement (the "Term Loan Agreement"), dated as of April 13, 2017 (as previously amended by the First Amendment thereto dated November 30, 2017 and by the Second Amendment thereto dated June 19, 2018). The amended Term Loan (i) effects a repricing of the interest rate applicable to the term loans thereunder from LIBOR plus 2.50% to LIBOR plus 2.25% and (ii) replaces Royal Bank of Canada with Bank of America, N.A. as the administrative agent and collateral agent thereunder. As of September 30, 2020, we had $198.6 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.25% in the case of base rate loans.

In September 2019, we entered into a new asset-based lending credit agreement (the "ABL Credit Agreement"). The ABL Credit Agreement provides for an asset-based lending credit facility (the "ABL Revolver") of up to $200.0 million with a five-year maturity, which replaced the Company's previous revolving credit facility. Borrowing availability under the ABL Revolver is based on a percentage of the value of certain assets securing the Company's obligations and those of the subsidiary guarantors thereunder. In connection with the Amended and Restated Term Loan, we entered into a Second Amendment (the "Second Amendment") to the ABL/Term Loan Intercreditor Agreement with Bank of America, N.A., as ABL Agent for the lenders under the ABL Credit Agreement, and Bank of America, N.A., as Term Loan Agent for the lenders under the Amended and Restated Term Loan. Including outstanding letters of credit, our remaining availability under the ABL Revolver as of September 30, 2020 was $161.3 million.

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

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

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

The ABL Credit Agreement contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.0x in the event that we do not meet a minimum measure of availability under the ABL Revolver.

Vehicle and Equipment Notes

We are party to a Master Loan and Security Agreement ("Master Loan and Security Agreement"), a Master Equipment Lease Agreement ("Master Equipment Agreement") and one or more Master Loan Agreements ("Master Loan Agreements" and together with the Master Loan and Security Agreement and Master Equipment Agreement the "Master Loan Equipment Agreements") with various lenders to provide financing for the purpose of purchasing or leasing vehicles and equipment used in the normal course of business. Each financing arrangement under these agreements constitutes a separate note and obligation. Vehicles and equipment purchased or leased under each financing arrangement serve as collateral for the note applicable to such financing arrangement. Regular payments are due under each note for a period of typically 60 consecutive months after the incurrence of the obligation. The specific terms of each note are based on specific criteria, including the type of vehicle or equipment and the market interest rates at the time. No termination date applies to these agreements. As of September 30, 2020, approximately $67.7 million of the various loan agreements was available for purchases of equipment.

Total gross assets relating to our Master Loan and Equipment Agreements were $134.4 million and $130.2 million as of September 30, 2020 and December 31, 2019, respectively. The net book value of assets under these agreements was $66.2 million and $68.2 million as of September 30, 2020 and December 31, 2019, respectively. Depreciation of assets held under these agreements is included within cost of sales on the Condensed Consolidated Statements of Operations and Comprehensive Income.

## NOTE 8 - LEASES

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

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| (in thousands) | Classification | As of September 30, 2020 | As of December 31, 2019 |
|---|---|---|---|
| **Assets** | | | |
| Non-Current | | | |
| Operating | Operating lease right-of-use assets | $ 50,873 | $ 45,691 |
| Finance | Property and equipment, net | 5,598 | 7,148 |
| Total lease assets | | $ 56,471 | $ 52,839 |
| **Liabilities** | | | |
| Current | | | |
| Operating | Current maturities of operating lease obligations | $ 17,875 | $ 15,459 |
| Financing | Current maturities of finance lease obligations | 2,268 | 2,747 |
| Non-Current | | | |
| Operating | Operating lease obligations | 32,431 | 29,785 |
| Financing | Finance lease obligations | 2,747 | 3,597 |
| Total lease liabilities | | $ 55,321 | $ 51,588 |
| Weighted-average remaining lease term: | | | |
| Operating leases | | 4.2 years | |
| Finance leases | | 2.7 years | |
| Weighted-average discount rate: | | | |
| Operating leases | | 3.91% | |
| Finance leases | | 5.02% | |

Lease Costs

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

| (in thousands) | Classification | Three months ended September 30, 2020 | Three months ended September 30, 2019 | Nine months ended September 30, 2020 | Nine months ended September 30, 2019 |
|---|---|---|---|---|---|
| Operating lease cost [1] | Administrative | $ 5,760 | $ 5,225 | $ 16,972 | $ 15,266 |
| Finance lease cost | | | | | |
| Amortization of leased assets [2] | Cost of sales | 856 | 1,144 | 2,762 | 3,955 |
| Interest on finance lease obligations | Interest expense, net | 64 | 84 | 207 | 268 |
| Total lease costs | | $ 6,680 | $ 6,453 | $ 19,941 | $ 19,489 |

(1) Includes variable lease costs of $0.6 million and $0.5 million for the three months ended September 30, 2020 and 2019, respectively, and $1.9 million and $1.5 million for the nine months ended September 30, 2020 and 2019, respectively, and short-term lease costs of $0.2 million for each of the three months ended September 30, 2020 and 2019, respectively, and $0.6 million for each of the nine months ended September 30, 2020 and 2019, respectively.

(2) Includes variable lease costs of $0.2 million for each of the three months ended September 30, 2020 and 2019, respectively, and $0.6 million and $0.7 million for the nine months ended September 30, 2020 and 2019, respectively.

Other Information

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows for operating leases | $ 4,949 | $ 4,488 | $ 14,501 | $ 13,009 |
| Operating cash flows for finance leases | 64 | 84 | 207 | 268 |
| Financing cash flows for finance leases | 606 | 917 | 1,998 | 3,398 |

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years for the finance lease obligations and operating lease obligations recorded on the Condensed Consolidated Balance Sheet as of September 30, 2020 (in thousands):

| | Finance Leases | Operating Leases | | |
|---|---|---|---|---|
| | | Related Party | Other | Total Operating |
| Remainder of 2020 | $ 761 | $ 302 | $ 4,817 | $ 5,159 |
| 2021 | 2,203 | 1,061 | 17,319 | 18,340 |
| 2022 | 1,209 | 986 | 11,598 | 12,584 |
| 2023 | 848 | 534 | 6,467 | 7,001 |
| 2024 | 434 | 548 | 3,135 | 3,683 |
| Thereafter | 69 | 1,086 | 6,924 | 8,010 |
| Total minimum lease payments | 5,524 | $ 4,517 | $50,260 | 54,777 |
| Less: Amounts representing executory costs | (103) | | | — |
| Less: Amounts representing interest | (406) | | | (4,471) |
| Present value of future minimum lease payments | 5,015 | | | 50,306 |
| Less: Current obligation under leases | (2,268) | | | (17,875) |
| Long-term lease obligations | $ 2,747 | | | $ 32,431 |

**NOTE 9 - FAIR VALUE MEASUREMENTS**

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets, specifically other intangible and long-lived assets, are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. Assets measured at fair value on a nonrecurring basis as of September 30, 2020 and December 31, 2019 are categorized based on the lowest level of significant input to the valuation. The assets are measured at fair value when our impairment assessment indicates a carrying value for each of the assets in excess of the asset's estimated fair value. Undiscounted cash flows, a Level 3 input, are utilized in determining estimated fair values. During each of the three and nine months ended September 30, 2020 and 2019, we did not record any impairments on these assets required to be measured at fair value on a nonrecurring basis.

Estimated Fair Value of Financial Instruments

Accounts receivable, accounts payable and accrued liabilities as of September 30, 2020 and December 31, 2019 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of certain long-term debt, including the Term Loan and ABL Revolver as of September 30, 2020 and December 31, 2019, approximate fair value due to the variable rate nature of the agreements. The carrying amounts of our operating lease right-of-use assets and the obligations associated with our operating and finance leases as well as our vehicle and equipment notes approximate fair value as of September 30, 2020 and December 31, 2019. All debt classifications represent Level 2 fair value measurements.

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| | As of September 30, 2020 | | | | As of December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | | | | |
| Cash equivalents | $170,307 | $170,307 | $ — | $ — | $99,242 | $99,242 | $ — | $ — |
| Derivative financial instruments | 1,759 | — | 1,759 | — | — | — | — | — |
| Total financial assets | $172,066 | $170,307 | $1,759 | $ — | $99,242 | $99,242 | $ — | $ — |
| Financial liabilities: | | | | | | | | |
| Contingent consideration | $ 3,363 | $ — | $ — | $3,363 | $ 3,854 | $ — | $ — | $3,854 |
| Derivative financial instruments | 129 | — | 129 | — | 9,446 | — | 9,446 | — |
| Total financial liabilities | $ 3,492 | $ — | $ 129 | $3,363 | $13,300 | $ — | $9,446 | $3,854 |

See Note 5, Investments, for more information on cash equivalents included in the table above. Also see Note 10, Derivatives and Hedging Activities, for more information on derivative financial instruments.

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

| | |
|---|---|
| Contingent consideration liability - January 1, 2020 | $ 3,854 |
| Preliminary purchase price | 2,000 |
| Fair value adjustments | (360) |
| Accretion in value | 532 |
| Amounts cancelled | (30) |
| Amounts paid to sellers | (2,633) |
| Contingent consideration liability - September 30, 2020 | $ 3,363 |

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

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

| | As of September 30, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Investments | $ 1,220 | $ 1,221 | $ 37,961 | $ 37,958 |
| Senior Notes[1] | 300,000 | 316,215 | 300,000 | 321,114 |

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

See Note 5, Investments, for more information on investments included in the table above. Also see Note 7, Debt, for more information on our Senior Notes.

## NOTE 10 - DERIVATIVES AND HEDGING ACTIVITIES

Cash Flow Hedges of Interest Rate Risk

Our purpose for using interest rate derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. During the nine months ended September 30, 2020, we used interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We do not use derivatives for trading or speculative purposes and we currently do not have any derivatives that are not designated as hedges. As of September 30, 2020, we have not posted any collateral related to these agreements.

During the three months ended September 30, 2020, we terminated our two existing interest rate swaps and our forward interest rate swap and simultaneously entered into a new forward interest rate swap beginning July 30, 2021. We settled the terminated swaps by making a cash payment of $17.8 million. This payment is classified within cash flows from operating activities within the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020, pursuant to company policy. The unrealized loss included in accumulated other comprehensive loss associated with the terminated swaps of $17.8 million at the time of termination will be amortized to interest expense over the course of the originally scheduled settlement dates of the terminated swaps. During the three and nine months ended September 30, 2020, we amortized $0.6 million of the unrealized loss to interest expense, net. The new forward interest rate swap has a beginning notional of $200.0 million, a fixed rate of 0.51% and a maturity date of April 15, 2030. Upon commencement, this forward swap will serve to hedge substantially all of the variable cash flows on our Term Loan until its maturity and if extended. The assets and liabilities associated with the forward interest rate swap are included in other long-term assets and other current liabilities on the Condensed Consolidated Balance Sheets at their fair value amounts as described in Note 9, Fair Value Measurements.

The changes in the fair value of derivatives designated, and that qualify, as cash flow hedges are recorded in other comprehensive income, net of tax on the Condensed Consolidated Statements of Operations and Comprehensive Income and in accumulated other comprehensive income on the Condensed Consolidated Balance Sheets and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. We had no such changes during the nine months ended September 30, 2020 or 2019.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense, net as interest payments are made on our variable-rate debt when the forward interest rate swap begins and as the unrealized loss on our terminated swaps is amortized. Over the next twelve months, we estimate that an additional $3.4 million will be reclassified as an increase to interest expense, net.

LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During the nine months ended September 30, 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

## NOTE 11 - STOCKHOLDERS’ EQUITY

As of September 30, 2020 and December 31, 2019, we had losses of $11.7 million and $7.1 million, respectively, in accumulated other comprehensive loss on our Condensed Consolidated Balance Sheets. The loss as of September 30, 2020 represented the unrealized loss on our terminated interest rate swaps of $12.9 million, net of taxes, less the effective portion of the unrealized gain on our forward interest rate swap of $1.2 million, net of taxes. The loss as of December 31, 2019 represented the effective portion of the unrealized loss on our now-terminated derivative instruments. For additional information, see Note 10, Derivatives and Hedging Activities.

During the nine months ended September 30, 2020, we repurchased approximately 443 thousand shares of our common stock with an aggregate price of approximately $15.8 million, or $35.59 average price per share. We did not repurchase any shares during the nine months ended September 30, 2019. The stock repurchase plan is in effect through March 1, 2021 unless extended by our board of directors. The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation. As of September 30, 2020, we have $44.9 million remaining on our current stock repurchase program. In response to COVID-19, we temporarily suspended our share repurchase program. Given the current state of our business and our markets, effective November 9, 2020, our share repurchase program will be reinstated.

**NOTE 12 - EMPLOYEE BENEFITS**

Healthcare

We participate in multiple healthcare plans, the largest of which is partially self-funded with an insurance company paying benefits in excess of stop loss limits per individual/family. Our healthcare benefit expense (net of employee contributions) was approximately $5.5 million and $5.6 million for the three months ended September 30, 2020 and 2019, respectively, and $18.2 million and $15.7 million for the nine months ended September 30, 2020 and 2019, respectively, for all plans. An accrual for estimated healthcare claims incurred but not reported (“IBNR”) is included within accrued compensation on the Condensed Consolidated Balance Sheets and was $3.2 million and $2.6 million as of September 30, 2020 and December 31, 2019, respectively.

Workers’ Compensation

Workers’ compensation expense totaled $4.1 million and $4.0 million for the three months ended September 30, 2020 and 2019, respectively, and $11.4 million and $11.8 million for the nine months ended September 30, 2020 and 2019, respectively. Workers’ compensation known claims and IBNR reserves included on the Condensed Consolidated Balance Sheets were as follows (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Included in other current liabilities | $ 6,341 | $ 6,777 |
| Included in other long-term liabilities | 12,575 | 10,874 |
| | $ 18,916 | $ 17,651 |

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Included in other non-current assets | $ 1,857 | $ 2,098 |

Retirement Plans

We participate in multiple 401(k) plans, whereby we provide a matching contribution of wages deferred by employees and can also make discretionary contributions to each plan. Certain plans allow for discretionary employer contributions only. These plans cover substantially all our eligible employees. We recognized 401(k) plan expenses of $0.4 million and $0.5 million during the three months ended September 30, 2020 and 2019, respectively, and $1.6 million and $1.5 million during the nine months ended September 30, 2020 and 2019, respectively. These expenses are included in administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income.

Share-Based Compensation

*Common Stock Awards*

We periodically grant shares of our common stock to non-employee members of our board of directors and our employees. During the nine months ended September 30, 2020 and 2019, we granted approximately six thousand and eight thousand shares of our common stock, respectively, under our 2014 Omnibus Incentive Plan to non-employee members of our board of directors. Substantially all of the stock will vest over a one year service period. Accordingly, we recorded $0.1 million and $0.2 million in compensation expense during the three and nine months ended September 30, 2020, respectively and $0.1 million and $0.3 million for the three and nine months ended September 30, 2019, respectively.

In addition, we granted approximately 0.2 million and 0.1 million shares of our common stock to employees during the nine months ended September 30, 2020 and 2019, respectively. We recorded $1.0 million and $3.0 million of compensation expense associated with non-performance-based awards issued to employees during the three and nine months ended September 30, 2020, respectively, and $1.0 million and $3.3 million for the three and nine months ended September 30, 2019, respectively.

During the nine months ended September 30, 2020 and 2019, our employees surrendered approximately 25 thousand and 45 thousand shares of our common stock, respectively, to satisfy tax withholding obligations arising in connection with the vesting of common stock awards issued under our 2014 Omnibus Incentive Plan. We recognized a tax shortfall of $0.3 million for the nine months ended September 30, 2020 and we recognized windfall tax benefits of $0.3 million for the nine months ended September 30, 2019 within the income tax provision in the Condensed Consolidated Statements of Operations and Comprehensive Income.

As of September 30, 2020, we had $7.1 million of unrecognized compensation expense related to these nonvested common stock awards issued to non-employee members of our board of directors and our employees. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of 2.0 years. Shares forfeited are returned as treasury shares and available for future issuances. See the table below for changes in shares and related weighted average grant date fair value per share.

*Employees – Performance-Based Stock Awards*

During the nine months ended September 30, 2020, we issued under our 2014 Omnibus Incentive Plan approximately 0.1 million shares of our common stock to certain officers, which vest in two equal installments on each of April 20, 2021 and April 20, 2022. In addition, during the nine months ended September 30, 2020, we established, and our Board of Directors approved, performance-based targets in connection with common stock awards to be issued to certain officers in 2021 contingent upon achievement of these targets. Share-based compensation expense associated with these performance-based awards and prior performance-based grants was $0.9 million and $2.8 million for the three and nine months ended September 30, 2020, respectively, and $0.8 million and $2.3 million for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2020, we had $5.0 million of unrecognized compensation expense related to nonvested performance-based common stock awards. This expense is subject to future adjustments for forfeitures and is expected to be recognized over the remaining weighted-average period of 1.8 years using the graded-vesting method. See the table below for changes in shares and related weighted average grant date fair value per share.

In addition, there are long-term performance-based restricted stock awards to be issued to certain employees annually through 2022 contingent upon achievement of certain performance targets. These awards are accounted for as liability-based awards since they represent a predominantly-fixed monetary amount that will be settled with a variable number of common shares and as such are included in other long-term liabilities on the Consolidated Balance Sheets. During the three and nine months ended September 30, 2020, we recorded $0.5 million and $1.2 million in compensation expense, respectively, associated with these performance-based awards, and we recorded $0.1 million in compensation expense during the nine months ended September 30, 2019.

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*Employees – Performance-Based Restricted Stock Units*

During 2019, we established, and our board of directors approved, performance-based restricted stock units in connection with common stock awards which were issued to certain employees in 2020 based upon achievement of a performance target. In addition, during the nine months ended September 30, 2020, we established, and our board of directors approved, performance-based restricted stock units in connection with common stock awards to be issued to certain employees in 2021 based upon achievement of a performance target. These units will be accounted for as equity-based awards that will be settled with a fixed number of common shares. We recorded $0.1 million and $0.4 million in compensation expense associated with these performance-based units during the three and nine months ended September 30, 2020, respectively, and $0.2 million and $0.5 million for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2020, we had $0.3 million of unrecognized compensation expense related to nonvested performance-based common stock units. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of 0.5 years. See the table below for changes in shares and related weighted average grant date fair value per share.

*Share-Based Compensation Summary*

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

| | Common Stock Awards | | Performance-Based Stock Awards | | Performance-Based Restricted Stock Units | |
|---|---|---|---|---|---|---|
| | Awards | Weighted Average Grant Date Fair Value Per Share | Awards | Weighted Average Grant Date Fair Value Per Share | Units | Weighted Average Grant Date Fair Value Per Share |
| Nonvested awards/units at December 31, 2019 | 152,882 | $ 52.93 | 160,289 | $ 50.49 | 13,186 | $ 51.62 |
| Granted | 159,876 | 40.02 | 57,450 | 77.28 | 13,655 | 36.51 |
| Vested | (90,870) | 49.69 | (54,502) | 51.43 | (13,077) | 51.50 |
| Forfeited/Cancelled | (4,023) | 46.76 | — | — | (491) | 42.94 |
| Nonvested awards/units at September 30, 2020 | 217,865 | $ 44.93 | 163,237 | $ 59.57 | 13,273 | $ 36.51 |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of sales | $ 60 | $ 97 | $ 221 | $ 280 |
| Selling | 45 | 48 | 154 | 149 |
| Administrative | 2,530 | 1,954 | 7,675 | 6,012 |
| | $2,635 | $ 2,099 | $8,050 | $6,441 |

Administrative stock compensation expense includes all stock compensation earned by our administrative personnel, while cost of sales and selling stock compensation represents all stock compensation earned by our installation and sales employees, respectively. The difference between the sum of the expenses described above and the amount in the table is comprised of expenses related to immaterial nonrecurring awards.

As of September 30, 2020, approximately 2.0 million of the 3.0 million shares of common stock authorized for issuance were available for issuance under the 2014 Omnibus Incentive Plan.

## NOTE 13 - INCOME TAXES

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

During the three and nine months ended September 30, 2020, our effective tax rate was 25.8% and 26.2%, respectively. The rates were unfavorably impacted by separate tax filing entities in a loss position for which a full valuation allowance is required, resulting in no tax benefit for recognized losses. The rate for the nine months ended September 30, 2020 was also impacted by recognition of a shortfall tax from equity vesting.

## NOTE 14 - RELATED PARTY TRANSACTIONS

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

We lease our headquarters and certain other facilities from related parties. See Note 8, Leases, for future minimum lease payments to be paid to these related parties.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Sales | $ 373 | $ 3,736 | $ 3,761 | $ 9,658 |
| Purchases | 331 | 469 | 1,457 | 1,327 |
| Rent | 297 | 256 | 867 | 773 |

We had a related party balance of approximately $0.5 million and $1.7 million included in accounts receivable on our Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019, respectively. These balances primarily represent trade accounts receivable arising during the normal course of business with various related parties. M/I Homes, Inc., a customer whose Chairman, President and Chief Executive Officer was a member of our board of directors until his resignation from our board effective March 18, 2020, accounted for $1.3 million of the related party accounts receivable balance as of December 31, 2019. Additionally, M/I Homes, Inc. accounted for a significant portion of the related party sales during the nine months ended September 30, 2020, all of which occurred during the first quarter of the year.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

Accrued General Liability and Auto Insurance

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Included in other current liabilities | $ 4,382 | $ 3,538 |
| Included in other long-term liabilities | 17,914 | 18,184 |
| | $ 22,296 | $ 21,722 |

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Insurance receivables and indemnification assets for claims under fully insured policies | $ 4,060 | $ 7,491 |
| Insurance receivables for claims that exceeded the stop loss limit | 328 | 2,321 |
| Total insurance receivables and indemnification assets included in other non-current assets | $ 4,388 | $ 9,812 |

Leases

See Note 8, Leases, for further information regarding our lease commitments.

Other Commitments and Contingencies

From time to time, various claims and litigation are asserted or commenced against us principally arising from contractual matters and personnel and employment disputes. In determining loss contingencies, management considers the likelihood of loss as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is considered probable that such a liability has been incurred and when the amount of loss can be reasonably estimated. As litigation is subject to inherent uncertainties, we cannot be certain that we will prevail in these matters. However, we do not believe that the ultimate outcome of any pending matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

During the year ended December 31, 2018, we entered into an agreement with one of our suppliers to purchase a portion of the insulation materials we utilize across our business. This agreement is effective January 1, 2019 through December 31, 2021 with a purchase obligation of $22.6 million for 2020 and $15.0 million for 2021. For the nine months ended September 30, 2020, we have satisfied $9.1 million of our purchase obligation under this agreement.

**NOTE 16 - BUSINESS COMBINATIONS**

As part of our ongoing strategy to expand geographically and increase market share in certain markets, we completed five business combinations during the nine months ended September 30, 2020 and four business combinations and four insignificant tuck-in acquisitions merged into existing operations during the nine months ended September 30, 2019, in which we acquired 100% of the voting equity interests in each.

The largest of these acquisitions were Royals Commercial Services, Inc. ("Royals") in February 2020, Storm Master Gutters ("Storm Master") in August 2020, Energy One America, LLC ("Energy One") in August 2020, 1st State Insulation, LLC ("1st State Insulation") in March 2019 and Expert Insulation of Brainerd, Inc. (collectively "Expert Insulation") in June 2019. Below is a summary of each significant acquisition by year, including revenue and net income/(loss) since date of acquisition, shown for the year of acquisition. Where noted, "Other" represents acquisitions that were individually immaterial in that year. Net income/(loss), as noted below, includes amortization, taxes and interest allocations when appropriate.

For the three and nine months ended September 30, 2020 (in thousands):

| | | | | | | Three months ended September 30, 2020 | | Nine months ended September 30, 2020 | |
|---|---|---|---|---|---|---|---|---|---|
| 2020 Acquisitions | Date | Acquisition Type | Cash Paid | Seller Obligations | Total Purchase Price | Revenue | Net Income (Loss) | Revenue | Net Income (Loss) |
| Royals | 2/29/2020 | Asset | $ 7,590 | $ 2,500 | $ 10,090 | $ 2,843 | $ 279 | $ 6,650 | $ 628 |
| Energy One | 8/10/2020 | Asset | 13,200 | 1,591 | 14,791 | 2,853 | (202) | 2,853 | (202) |
| Storm Master | 8/31/2020 | Asset | 13,000 | 1,336 | 14,336 | 2,055 | 85 | 2,055 | 85 |
| Other | Various | Asset | 5,035 | 1,538 | 6,573 | 1,879 | (252) | 2,643 | (291) |
| | | | $38,825 | $ 6,965 | $ 45,790 | $ 9,630 | $ (90) | $ 14,201 | $ 220 |

INSTALLED BUILDING PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2019 (in thousands):

| | | | | | | Three months ended September 30, 2019 | | Nine months ended September 30, 2019 | |
|---|---|---|---|---|---|---|---|---|---|
| 2019 Acquisitions | Date | Acquisition Type | Cash Paid | Seller Obligations | Total Purchase Price | Revenue | Net Income | Revenue | Net Income |
| 1st State Insulation | 3/18/2019 | Asset | $ 5,125 | $ 1,355 | $ 6,480 | $ 3,156 | $ 174 | $ 6,586 | $ 374 |
| Expert Insulation | 6/24/2019 | Asset | 16,165 | 1,993 | 18,158 | 3,147 | 193 | 3,339 | 160 |
| Other | Various | Asset | 3,450 | 974 | 4,424 | 7,262 | 591 | 7,262 | 591 |
| | | | $24,740 | $ 4,322 | $ 29,062 | $13,565 | $ 958 | $17,187 | $ 1,125 |

Acquisition-related costs recorded within administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income amounted to $0.8 million and $2.0 million for the three and nine months ended September 30, 2020 respectively, and $0.3 million and $1.3 million for the three and nine months ended September 30, 2019, respectively. The goodwill recognized in conjunction with these business combinations represents the excess cost of the acquired entity over the net amount assigned to assets acquired and liabilities assumed. We expect to deduct approximately $11.3 million of goodwill for tax purposes as a result of 2020 acquisitions.

Purchase Price Allocations

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

| | As of September 30, 2020 | | | | | As of September 30, 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Royals | Energy One | Storm Master | Other | Total | 1st State | Expert | Other | Total |
| Estimated fair values: | | | | | | | | | |
| Accounts receivable | $ 2,848 | $ 3,657 | $ 2,362 | $1,370 | $10,237 | $ — | $ 1,796 | $ 254 | $ 2,050 |
| Inventories | 305 | 838 | 175 | 278 | 1,596 | 291 | 723 | 338 | 1,352 |
| Other current assets | 430 | 12 | — | 145 | 587 | — | — | 3 | 3 |
| Property and equipment | 598 | 2,319 | 798 | 350 | 4,065 | 989 | 235 | 667 | 1,891 |
| Intangibles | 3,930 | 6,500 | 8,720 | 2,996 | 22,146 | 3,382 | 6,740 | 2,242 | 12,364 |
| Goodwill | 3,015 | 2,859 | 3,631 | 1,745 | 11,250 | 1,857 | 8,545 | 930 | 11,332 |
| Other non-current assets | 58 | — | — | 16 | 74 | — | 161 | 13 | 174 |
| Accounts payable and other current liabilities | (1,059) | (1,375) | (1,336) | (196) | (3,966) | (39) | (42) | (23) | (104) |
| Deferred income tax liabilities | (35) | — | — | — | (35) | — | — | — | — |
| Other long-term liabilities | — | (19) | (14) | (131) | (164) | — | — | — | — |
| Fair value of assets acquired and purchase price | 10,090 | 14,791 | 14,336 | 6,573 | 45,790 | 6,480 | 18,158 | 4,424 | 29,062 |
| Less seller obligations | 2,500 | 1,591 | 1,336 | 1,538 | 6,965 | 1,355 | 1,993 | 974 | 4,322 |
| Cash paid | $ 7,590 | $ 13,200 | $ 13,000 | $5,035 | $38,825 | $5,125 | $16,165 | $3,450 | $24,740 |

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

Further adjustments to the allocation for each acquisition still under its measurement period are expected as third-party or internal valuations are finalized, certain tax aspects of the transaction are completed, contingent consideration is settled and customary post-closing reviews are concluded during the measurement period attributable to each individual business combination. As a result, insignificant adjustments to the fair value of assets acquired, and in some cases total purchase price, have been made to certain business combinations since the date of

acquisition and future adjustments may be made through the end of each measurement period. Goodwill and intangibles per the above table may not agree to the total gross increases of these assets as shown in Note 6, Goodwill and Intangibles, during each of the nine months ended September 30, 2020 and 2019 due to minor adjustments to goodwill for the allocation of certain acquisitions still under measurement as well as other immaterial intangible assets added during the ordinary course of business. In addition, goodwill and intangibles increased during the nine months ended September 30, 2019 due to small tuck-in acquisitions merged into existing operations that do not appear in the above table as discussed above.

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

| | For the nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Acquired intangibles assets | Estimated Fair Value | Weighted Average Estimated Useful Life (yrs.) | Estimated Fair Value | Weighted Average Estimated Useful Life (yrs.) |
| Customer relationships | $14,528 | 8 | $ 8,566 | 8 |
| Trademarks and trade names | 3,796 | 15 | 2,615 | 15 |
| Non-competition agreements | 1,946 | 5 | 1,183 | 5 |
| Backlog | 1,876 | 1.5 | — | — |

Pro Forma Information

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

| | Unaudited pro forma for the three months ended September 30, | | Unaudited pro forma for the nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net revenue | $ 426,601 | $ 421,270 | $ 1,241,506 | $ 1,189,470 |
| Net income | 28,183 | 22,627 | 69,656 | 52,828 |
| Basic net income per share | 0.96 | 0.76 | 2.36 | 1.78 |
| Diluted net income per share | 0.95 | 0.76 | 2.34 | 1.77 |

Unaudited pro forma net income reflects additional intangible asset amortization expense of $0.3 million and $1.8 million for the three and nine months ended September 30, 2020, respectively, and $1.4 million and $4.8 million for the three and nine months ended September 30, 2019, respectively, as well as additional income tax expense of $38 thousand and $0.1 million for the three and nine months ended September 30, 2020 and $0.5 million and $1.3 million for the three and nine months ended September 30, 2019, respectively, that would have been recorded had the 2020 acquisitions taken place on January 1, 2019 and the 2019 acquisitions taken place on January 1, 2018.

**NOTE 17 - INCOME PER COMMON SHARE**

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

Diluted net income per common share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method. Potential common stock is included in the diluted income per common share calculation when dilutive. The dilutive

effect of outstanding restricted stock awards after application of the treasury stock method was 219 thousand and 188 thousand shares for the three and nine months ended September 30, 2020, respectively, and 92 thousand and 98 thousand for the three and nine months ended September 30, 2019, respectively. Approximately 500 shares of potential common stock was not included in the calculation of diluted net income per common share for the nine months ended September 30, 2020 because the effect would have been anti-dilutive.

**NOTE 18 - SUBSEQUENT EVENT**

On October 13, 2020, we acquired substantially all of the assets of Insulation Contractors/Magellan Insulation, known within its local markets as Icon, for total consideration of approximately $18.1 million and on October 26, 2020, we acquired substantially all of the assets of Norkote, Inc for total consideration of approximately $9.0 million. The initial accounting for the business combinations was not complete at the time the financial statements were issued due to the timing of the acquisitions and the filing of this Quarterly Report on Form 10-Q. As a result, disclosures required under ASC 805-10-50, Business Combinations cannot be made at this time.

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

*This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and related notes in "Item 1. Financial Statements" of this Form 10-Q, as well as our 2019 Form 10-K.*

### OVERVIEW

We are one of the nation's largest insulation installers for the residential new construction market and are also a diversified installer of complementary building products, including waterproofing, fire-stopping and fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving, mirrors and other products throughout the United States. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects in all 48 continental states and the District of Columbia from our national network of over 180 branch locations. Substantially all of our net revenue comes from service-based installation of these products in the residential new construction, repair and remodel and commercial construction end markets. We believe our business is well positioned to continue to profitably grow over the long-term due to our strong balance sheet, liquidity and our continuing acquisition strategy. See "COVID-19 Impacts" within the Key Factors Affecting Our Operating Results section below for a discussion of short-term impacts to our business.

A large portion of our net revenue comes from the U.S. residential new construction market, which depends upon a number of economic factors, including demographic trends, interest rates, consumer confidence, employment rates, housing inventory levels, foreclosure rates, the health of the economy and availability of mortgage financing. The strategic acquisitions of multiple companies over the last several years contributed meaningfully to our 6.1% increase in net revenue during the three months ended September 30, 2020 compared to 2019.

*2020 Third Quarter Highlights*

Net revenue increased 6.1% to $420.5 million while gross profit increased 11.5% to $131.7 million during the three months ended September 30, 2020 compared to 2019. We also generated approximately $143.9 million of cash from operating activities, and at September 30, 2020 we had $268.7 million of cash and cash equivalents and investments. We have not drawn on our existing $200 million revolving line of credit. The increase in net revenue and gross profit was primarily driven by selling price increases, the contribution of our recent acquisitions, higher volume in our multi-family end market, and increased sales volume of complementary products. We experienced sales growth year-over-year as reflected in the sales and relative performance metrics detailed below.

During the three months ended September 30, 2020, we accomplished sales growth in each of our end markets over the same period ended September 30, 2019. The highest level of growth occurred in our multi-family end market, followed by our repair and remodel end market. We grew our largest end market, the single family subset of the residential new construction market, by 1.8% which is an improvement over the decline experienced last quarter attributable to the effects of temporary business interruptions earlier in 2020 due to federal, state and local requirements in response to COVID-19. All of our locations serving the residential new construction end market were operating during the three months ended September 30, 2020, and we achieved a 2.2% volume growth in this end market during this period. The commercial end market experienced sales growth during this period as well, but we experienced anticipated production inefficiencies due to COVID-19 social distancing requirements as well as project delays due to macroeconomic concerns surrounding the pandemic. These fluctuations are shown in further detail in the table below and impacts from COVID-19 are discussed further in the sections that follow.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Period-over-period Growth | | | | |
| Sales Growth | 6.1% | 13.6% | 9.1% | 12.9% |
| Same Branch Sales Growth [1] | 1.7% | 9.3% | 5.1% | 8.2% |
| Single-Family Sales Growth [2] | 1.8% | 10.3% | 4.0% | 11.3% |
| Single-Family Same Branch Sales Growth [1][2] | -3.1% | 4.9% | -0.5% | 5.3% |
| Residential Sales Growth [3] | 6.2% | 10.7% | 8.5% | 11.2% |
| Residential Same Branch Sales Growth [1][3] | 1.6% | 6.0% | 4.4% | 6.0% |
| Same Branch Sales Growth | | | | |
| Volume Growth [1][4] | 2.2% | 2.9% | 0.0% | 2.3% |
| Price/Mix Growth [1][5] | 0.2% | 5.4% | 5.5% | 5.1% |
| Large Commercial Sales Growth [1] | 2.0% | 19.4% | 7.5% | 15.7% |
| U.S. Housing Market [6] | | | | |
| Total Completions Growth | 8.9% | 1.5% | 2.2% | 2.6% |
| Single-Family Completions Growth [2] | 2.6% | 3.7% | 1.7% | 4.8% |

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

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

*Net revenue, cost of sales and gross profit*

The components of gross profit were as follows (in thousands):

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | Change | 2019 | 2020 | Change | 2019 |
| Net revenue | $420,486 | 6.1% | $396,449 | $1,211,756 | 9.1% | $1,110,398 |
| Cost of sales | 288,839 | 3.8% | 278,362 | 836,710 | 5.2% | 795,616 |
| Gross profit | $131,647 | 11.5% | $118,087 | $ 375,046 | 19.1% | $ 314,782 |
| Gross profit percentage | 31.3% | | 29.8% | 31.0% | | 28.3% |

Net revenue increased during the three and nine months ended September 30, 2020 compared to 2019 due primarily to acquisitions, higher volume in our multi-family end market, increased sales volume of complimentary products, and increased selling prices. While our combined sales in all end markets, excluding the large commercial end market, were not significantly impacted by COVID-19 during the three months ended September 30, 2020, we believe year-to-date net revenue was impacted by temporary branch closures caused by the pandemic. We estimate this impact to be a range of approximately $12.0 million to $14.5 million during the nine months ended September 30, 2020. As a percentage of net revenue, gross profit increased during the three and nine months ended September 30, 2020 compared to 2019 attributable primarily to lower fuel costs and achieving higher selling prices on relatively stable material costs, as evidenced by our 0.2% and 5.5% improvement, respectively, in pricing and customer and product mix based on all our combined markets excluding the large commercial end market. Labor utilization improved, in part, as a result of lower installer turnover due to investments in our financial wellness plan, our longevity stock compensation plan for installers and assistance from our Installed Building Products Foundation. However, restrictions limiting the number of laborers on a jobsite and our internal standards for social distancing practices impacted the number of completed jobs and operational efficiencies across our end markets during portions of the first nine months of 2020. See “COVID-19 Impacts” within the Key Factors Affecting Our Operating Results section below for further information.

*Operating expenses*

Operating expenses were as follows (in thousands):

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | Change | 2019 | 2020 | Change | 2019 |
| Selling | $20,843 | 7.4% | $19,398 | $ 60,209 | 10.6% | $ 54,431 |
| Percentage of total net revenue | 5.0% | | 4.9% | 5.0% | | 4.9% |
| Administrative | $58,240 | 5.7% | $55,098 | $177,495 | 13.8% | $156,022 |
| Percentage of total net revenue | 13.9% | | 13.9% | 14.6% | | 14.1% |
| Amortization | $ 6,974 | 13.3% | $ 6,156 | $ 20,378 | 12.8% | $ 18,065 |
| Percentage of total net revenue | 1.7% | | 1.6% | 1.7% | | 1.6% |

Selling

The dollar increases in selling expenses for the three and nine months ended September 30, 2020 were primarily driven by an increase in selling wages and commissions to support our increased net revenue of 6.1%. Selling expense as a percentage of sales slightly increased for the three and nine months ended September 30, 2020 compared to 2019 primarily due to variable employee expenses as a result of improved company performance.

Administrative

The dollar increases in administrative expenses for the three and nine months ended September 30, 2020 were primarily due to an increase in wages, benefits and facility costs attributable to both acquisitions and organic growth. Administrative expenses increased as a percentage of sales for the nine months ended September 30, 2020 compared to 2019 primarily due to increases to variable employee expenses as a result of improved company performance, as well as higher insurance expenses.

Amortization

The dollar increases in amortization for the three and nine months ended September 30, 2020 were attributable to the increase in finite-lived intangible assets recorded as a result of acquisitions.

*Other expense, net*

Other expense, net was as follows (in thousands):

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | Change | 2019 | 2020 | Change | 2019 |
| Interest expense, net | $ 7,564 | -10.6% | $ 8,458 | $22,679 | 14.6% | $19,783 |
| Other | 176 | 13.5% | 155 | 305 | -19.9% | 381 |
| Total other expense, net | $ 7,740 | -10.1% | $ 8,613 | $22,984 | 14.0% | $20,164 |

The decrease in interest expense, net during the three months ended September 30, 2020 compared to 2019 was primarily due to a $2.8 million dollar write off of previously capitalized loan costs associated with debt transactions completed during September 2019. The increase in interest expense, net during the nine months ended September 30, 2020 compared to 2019 was primarily due to the increased debt levels associated with the above-mentioned debt transactions.

*Income tax provision*

Income tax provision and effective tax rates were as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Income tax provision | $ 9,773 | $ 7,610 | $ 24,578 | $ 17,135 |
| Effective tax rate | 25.8% | 26.4% | 26.2% | 25.9% |

During the three and nine months ended September 30, 2020, our effective tax rates were 25.8% and 26.2%, respectively. The rates for both periods were unfavorably impacted by separate tax filing entities in a loss position for which a full valuation allowance is required, resulting in no tax benefit for recognized losses. The rate for the nine months ended September 30, 2020 was also unfavorably impacted by a tax shortfall due to equity vesting.

*Other comprehensive income (loss), net of tax*

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Unrealized gain (loss) on cash flow hedge, net of taxes | $ 1,176 | $ (1,726) | $ (4,582) | $ (8,021) |

During the three months ended September 30, 2020, we recorded an unrealized gain on our new forward cash flow hedge due to favorable market conditions. During the nine months ended September 30, 2020 and the three and nine months ended 2019, we recorded an unrealized loss on our now-terminated cash flow hedges primarily due to interest rate declines. The unrealized losses recorded during 2020 were partially driven by market responses to the COVID-19 pandemic. For more information on our cash flow hedges, see “Derivative Instruments” within the Liquidity and Capital Resources section below.

## KEY FACTORS AFFECTING OUR OPERATING RESULTS

*Cost of Materials*

We purchase the materials that we install primarily direct from manufacturers. The industry supply of materials we install has experienced disruptions in the past but has been stable since the beginning of 2019. However, the industry has recently experienced signs of manufacturer supply constraints for some of the insulation materials we install. We do not currently expect our future operations to be hindered by a lack of product supply, but this could change depending on continued increased housing demand. Increased market pricing, regardless of the catalyst, has and could continue to impact our results of operations in 2020, to the extent that price increases cannot be passed on to our customers. We began to see improvement in our selling prices in the second quarter of 2019, and this continued into 2020 as evidenced by our 1.5% and 2.7% improvement in gross profit as a percentage of sales during the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019, respectively. We will continue to work with our customers to adjust selling prices to offset higher costs as they occur. See “COVID-19 Impacts” below for a discussion of the short-term impacts of the current economic climate on the availability of the materials we install.

*Cost of Labor*

Our business is labor intensive and the majority of our employees work as installers on local construction sites. We offer a comprehensive benefits package, which many of our local competitors are not able to provide, which will increase costs as we hire additional personnel. Our workers’ compensation costs also continue to increase as we employ additional personnel.

Despite temporary layoffs and furloughs driven by branch closures during portions of the first and second quarters as a response to the effects of COVID-19, we experienced strong employee retention, turnover and labor efficiency rates in the nine months ended September 30, 2020. We believe this is partially a result of various programs meant to benefit our employees, including our financial wellness plan, longevity stock compensation plan for employees and assistance from the Installed Building Products Foundation meant to benefit our employees, their families and their communities. While improved retention drives lower costs to recruit and train new employees, resulting in greater installer productivity, these improvements are somewhat offset by the additional costs of these incentives. See “COVID-19 Impacts” below for a discussion of the short-term impacts of the current economic climate on our workforce.

*COVID-19 Impacts*

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

Due to these limitations, we saw a temporary but significant reduction in activity during portions of March, April and May of 2020 in our branches located in seven states and the Bay Area of California, which collectively accounted for 10% of our net revenue during the year ended December 31, 2019. The reduced activity in these areas was attributable to construction being temporarily deemed non-essential during that time period. While we estimate net revenue for the nine months ended September 30, 2020 compared to the same period in 2019 was reduced as a result of these interruptions, we do not believe the various orders and restrictions, or COVID-19 itself, significantly impacted our business in the first nine months of 2020 as construction was deemed “essential” in other states.

While we expect the COVID-19 pandemic and related events will have a negative effect on us in the fourth quarter of 2020 and beyond, the full extent and scope of the impact on our business and industry, as well as national, regional and global markets and economies, depends on numerous evolving factors that we may not be able to accurately predict, including the duration and scope of the pandemic, additional government actions taken in response to the pandemic, the impact on construction activity and demand for homes (based on employment levels, consumer spending and consumer confidence). The U.S. housing market was robust in the latter months of 2019 and experienced a strong start in 2020. Despite a decline in year-over-year U.S. housing starts in the second quarter of 2020, housing starts increased 11.4% in the third quarter of 2020 compared to 2019. This is evidence of the quick recovery in housing demand that should serve to help offset prolonged impacts of the pandemic already experienced. In addition, we believe there remains a sizable industry backlog for the residential end market which we expect will provide us short-term relief from the volatility in industry housing starts experienced earlier in 2020. However, due to the normal lag between housing starts and completions, we expect to see an impact from this decline in housing starts, and other market disruptions that occurred in the early stages of the pandemic, during the fourth quarter of 2020 and into 2021, similar to what we experienced in the third quarter of 2020. Specifically, we anticipate revenue, net income and cash from operations could be impacted during these periods. Given the considerable uncertainty created by the COVID-19 pandemic and its potential effects, it is not possible to estimate the full, adverse impact to our full year 2020 sales or other financial results at this time.

We expect any future branch closures, as well as any broader impacts to the housing industry that might occur, will negatively impact our business. Industry information has indicated that new home orders at some of the nation's larger builders slowed dramatically during the second quarter of 2020 but have rebounded quickly. Most industry experts currently forecast 2020 housing starts will continue to improve throughout the year, with full year starts increasing at a mid single-digit percentage rate compared to 2019. In the commercial sector, our backlog remains strong but has declined slightly from June 30, 2020. We have experienced impacts to our large commercial business, mainly in the form of project start delays and inefficiencies due to social distancing requirements in some areas. In the future, certain large-scale infrastructure programs may be at risk if the need for such structures decline, project funding declines or as consumer behaviors change in the wake of COVID-19 disruptions to the economy and changes to our general ways of life. For example, reduced demand for office buildings and/or educational facilities, decreased airport traffic, or decreased usage of sports arenas or similar large commercial structures could impact our commercial end market.

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

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

- Other than branches that serve states where construction was not deemed "essential" during portions of the first nine months of 2020, we have experienced limited business disruptions to date and therefore have not needed to implement significant continuity measures and have not incurred significant expenditures to do so. Assuming a significant number of additional states or markets in which we operate do not reverse their current positions about construction being an "essential" business, we do not anticipate having to implement any additional measures in the future.

- To date, we have not experienced a significant disruption in the supply of the various insulation products we install. All insulation manufacturers from which we purchase operate facilities in the continental U.S. and continue to timely ship material. We are monitoring suppliers of our other products and have had no issues to date acquiring the inventory we need to operate our business. We currently do not anticipate the pandemic to cause any significant issues with securing these other products in the future.
- During the first half of 2020, we laid off or furloughed approximately 600 employees in areas where construction was not deemed “essential.” We are pleased to report we have rehired or brought back substantially all of those employees.
- Our corporate office is fully operational, even though many employees are working remotely. As such, we have made no modifications to internal controls over financial reporting and have confidence controls are operating as designed. We have enhanced our efforts to mitigate cyber threats and phishing, given the number of employees working remotely. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact of their design and operating effectiveness.
- We continue to expect some impact to our earnings, financial position and cash flows in the remainder of 2020 and into 2021, however there is much uncertainty surrounding the estimated magnitude of these impacts. We estimate limited impact to our Condensed Consolidated Balance Sheets other than a potential reduction in working capital due to the possibility of reduced net revenue and net income, although this will be mitigated somewhat by actions taken by management to limit spending during 2020. Trade accounts receivable may also be reduced somewhat by lower net revenue and a higher allowance for credit losses due to enhanced risk of uncollectibility from some customers, although we have not seen a significant impact to date. We anticipate revenue and net income will be negatively impacted in the remainder of 2020 and into 2021. While our cash from operations may decline over recent performance due to a decrease in expected net income driven by lower net revenue, we do not anticipate any issues meeting debt obligations or paying vendors timely given our strong liquidity and large cash reserves. See discussion of impacts to our liquidity within the Liquidity and Capital Resources section below.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES Act) was signed into law. The CARES Act provides numerous tax provision and other stimulus measures. We expect to benefit from the temporary suspension of certain payment requirements for the employer portion of Social Security taxes. We estimate that this will defer approximately $15 million to $20 million of payments, depending on the number of employees, that would have been paid during 2020, such that under the CARES Act, 50% of the amount will now be paid on December 31, 2021 and the remaining 50% will be paid on December 31, 2022. It is important to note that this does not impact the timing of the expense, only the timing of the payment. We also expect to benefit from the creation of certain refundable employee retention credits and the technical correction for qualified leasehold improvements, which provides for tax bonus depreciation.

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

## LIQUIDITY AND CAPITAL RESOURCES

Our capital resources primarily consist of cash from operations and borrowings under our various debt agreements and capital equipment leases and loans. Our primary capital requirements are to fund working capital needs, operating expenses, acquisitions and capital expenditures and to meet required principal and interest payments. As discussed above, our cash reserves may also be used to fund payroll and other short-term requirements if our

business is affected significantly by COVID-19. From time to time, we may also use our resources to fund our optional stock repurchase program in effect through March 1, 2021. We temporarily suspended our share repurchase program in response to COVID-19 and accordingly did not make any repurchases in the second or third quarter this year. However, given the current state of our business and our markets, effective November 9, 2020, our program will be reinstated. Our investments typically consist of highly liquid instruments, including corporate bonds and commercial paper. As of September 30, 2020, we had no outstanding borrowings under our asset-based lending credit facility (as defined below).

We believe that our cash flows from operations, combined with our current cash levels, highly liquid investments and available borrowing capacity will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures and working capital for at least the next 12 months as evidenced by our net positive cash flows from operations for each of the nine months ended September 30, 2020 and 2019.

While the general economic environment within the United States and most markets around the world have been significantly impacted by the spread of COVID-19, prompting governmental and health agencies to issue unprecedented orders to close businesses not deemed “essential” during portions of the first nine months of 2020, we believe we have robust capital resources at our immediate disposal to meet our needs. We have cash reserves and short-term investments of $268.7 million as of September 30, 2020 as well as access to $200.0 million under our ABL Revolver, less $38.7 million of outstanding letters of credit. This amount available to us is based on eligible collateral, which may be reduced over time. While our cash from operations may decline later in the year and into 2021 due to factors described above, we believe it will remain at a level to fund our operations and not require us to draw on our ABL Revolver. However, as necessary or desirable, we may adjust or amend the terms of our credit facilities. With the uncertainty surrounding COVID-19, our ability to engage in such transactions may be constrained by volatile credit market conditions.

In response to COVID-19, we have taken a number of proactive steps to preserve cash and maximize our financial flexibility in order to efficiently manage through the COVID-19 pandemic. These actions include:

- temporarily suspending stock repurchases under our share repurchase program;
- delaying acquisition closings during portions of the first and second quarters (activity resumed in late June 2020 after our industry stabilized);
- temporarily suspending pay increases for our executive officers until the third quarter of 2020; and
- eliminating non-essential travel.

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

LIBOR is used as a reference rate for our Term Loan and our interest rate swap agreements we use to hedge our interest rate exposure. In 2017, the Financial Conduct Authority (“FCA”), the authority that regulates LIBOR, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. Our Term Loan Agreement, as hereinafter defined, was amended on November 30, 2017 to include a mechanism to establish an alternative Eurodollar rate if certain circumstances arise such that LIBOR may no longer be used. Additionally, our ABL Credit Agreement includes a provision related to the potential discontinuance of LIBOR to be replaced with one or more Secured Overnight Financing Rate (SOFR) values or another alternate benchmark rate. However, if LIBOR ceases to exist after 2021, the interest rates under the alternative rate could be higher than LIBOR. In addition, LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During the nine months ended September 30, 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

The following table summarizes our liquidity (in thousands):

| | As of September 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 267,471 | $ 177,889 |
| Short-term investments | 1,220 | 37,961 |
| ABL Revolver | 200,000 | 200,000 |
| Less: outstanding letters of credit | (38,672) | (38,672) |
| Total liquidity[1] | $ 430,019 | $ 377,178 |

[1] Total liquidity reflects full borrowing base capacity under our asset-based lending credit facility (as defined below) and may be limited by certain cash collateral limitations depending upon the status of our borrowing base availability. These potential deductions would lower our available cash and cash equivalents balance shown in the table above. As of September 30, 2020 and December 31, 2019, total liquidity would be reduced by $22.6 million and $31.9 million, respectively, due to these cash collateral limitations. In addition, total liquidity is further reduced by $10.0 million within cash and cash equivalents above which was deposited into a trust to serve as additional collateral for our workers' compensation and general liability policies. This amount can be converted to a letter of credit at our discretion and would reduce the availability on our asset-based lending credit facility (as defined below) included in the table above.

*5.75% Senior Notes due 2028*

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

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

*Credit Facilities*

In December 2019, we amended and restated our $400 million, seven-year term loan facility due April 2025 (the "Term Loan") under our credit agreement (the "Term Loan Agreement"), dated as of April 13, 2017 (as previously amended by the First Amendment thereto dated November 30, 2017 and by the Second Amendment thereto dated June 19, 2018). The amended Term Loan (i) effects a repricing of the interest rate applicable to the term loans thereunder from LIBOR plus 2.50% to LIBOR plus 2.25% and (ii) replaces Royal Bank of Canada with Bank of America, N.A. as the administrative agent and collateral agent thereunder. As of September 30, 2020, we had $198.6 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.25% in the case of base rate loans.

In September 2019, we entered into a new asset-based lending credit agreement (the "ABL Credit Agreement"). The ABL Credit Agreement provides for an asset-based lending credit facility (the "ABL Revolver") of up to $200.0 million with a five-year maturity, which replaced the Company's previous revolving credit facility. Borrowing availability under the ABL Revolver is based on a percentage of the value of certain assets securing the Company's

obligations and those of the subsidiary guarantors thereunder. In connection with the Amended and Restated Term Loan, we entered into a Second Amendment (the “Second Amendment”) to the ABL/Term Loan Intercreditor Agreement with Bank of America, N.A., as ABL Agent for the lenders under the ABL Credit Agreement, and Bank of America, N.A., as Term Loan Agent for the lenders under the Term Loan. Including outstanding letters of credit, our remaining availability under the ABL Revolver as of September 30, 2020 was $161.3 million.

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

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

The ABL Credit Agreement contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.0x in the event that we do not meet a minimum measure of availability under the ABL Revolver.

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

At September 30, 2020, we were in compliance with all applicable covenants under the Term Loan Agreement, ABL Credit Agreement and the Senior Notes and we currently do not expect any covenant violations due to the impacts of COVID-19.

*Derivative Instruments*

During the three months ended September 30, 2020, we terminated our two existing interest rate swaps and our forward interest rate swap and simultaneously entered into a new forward interest rate swap beginning July 30, 2021. The purpose of terminating our then existing derivative contracts in favor of a new contract was to take advantage of better available market rates. We settled the terminated swaps by making a cash payment of $17.8 million. The unrealized loss included in accumulated other comprehensive loss associated with the terminated swaps of $17.8 million at the time of termination will be amortized to interest expense over the course of the originally scheduled settlement dates of the terminated swaps. During the three and nine months ended September 30, 2020, we amortized $0.6 million of the unrealized loss to interest expense, net. The new forward interest rate swap has a beginning notional of $200.0 million, a fixed rate of 0.51% and a maturity date of April 15, 2030. Upon commencement, this forward swap will serve to hedge substantially all of the variable cash flows on our Term Loan until its maturity and if extended. The assets and liabilities associated with the forward interest rate swap are included in other long-term assets and other current liabilities on the Condensed Consolidated Balance Sheets at their fair value amounts as described in Note 9, Fair Value Measurements.

*Vehicle and Equipment Notes*

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

Total gross assets relating to our Master Loan and Equipment Agreements were $134.4 million and $130.2 million as of September 30, 2020 and December 31, 2019, respectively. The net book value of assets under these agreements was $66.2 million and $68.2 million as of September 30, 2020 and December 31, 2019, respectively. See Note 7, Long-term Debt, for more information regarding our Master Loan and Security Agreement, Master Equipment Lease Agreement and Master Loan Agreements.

*Letters of Credit and Bonds*

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

| | As of September 30, 2020 |
|---|---|
| Performance bonds | $ 30,754 |
| Insurance letters of credit and cash collateral | 49,104 |
| Permit and license bonds | 7,713 |
| Total bonds and letters of credit | $ 87,571 |

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

**Historical cash flow information**

*Cash flows from operating activities*

Net cash provided by operating activities was $143.9 million and $106.5 million for the nine months ended September 30, 2020 and 2019, respectively. Generally, the primary driver of our cash flows from operating activities is operating income adjusted for certain noncash items, offset by cash payments for taxes and interest on our outstanding debt. Our cash flows from operations can be impacted by the timing of our cash collections on sales and collection of retainage amounts. During the nine months ended September 30, 2020, we saw a significant increase in cash from operations primarily due to higher net income from improved results as described above, as well as payroll tax deferrals under the CARES Act. These increases during the nine months ended September 30, 2020 were offset by a $17.8 million cash payment to settle our previous cash flow hedges.

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

*Cash flows from investing activities*

Business Combinations. During the nine months ended September 30, 2020 and 2019, we made cash payments of $38.8 million and $24.7 million, respectively, on various business combinations. The amount of cash paid is dependent on various factors, including the size and determined value of the business being acquired. Due to the potential impacts of COVID-19, we had temporarily delayed acquisition closings until June 2020 when we resumed our acquisition strategy. See Note 16, Business Combinations, for more information regarding our acquisitions in 2020 and 2019.

Capital Expenditures. Total cash paid for property and equipment was $25.5 million and $37.3 million for the nine months ended September 30, 2020 and 2019, respectively, and was primarily related to purchases of vehicles and various equipment to support our growing operations. We expect to continue to support any increases in future net revenue through further capital expenditures. A majority of these capital expenditures were subsequently reimbursed via various vehicle and equipment notes payable, with related cash inflows shown in cash flows from financing activities.

Other. During the nine months ended September 30, 2020 and 2019, we invested $0.8 million and $17.4 million, respectively, in short-term investments consisting primarily of corporate bonds and commercial paper and had $37.5 million and $22.6 million in short-term investments mature during the nine months ended September 30, 2020 and 2019, respectively. We have recently slowed the rate of investment purchases due to the relatively low returns provided from current interest rates associated with traditional investments.

*Cash flows from financing activities*

We utilize our credit facilities and Senior Notes to support our operations and continuing acquisitions as well as fund our discretionary stock repurchase program. During the nine months ended September 30, 2020 and 2019, we received proceeds of $17.8 million and $23.8 million, respectively, from our fixed asset loans which serve to offset a significant portion of the capital expenditures included in cash outflows from investing activities as described above. We made payments on these fixed asset loans and various other notes payable of $19.8 million and $15.3 million during the nine months ended September 30, 2020 and 2019, respectively. We also made $2.0 million and $3.4 million in principal payments on our finance leases and paid $3.9 million and $5.8 million of acquisition-related obligations during the nine months ended September 30, 2020 and 2019, respectively. Lastly, we paid $15.8 million to repurchase 443 thousand shares of our common stock during the nine months ended September 30, 2020. In response to COVID-19, we temporarily suspended our share repurchase program and did not make any stock repurchases in the second or third quarters of 2020. The repurchase program will be reinstated effective November 9, 2020. We also temporarily delayed closing acquisitions during portions of the first and second quarters until late June 2020 after our industry stabilized. During the nine months ended September 30, 2019 we received $300.0 million in proceeds from issuance of our Senior Notes, paid off $195.8 million of our Term Loan balance and paid $5.2 million in debt issuance costs resulting in a net cash inflow of $99.0 million.

**Contractual Obligations**

We had no significant changes to our obligations during the nine months ended September 30, 2020.

**Critical Accounting Policies and Estimates**

During the nine months ended September 30, 2020, we changed our accounting policy regarding allowances for credit losses and the testing of goodwill impairment. See Note 2, Significant Accounting Policies, for more information. There have been no other changes to our critical accounting policies and estimates from those previously disclosed in our 2019 Form 10-K.

Recently Adopted Accounting Pronouncements

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

**Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the federal securities laws, including with respect to the housing market and the commercial market, industry conditions, our financial and business model, the impact of COVID-19 on our business and the economy, our efforts to navigate the material pricing environment, our ability to increase selling prices, our material and labor costs, demand for our services and product offerings, expansion of our national footprint and diversification, our ability to grow and strengthen our market position, our ability to pursue and integrate value-enhancing acquisitions, our ability to improve sales and profitability, the impact of COVID-19 on our financial results and expectations for demand for our services and our earnings in 2020 and 2021. Forward-looking statements may generally be identified by the use of words such as "anticipate," "believe," "estimate," "project," "predict," "possible," "forecast," "may," "could," "would," "should," "expect," "intends," "plan," and "will" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements that we make herein and in any future reports and statements are not guarantees of future performance, and actual results may differ materially from those expressed in or suggested by

such forward-looking statements as a result of various factors, including, without limitation, the duration, effect and severity of the COVID-19 crisis; the adverse impact of the COVID-19 crisis on our business and financial results, the economy and the markets we serve; general economic and industry conditions; the material price environment; the timing of increases in our selling prices and the factors discussed in the "Risk Factors" section of our 2019 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q, as the same may be updated from time to time in our subsequent filings with the SEC. Any forward-looking statement made by the Company in this report speaks only as of the date hereof. New risks and uncertainties arise from time to time and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws.

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

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. As of September 30, 2020, we had $198.6 million outstanding on the Term Loan, net of unamortized debt issuance costs, no outstanding borrowings on the ABL Revolver and no outstanding borrowings under finance leases subject to variable interest rates. Our interest rate swap is a forward rate swap that begins July 30, 2021 and does not reduce exposure to market risks on our Term Loan as of September 30, 2020 through the effective date of the forward rate swap. As a result, total variable rate debt of $200.0 million was exposed to market risks as of September 30, 2020. A hypothetical one percentage point increase (decrease) in interest rates on our variable rate debt would increase (decrease) our annual interest expense by approximately $2.0 million. Our Senior Notes accrued interest at a fixed rate of 5.75%.

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

LIBOR is used as a reference rate for our Term Loan and our interest rate swap agreements we use to hedge our interest rate exposure. In 2017, the FCA announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. Our Term Loan Agreement was amended on November 30, 2017 to include a mechanism to establish an alternative Eurodollar rate if certain circumstances arise such that LIBOR may no longer be used. Additionally, our ABL Credit Agreement includes a provision related to the potential discontinuance of LIBOR to be replaced with one or more Secured Overnight Financing Rate (SOFR) values or another alternate benchmark rate. However, if LIBOR ceases to exist after 2021, the interest rates under the alternative rate could be higher than LIBOR. In addition, LIBOR is used as a reference rate for our interest rate swap agreements we use to hedge our interest rate exposure. During the nine months ended September 30, 2020, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The purpose of this guidance is to provide relief for impacted areas as it relates to impending reference rate reform. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as required by Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2020.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that many of the employees at our corporate office are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

## PART II – OTHER INFORMATION

**Item 1. Legal Proceedings**

See Part I, Item 1. Financial Statements, Note 15, Commitments and Contingencies – Other Commitments and Contingencies, for information about existing legal proceedings.

**Item 1A. Risk Factors**

Except as set forth below and in our Quarterly Reports on Form 10-Q for March 31, 2020 and June 30, 2020, as of the date of this report, there have been no material changes for the nine months ended September 30, 2020 from the risk factors as disclosed in our 2019 Form 10-K.

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

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

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

Our business could be materially adversely affected by the COVID-19 pandemic and the global response. The Company and its customers' businesses have generally been classified as "essential" businesses in most of the jurisdictions in which we operate, permitting us to continue operations in most of our markets. However, there can be no assurance that our operations will continue to be classified as "essential" in the future, or that we will not voluntarily limit or cease operations in one or more of our markets if we believe it is in our best interest. For example, during portions of March, April and May of 2020, we saw a temporary but significant reduction in activity in our branches located in seven states and the Bay Area of California, which collectively accounted for 10% of our net revenue during the year ended December 31, 2019. The reduced activity in these areas was attributable to construction being temporarily deemed non-essential during that time period. While operations have resumed to

normal levels in all of these areas as of the date of filing of this Quarterly Report on Form 10-Q, future mandatory shutdowns or reductions in operations could have a material adverse effect on our business. During the first nine months of 2020, we laid off or furloughed approximately 600 employees in areas where construction was not deemed "essential." We have since rehired or brought back substantially all of those employees, but we may need to layoff or furlough other employees in the future. Any employee layoffs or furloughs associated with future branch closures or slowdowns are assumed to be temporary in nature but could result in long-term labor shortages in certain markets if we cannot rehire these employees once operations resume.

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

We are monitoring suppliers of our other products and have had no issues to date acquiring the inventory we need to operate our business. However, to the extent our suppliers are negatively impacted by the COVID-19 pandemic, there could be disruptions in our supply chain.

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

Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on a local, national and global level. To date, no fully effective vaccines or treatments have been developed and effective vaccines or treatments may not be discovered soon enough to protect against a worsening of the pandemic or to prevent COVID-19 from becoming endemic. While we expect the COVID-19 pandemic and related events will have a negative effect on us, the full extent and scope of the impact on our business and industry, as well as national, regional and global markets and economies, depends on numerous evolving factors that we may not be able to accurately predict, including the duration and scope of the pandemic, additional government actions taken in response to the pandemic, the impact on construction activity and demand for homes (based on employment levels, consumer spending and consumer confidence). Accordingly, our ability to conduct our business in the manner previously or currently expected could be materially and negatively affected, any of which could have a material adverse impact on our business, financial condition, operating results and cash flows.

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

From time to time, we utilize interest rate derivatives to hedge the cash flows associated with existing variable-rate debt. The purpose of these instruments is to substantially reduce exposure to market risks on our Term Loan. We designated our forward interest rate swap in existence at the time of this Quarterly Report on Form 10-Q as a cash

flow hedge in accordance with Accounting Standards Codification ("ASC") 815, Derivatives and Hedging. However, in the future, we may fail to qualify for hedge accounting treatment under these standards for a number of reasons, including if we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or if our derivative instrument is not highly effective. If we fail to qualify for hedge accounting treatment, losses on the swap caused by the change in its fair value would be recognized as part of net income, rather than being recognized as part of other comprehensive income. Any such adverse developments could result in material liabilities and expense and could have a material adverse effect on our business.

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

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

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

The following table shows the stock repurchase activity for the three months ended September 30, 2020:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (1) |
|---|---|---|---|---|
| July 1 - 31, 2020 | — | $ — | — | — |
| August 1 - 31, 2020 | — | — | — | — |
| September 1 - 30, 2020 | — | — | — | — |
| | — | $ — | — | $ 44.9 million |

(1) On February 26, 2018, our board of directors authorized a $50 million stock repurchase program effective March 2, 2018 and on October 31, 2018, our board of directors approved an additional stock repurchase program, effective November 6, 2018, pursuant to which we may purchase up to an additional $100 million of our outstanding common stock. On February 20, 2020, our board of directors approved extending the current stock repurchase program to March 1, 2021. During the nine months ended September 30, 2020, we repurchased approximately 443 thousand shares of our common stock with an aggregate price of approximately $15.8 million, or $35.59 average price per share. We did not repurchase any shares under our stock repurchase program during the nine months ended September 30, 2019. In response to COVID-19, we temporarily suspended our share repurchase program and accordingly we did not repurchase any shares during the three months ended September 30, 2020. Given the current state of our business and our markets, effective November 9, 2020, our share repurchase program will be reinstated.

**Item 3. Defaults Upon Senior Securities**

There have been no material defaults in senior securities.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On November 3, 2020, the Compensation Committee of the Board of Directors issued to W. Jeffrey Hire, President, External Affairs, an award consisting of 10,596 shares of restricted stock (the "Restricted Stock Award") to recognize Mr. Hire's strategic long-term contributions to the Company. The restricted stock is granted under the Company's 2014 Omnibus Incentive Plan and a Restricted Stock Award Agreement with a grant date of November 3, 2020 and will vest 100% on April 20, 2023, subject to Mr. Hire's continued employment with the Company through such vesting date and subject to accelerated vesting in the event of Mr. Hire's death.

**Item 6. Exhibits**

(a)(3) Exhibits

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

| Exhibit Number | Description |
|---|---|
| 31.1* | CEO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | CFO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.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 |
| 101.SCH** | Inline XBRL Taxonomy Extension Schema Document |
| 101. CAL** | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101. LAB** | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101. PRE** | Inline XBRL Taxonomy Extension Presentation Linkbase Document |

| Exhibit Number | Description |
|---|---|
| 101. DEF** | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 104** | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101) |

* Filed herewith.
** Submitted electronically with the report.

## SIGNATURES

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

Date: November 5, 2020

INSTALLED BUILDING PRODUCTS, INC.

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

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

**Exhibit 31.1**

INSTALLED BUILDING PRODUCTS, INC.

Certification Required by Rule 13a-14(a) or 15d-14(a)
of the Securities Exchange Act of 1934

I, Jeffrey W. Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Installed Building Products, Inc.;

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 of 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;

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.

Dated: November 5, 2020

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

**Exhibit 31.2**

INSTALLED BUILDING PRODUCTS, INC.

Certification Required by Rule 13a-14(a) or 15d-14(a)
of the Securities Exchange Act of 1934

I, Michael T. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Installed Building Products, Inc.;
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 of 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;
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.

Dated: November 5, 2020

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

**Exhibit 32.1**

INSTALLED BUILDING PRODUCTS, INC.

Certification Required by Rule 13a-14(b) or 15d-14(b)
of the Securities Exchange Act of 1934 and
Section 1350 of Chapter 63 of Title 18 of the
United States Code

The certification set forth below is being submitted in connection with the Installed Building Products, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Jeffrey W. Edwards, the President and Chief Executive Officer, of Installed Building Products, Inc., certifies that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of Installed Building Products, Inc.

Dated: November 5, 2020

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

**Exhibit 32.2**

INSTALLED BUILDING PRODUCTS, INC.

Certification Required by Rule 13a-14(b) or 15d-14(b)
of the Securities Exchange Act of 1934 and
Section 1350 of Chapter 63 of Title 18 of the
United States Code

The certification set forth below is being submitted in connection with the Installed Building Products, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Michael T. Miller, the Executive Vice President and Chief Financial Officer, of Installed Building Products, Inc., certifies that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of Installed Building Products, Inc.

Dated: November 5, 2020

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