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

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**FORM 10-K**

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

For the Fiscal Year Ended December 31, 2019

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

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**Installed Building Products, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
  
495 South High Street, Suite 50  
Columbus, Ohio  
(Address of principal executive offices)

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

43215  
(Zip Code)

(614) 221-3399

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	IBP	The New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2019 was \$1,337,306,455.

On February 18, 2020, the registrant had 30,016,340 shares of common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement relating to the 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2019.

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## Information Regarding Forward-Looking Statements

This Annual Report on Form 10-K (“Form 10-K”) contains forward-looking statements within the meaning of the federal securities laws, including with respect to the housing market, our financial and business model, our efforts to navigate the material pricing environment, our ability to increase selling prices, our material and labor costs, demand for our services and product offerings, expansion of our national footprint and diversification, our ability to capitalize on the new home and commercial construction recovery, our ability to grow and strengthen our market position, our ability to pursue and integrate value-enhancing acquisitions, our ability to improve sales and profitability and expectations for demand for our services and our earnings in 2020. 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 factors discussed in the “Risk Factors” section of this Form 10-K, as the same may be updated from time to time in our subsequent filings with the Securities and Exchange Commission, or SEC. Any forward-looking statement made by the Company in this report speaks only as of the date hereof. New risks and uncertainties arise from time to time and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws.

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

- our dependence on the economy, the housing market, the level of new residential and commercial construction activity and the credit markets;
- the cyclical and seasonal nature of our business;
- declines in the economy or slowing of the housing market recovery that could lead to significant impairment charges;
- our exposure to severe weather conditions;
- the highly fragmented and competitive nature of our industry;
- product shortages or the loss of key suppliers;
- changes in the costs and availability of products;
- inability to continue to successfully expand into new products or geographic markets;
- inability to successfully acquire and integrate other businesses;
- inability to successfully expand into the commercial construction market;
- our exposure to claims arising from our operations;
- our reliance on key personnel;
- our ability to attract, train and retain qualified employees while controlling labor costs;
- changes in employment and/or immigration laws;
- our exposure to product liability, workmanship warranty, casualty, construction defect and other claims and legal proceedings;
- changes in, or failure to comply with, federal, state, local and other regulations;
- disruptions in our information technology systems, including cybersecurity incidents;
- our ability to implement and maintain effective internal control over financial reporting; and
- additional factors discussed under Item 1, Business; Item 1A, Risk Factors; and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

## PART I

### Item 1. Business

#### OUR COMPANY

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

We offer our portfolio of services from our national network of over 180 branch locations serving all 48 continental states and the District of Columbia. 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. Each of our branches has the capacity to serve all of our end markets. We believe we have the number one or two market position for new single-family insulation installation in more than half of the markets in which we operate based on permits issued in those markets. We are committed to delivering quality installation with a commitment to safety, corporate social responsibility and total customer satisfaction.

Our business began in 1977 with one location in Columbus, Ohio. In the late 1990s, we began our acquisition strategy with the goal of creating a national platform. Since 1999, we have successfully completed and integrated over 150 acquisitions, which has allowed us to generate significant scale and to diversify our product offerings while expanding into some of the most attractive new construction markets in the United States. We believe we are well positioned to continue to profitably grow our business due to our strong balance sheet, liquidity and acquisition strategy. For a further discussion of our industry and trends affecting our industry, please refer to Item 7, Management’s Discussion and Analysis of Financial Condition, Key Factors Affecting our Operating Results, in this Form 10-K.

#### OUR OPERATIONS

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

Our business model is differentiated and creates value by streamlining the typical value chain. In a typical building products value chain, manufacturers rely on multiple distributors to purchase in volume and stock product. Distributors serve multiple wholesale and retail accounts who in turn sell to local contractors that perform the installation. We buy most of the products that we install direct from manufacturers which are delivered to our local installation operations.

#### Insulation

##### *Overview*

We are one of the largest new residential insulation installers in the United States based on our internal estimates. Insulation installation comprised approximately 64% of our net revenue for the year ended December 31, 2019. We handle every stage of the installation process, including material procurement, project scheduling and logistics, multi-phase professional installation and quality inspection.

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### *Insulation Materials*

We offer a wide range of insulation materials consisting of:

- **Fiberglass and Cellulose Insulation** – Fiberglass insulation is made of fibrous glass that is held together by a thermoset resin creating insulating air pockets. It typically contains an average of 50% recycled content. It is primarily available in two forms: batts (also referred to as blankets) and loosefill (also referred to as blown in). Fiberglass is the most widely used residential insulation material in the United States. Cellulose insulation is made primarily of paper and cardboard and has a very high recycled content. Cellulose is only available in loosefill form and is blown into the structure with specialized equipment. Fiberglass and cellulose insulation accounted for approximately 85% of our insulation sales for the year ended December 31, 2019.
- **Spray Foam Insulation** – Spray foam insulation, which is generally a polyurethane foam, is applied at a job site by mixing two chemical components together in specialized application equipment. While typically having the highest insulating value per inch and sealing effectiveness of all insulation materials that we offer, spray foam is also typically the most expensive on an installed basis. Spray foam insulation accounted for approximately 15% of our insulation sales for the year ended December 31, 2019.

### *Insulation Installation Applications*

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

- **Basement and Crawl Space** – These spaces often account for the second most energy loss in a residential structure.
- **Building Envelope** – We insulate the exterior walls of both residential and commercial structures by applying insulation on the wall or between the studs.
- **Attic** – We insulate the attics of new and existing residential structures. The attic is the area where the most energy may be lost in a home.
- **Acoustical** – Many builder or architect specifications call for acoustical insulation for sound reduction purposes in both residential and commercial structures. This product is generally installed in the interior walls to minimize sound transmission.
- In each of these applications, we typically use fiberglass batts, except in attic installations where we typically install loosefill fiberglass or cellulose.
- We also install a wide variety of advanced caulk and sealant products that control air infiltration in residential and commercial buildings to enhance energy efficiency, improve comfort and meet increasingly stringent energy code requirements.

### **Waterproofing**

Some of our locations install waterproofing, caulking and moisture protection systems for commercial and industrial construction projects. We offer a variety of waterproofing options, including, but not limited to, sheet and hot applied waterproofing membranes, deck coating systems, bentonite systems and air & vapor systems. The installation and service of waterproofing comprised approximately 7% of our net revenue for the year ended December 31, 2019.

### **Shower Doors, Closet Shelving and Mirrors**

Some of our locations install a variety of shower enclosures, ranging from basic sliding door designs to complex custom designs. We have the ability to meet our customers' diverse needs by customizing shower enclosures by size and style according to their specifications, including framing, hardware and glass options. We design and install closet shelving systems in select markets utilizing some of the highest quality products available from national brands. We also offer standard and custom designed mirrors for our customers. Shower doors, closet shelving and mirror installations comprised approximately 7% of our net revenue for the year ended December 31, 2019.

### **Garage Doors**

Some of our locations install and service garage doors and openers for new residential construction builders, homeowners and commercial customers. We offer a variety of options from some of the best-known garage door brands. We offer steel, aluminum, wood and vinyl garage doors as well as opener systems. Unlike the other products we install, the garage door business has an ongoing aftermarket service component, which represented almost one-third of the net revenue resulting from garage doors for the year ended December 31, 2019. The installation and service of garage doors comprised approximately 6% of our net revenue for the year ended December 31, 2019.

### **Rain Gutters**

Some of our locations install a wide range of rain gutters, which direct water from a home's roof away from the structure and foundation. Rain gutters are typically constructed from aluminum or copper and are available in a wide variety of colors, shapes and widths. They are generally assembled on the job site using specialized equipment. The installation of rain gutters comprised approximately 3% of our net revenue for the year ended December 31, 2019.

### **Window Blinds**

Some of our locations install different types of window blinds, including cordless blinds, shades and shutters. The installation of window blinds comprised approximately 3% of our net revenue for the year ended December 31, 2019.

### **Other Building Products**

Some of our locations install other complementary building products, none of which is an individually significant percentage of net revenue. Installation of other building products comprised approximately 10% of our net revenue for the year ended December 31, 2019.

### **Sales and Marketing**

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

Experienced sales and service professionals are important to our customer growth and increasing our profitability. Retaining and motivating local employees has been an important component of our acquisition and operating strategies. As of December 31, 2019, we employed approximately 625 sales professionals and our sales

force has spent an average of approximately nine years with our operations. The local sales staff, which is generally led by the branch manager, is responsible for maintaining relationships with our customers. These local teams work diligently to increase sales by supporting our existing customers with excellent service and value while also pursuing new customers with competitive offerings. In addition to the efforts of our sales staff, we market our product and service offerings on the internet, in the local yellow pages, on the radio and through advertisements in trade journals. We primarily conduct our marketing using local trademarks and trade names.

## COMPETITIVE ADVANTAGES

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

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

**Diversified product lines, end markets and geographies.** Diversifying our product line offerings provides us opportunity to increase sales to end customers and leverage our branch costs to improve profitability. We continue to generate revenue synergies by taking advantage of cross-selling opportunities with our existing customers in markets where we install multiple products. We have successfully diversified our product offering from the year ended December 31, 2013, when insulation installation comprised approximately 74% of revenues, to the year ended December 31, 2019, where it comprised 64% of revenues. We service the residential new construction and repair and remodel markets, both of which consist of single-family and multi-family dwellings, as well as the commercial construction market. We have diversified our end customer demographic from the year ended December 31, 2013, when revenue from the commercial end market comprised approximately 11% of revenues, to the year ended December 31, 2019 where it comprised 18% of revenues. Our growing exposure to commercial end markets diversifies our customer base and makes our business less dependent on residential new construction. Commercial construction is also driven by longer term projects which tends to provide greater revenue visibility. In periods of declining insulation installation volumes, our sales force is able to leverage our diversity of products and reduce the impact of lost insulation sales by growing sales of complementary building products, further enhancing our ability to perform. Our national geographic footprint provides us a balanced business not concentrated in any single region.

**Engaged employees.** We offer competitive benefits to our employees to ensure an engaged workforce. In addition to offering certain benefits to most employees, including medical insurance, 401k and paid time off benefits, we also offer longevity stock awards, financial wellness training and savings matching in order to recruit and retain employees. Our retention efforts have reduced our employee turnover by approximately 40% since the beginning of 2017 to a level significantly below industry averages. Opportunity for professional growth, training and advancement are strongly encouraged. Engaged, long-tenured employees benefit our business by being highly skilled and efficient, which drives profitability and encourages repeat business and customer loyalty. Higher employee retention also benefits our business through lower recruitment and training expense. We also consider risk management and safety to be a core business objective. Significant staffing, funding and other resources are allocated to our management systems that enhances quality and safety for our employees and our customers. Our branch managers are held accountable for the safety of employees and quality of workmanship at their locations. We provide our employees with ongoing training and development programs necessary to improve work quality and safety performance. Our regional managers, local branch managers and sales force have significant experience in the industry and have spent an average of more than 10 years with our operations. We also created the Installed Building Products Foundation in 2019 as a separate, not-for-profit organization to help support our employees for their education, financial and philanthropic needs.

**Financial strength, variable cost structure and strong free cash flow.** We believe that we are among the most financially sound companies in our industry. We place an emphasis on having a strong balance sheet which

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allows us to focus on our strategic initiatives and pursue growth opportunities, drive profitability and generate cash. We have a highly variable cost structure with a significant portion of operating expenses directly linked to volume. Our largest expenses are materials and labor and most of our installation employees are paid by completed job. Our minimal capital expenditure requirements support the generation of strong free cash flow.

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

**Broad and stable customer base.** We benefit from a diverse customer base that includes production and custom homebuilders, multi-family and commercial construction firms, homeowners and residential repair and remodeling contractors. We continue to enhance our longstanding relationships with some of the largest builders in the country. While we serve many national and regional builders across multiple markets, we compete for business at the local level. Given our emphasis on quality service, customer turnover is extremely low.

**Well established relationships with suppliers.** We have strong long-standing relationships with many of the manufacturers of the materials we install, including the largest manufacturers of fiberglass and spray foam. The fiberglass insulation manufacturing market is highly consolidated and primarily served by four major manufacturers. We buy significant volume from all four manufacturers and have relationships with each company spanning more than two decades. Our national scale allows us to purchase volumes that account for a meaningful portion of the production for these suppliers allowing them to better plan their production schedules. Our relationships and purchasing power often allow us to negotiate preferred material supply terms.

**Highly experienced and incentivized management team.** Our senior management team (Chief Executive Officer, Chief Financial Officer and Chief Operating Officer) have been directing our strategy for close to 20 years. This team has led us through multiple housing industry cycles, providing valuable continuity and a demonstrated ability to improve operations and grow our business both organically and through acquisitions.

## **BUSINESS STRATEGY**

We believe our geographic footprint, longstanding relationships with national insulation manufacturers, streamlined value chain and proven track record of successful acquisitions provides us with opportunities for continued growth in our existing markets and expansion into new markets. We believe our continued emphasis on expanding our product offering, further expansion into the commercial construction market, and targeting geographies where we look to grow market share will reduce potential future cyclicity of our operations. Our current strategic objectives include:

- capitalize on the new residential and commercial construction markets;
- continue to strengthen our market share position by working with the best customers. We seek to work with the most profitable and efficient builders and commercial general contractors in our markets;
- recruit, develop and retain an exceptional workforce by investing in our employees and our communities and promoting a family-oriented culture;
- capitalize on our ability to cross-sell products through existing markets as well as new markets entered as a result of organic expansion and acquisitions. In addition to insulation and air infiltration products, we install garage doors, rain gutters, mirrors and shower doors, waterproofing, window blinds and various other products;
- enhance profitability from our operating leverage and national scale;
- continue organic expansion in the multibillion-dollar commercial end market. Our commercial strategy includes adding more locations to serve the large commercial market and increasing commercial sales at our existing new residential locations;



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- pursue value enhancing acquisitions by continuing our disciplined approach to valuations and pricing. We will continue to be selective in identifying acquisition targets at attractive multiples. We target profitable markets and companies with strong reputations and customer bases. As part of our acquisition strategy, we seek to maintain the management teams of the companies we acquire as well as retain their local branding, which further reduces associated risk. We are very experienced in acquiring and integrating companies and have an experienced team that integrates acquisitions quickly and efficiently; and
- we integrate new acquisitions quickly and seamlessly into our corporate infrastructure, including our accounting and employee systems. In addition, we utilize our internal software technology, jobCORE, to integrate acquired operations and provide in-depth branch-level operational and financial performance data. We realize near term margin enhancement and revenue growth at acquired branches by applying our national buying power and leveraging relationships with large national homebuilders.

One of our key areas of focus has been diversifying our product and service offerings, customer base, and end markets. We have accomplished this through organic growth as well as acquisitions. We believe the benefits of this diversification include:

- Margin enhancement by leveraging branch costs across multiple products
- Diversified end-market exposure
- A more diverse customer base
- Stronger established local relationships
- Reduced cyclicity

We have historically experienced expanded product diversification in our branches in periods of declining insulation installation volumes as our sales force looks to maintain volume and replace lost insulation sales with sales of complementary building products. Our oldest and most established branches tend to exhibit the greatest diversity of service and product offerings. This diversity in turn contributes to enhanced profitability as compared to branches in our newer, less developed markets.

However, we can provide no assurance that the positive trends reflected in our recent financial and operating results will continue in 2020.

### **QUALITY CONTROL AND SAFETY**

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

We consider risk management and safety to be a core business objective. Each year, we allocate significant staffing, funding and resources to our management systems that directly impact safety. We have strong workplace safety measures, including Safety Wanted 365, an initiative focused on creating a safer working environment for both our employees and other jobsite personnel through year-round education and training. Additionally, our branch managers are held accountable for the safety of employees and quality of workmanship at their locations.

### **CUSTOMERS**

We serve a broad group of national, regional and local homebuilders, multi-family and commercial construction firms, individual homeowners and repair and remodeling contractors. Our top ten customers, which are primarily

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a combination of national and regional builders, accounted for approximately 15% of net revenue for the year ended December 31, 2019. We install a variety of products in multiple markets for our largest customers, further diversifying our relationship with them. For example, our largest customer is independently serviced by 67 different IBP branches nationwide despite representing approximately 4% of net revenue for the year ended December 31, 2019. While our largest customers are homebuilders, our customer base is also diverse. We work on a range of commercial projects including office buildings, airports, sports complexes, museums, hospitals, hotels and educational facilities. 16 of our top 20 customers represent homebuilders and the remaining four represent commercial customers. We have long-term relationships with many of our customers and have served each of our top ten customers for more than a decade.

### **BACKLOG**

For contracts that are not complete at the reporting date, we recognize revenue over time utilizing a cost-to-cost input method. 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. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Backlog represents the transaction price for contracts for which work has not been performed and excludes unexercised contract options and potential modifications. Backlog is not a guarantee of future revenues as contractual commitments may change. There can be no assurance that backlog will result in revenues within the expected timeframe, if at all. We estimate backlog was \$90.7 million as of December 31, 2019 and we estimated it to be \$88.0 million as of December 31, 2018.

### **SUPPLIERS**

We have long-term relationships with many of our suppliers and have not experienced any significant disruption in the supply of any of the primary materials we purchase and install. As one of the largest purchasers of insulation in the United States, we believe that we maintain particularly strong relationships with the largest manufacturers of these products. The proximity of certain of our branch locations to insulation manufacturers' facilities provides additional mutual benefits, including opportunities for cost savings and joint planning regarding future production. Due to the limited number of large fiberglass insulation manufacturers, our three largest suppliers in the aggregate accounted for approximately 37% of all material purchases for the year ended December 31, 2019. We also believe that we maintain good relationships with suppliers of the non-insulation products we install. We have found that using multiple suppliers ensures a stable source of materials and favorable purchasing terms as suppliers compete to gain and maintain our business. In addition, our national purchasing volumes provide leverage with suppliers as we pursue additional purchasing synergies.

### **SEASONALITY**

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

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

## **COMPETITION**

We believe that competition in our industry is based on quality and timeliness of service, knowledge of local building codes, pricing, relationships and reputation in the market. The building products installation industry is highly fragmented. The markets for our non-insulation installation services are even more fragmented than the markets for insulation installation services. Our competitors include one other large national contractor, several large regional contractors and numerous local contractors. We expect to continue to effectively compete in our local markets given our long-standing customer relationships, access to capital, tenure and quality of local staff, quality installation reputation and competitive pricing.

## **EMPLOYEES**

As of December 31, 2019, we had approximately 8,500 employees, consisting of approximately 6,050 installers, approximately 625 sales professionals, approximately 550 production personnel and approximately 1,275 administrative and management personnel. Approximately 30 of our employees are covered under collective bargaining agreements. We have never experienced a work stoppage or strike, and we believe that we have good relationships with our employees.

## **INFORMATION TECHNOLOGY**

JobCORE is our web-enabled internal software technology used by the majority of our branches. The system is designed to operate our business in a highly efficient manner and manage our operations. The jobCORE software provides in-depth real-time job-level operational and financial performance data from each branch to the corporate office. JobCORE provides us, our branch managers and our salespeople with an important operational tool for monitoring branch level performance. It assists management in assessing important business questions, including customer analysis, sales staff analysis, branch analysis and other operating activities.

## **INTELLECTUAL PROPERTY**

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

## **ENVIRONMENTAL, SOCIAL AND REGULATORY MATTERS**

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

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

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

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

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

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

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

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

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

## **CORPORATE AND AVAILABLE INFORMATION**

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

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

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

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

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

#### **RISKS RELATED TO OUR BUSINESS**

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

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

- the number of new home and commercial building construction starts;
- short- and long-term interest rates;
- inflation;
- employment levels and job and personal income growth;
- housing demand from population growth, household formation and other demographic changes;
- housing affordability;
- rental housing demand;
- availability and cost of labor;
- availability and cost of land;
- changes in material prices;

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

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

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

In 2019, the U.S. Census Bureau reported an estimated 1.29 million total housing starts. This is an increase from 1.25 million starts in 2018, but still below the historical average over the past 60 years. There is significant uncertainty regarding the timing and extent of any further recovery in new home construction and resulting product demand levels, and any decline may materially adversely affect our business, financial condition, results of operations and cash flows. In particular, increases in mortgage interest rates and rising home prices, along with other economic factors, may slow the recovery of the home construction market or lead to a decline. In addition, concerns over the affordability of housing may reduce demand in the markets we serve. Some analysts also project that the demand for residential construction may be negatively impacted as the number of renting households has increased in recent years and a shortage in the supply of affordable housing is expected to result in lower home ownership rates.

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

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

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

According to Dodge Data & Analytics, commercial construction put in place began to recover in 2013. However, commercial building starts in 2020, measured by investment dollars, are expected to decrease 6% from 2019 while institutional building starts (a subset of the nonresidential construction market in which we participate) are expected to be flat.

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

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

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

We review our goodwill and other intangible assets for impairment annually during the fourth quarter and when events or changes in circumstances indicate the carrying value may not be recoverable. In doing so, we either assess qualitative factors or perform a detailed analysis to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We did not record any goodwill impairment charges in 2019, 2018, or 2017; however, a decline in the expectation of our future performance, or a decline in our market capitalization, or deterioration in expectations regarding the general economy and/or the timing and the extent of new home construction and home improvement and commercial construction activity may cause us to recognize non-cash, pre-tax impairment charges for goodwill or other long-lived assets, which are not determinable at this time. In addition, as a result of our acquisition strategy, we have recorded goodwill and may incur impairment charges in connection with prior and future acquisitions. If the value of goodwill or other intangible assets is impaired, our earnings and stockholders' equity would be adversely affected. As of December 31, 2019, we had goodwill and other intangible assets in an aggregate amount of \$349.2 million, or approximately 32% of our total assets, which is in excess of our stockholders' equity.

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

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

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

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

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

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

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

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

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



**Changes in the costs of the products we install, an inability to increase our selling prices or a delay in the timing of such increases can decrease our profit margins**

The principal building products that we install have been subject to price changes in the past, some of which have been significant. For example, the industry supply of a portion of the insulation materials we install was disrupted due to a catastrophic failure at a manufacturer's facility during the fourth quarter of 2017, resulting in insulation material allocation throughout the industry and, as a result, increased market pricing which impacted our results of operations in 2018 and 2019. Increased market pricing, regardless of the catalyst, could impact our results of operations in the future to the extent that price increases cannot be passed on to our customers. While we continue to work with our customers to adjust selling prices to offset the aforementioned higher costs, there can be no assurance that any such action would have its intended effect. In addition, our results of operations for individual quarterly periods can be, and have been, adversely affected by a delay between when building product cost increases are implemented and when we are able to increase prices for our products and services, if at all. Our supplier purchase prices often depend on volume requirements. If we do not meet these volume requirements, our costs could increase and our margins may be adversely affected. In addition, while we have been able to achieve cost savings through volume purchasing and our relationships with suppliers, we may not be able to continue to receive advantageous pricing for the products that we install, which could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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

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

Acquisitions involve a number of special risks, including:

- our inability to manage acquired businesses or control integration costs and other costs relating to acquisitions;
- potential adverse short-term effects on operating results from increased costs, business disruption or otherwise;
- diversion of management's attention;
- loss of suppliers, customers or other significant business partners of the acquired business;
- failure to retain existing key personnel of the acquired business and recruit qualified new employees at the location;
- failure to successfully implement infrastructure, logistics and systems integration;
- potential impairment of goodwill and other intangible assets;
- risks associated with the internal controls of acquired businesses;
- exposure to legal claims for activities of the acquired business prior to acquisition and inability to realize on any indemnification claims, including with respect to environmental and immigration claims;
- the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities; and
- our inability to obtain financing necessary to complete acquisitions on attractive terms or at all.

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

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

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

As of December 31, 2019, our estimated backlog was approximately \$90.7 million. In accordance with industry practice, many of our contracts are subject to cancellation, reduction, termination or suspension at the discretion of the customer in respect of work that has not yet been performed. In the event of a project cancellation, we would generally have no contractual right to the total revenue reflected in our backlog but instead would collect revenues in respect of all work performed at the time of cancellation as well as all other costs and expenses incurred by us through such date. Projects can remain in backlog for extended periods of time because of the nature of the project, delays in execution of the project and the timing of the particular services required by the project. Additionally, the risk of contracts in backlog being canceled, terminated or suspended generally increases at times, including as a result of periods of widespread macroeconomic and industry slowdown, weather, seasonality and many of the other factors impacting our business. Many of the contracts in our backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the contracts. The revenue for certain contracts included in backlog are based on estimates. Therefore, the timing of performance on our individual contracts can affect our margins and future profitability. There can be no assurance that backlog will result in revenues within the expected timeframe, if at all.

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

We have consummated over 150 acquisitions. From time to time we are subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related and other liabilities and claims not covered by insurance. Any future claims or liabilities could be significant. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims. In addition, insurance companies may be unwilling to cover claims that have arisen from acquired businesses or locations, or claims may exceed the coverage limits that our acquired businesses had in effect prior to the date of acquisition. If we are unable to successfully obtain insurance coverage of third-party claims or enforce our indemnification rights against the former owners, or if the former owners are unable to satisfy their obligations for any reason, including because of their financial position, we could be held liable for the costs or obligations associated with such claims or liabilities, which could adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

**Variability in self-insurance liability estimates could adversely impact our results of operations.**

We carry insurance for risks including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. In most cases, these risks are insured under high deductible and/or high-retention programs that require us to carry highly subjective liability reserves on our balance sheet. We estimate these insurance liabilities by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions, and periodically analyzing our historical trends with the assistance of external actuarial consultants. Our accruals for insurance reserves reflect these estimates and other management judgments, which are subject to variability. If our claim experience differs significantly from historical trends and actuarial assumptions and we then need to increase our reserves, our financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services. Current or future claims could have a material adverse effect on our reputation, business, financial condition and results of operations. For additional information, see Note 15, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

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

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

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

**Federal, state, local and other laws and regulations could impose substantial costs and/or restrictions on our operations and could adversely affect our business.**

We are subject to various federal, state, local and other laws and regulations, including, among other things, worker and workplace health and safety regulations promulgated by the OSHA, employment regulations promulgated by the U.S. Equal Employment Opportunity Commission and tax regulations promulgated by the Internal Revenue Service and various other state and local tax authorities. Our primary manufacturing facility is also subject to additional laws and regulations which may increase our exposure to health and safety liabilities. In addition, we are subject to increased regulation of data privacy and information security, including the adoption of more stringent state laws, such as the California Consumer Privacy Act which went into effect in January 2020. These types of data privacy and security laws, which continue to evolve, create a range of new compliance obligations for us and increase financial penalties for non-compliance. Additional or more burdensome regulatory requirements in these or other areas may increase our expenses, reduce demand for our services or restrict our ability to offer services in certain geographies, all of which could adversely affect our business, financial condition, results of operations and cash flows. Moreover, our failure to comply with any of the regulatory requirements applicable to our business could subject us to substantial fines and penalties that could adversely affect our business, financial condition, results of operations and cash flows.

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

In addition, the residential construction and commercial construction industries are subject to various federal, state and local statutes, ordinances, rules and regulations concerning zoning, building design and safety, construction, contractors' licensing, energy conservation and similar matters, including regulations that impose restrictive zoning and density requirements on the residential new construction industry or that limit the number of homes that can be built within the boundaries of a particular area. Regulatory restrictions and industry standards may require us to alter our installation processes and our sourcing, increase our operating expenses and limit the availability of suitable building lots for our customers, any of which could negatively affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

**We have debt principal and interest payment requirements that may restrict our future operations and impair our ability to meet our obligations.**

Our degree of leverage and level of interest expense may have important consequences, including:

- our leverage may place us at a competitive disadvantage as compared with our less leveraged competitors and make us more vulnerable in the event of a downturn in general economic conditions or in any of our businesses;
- our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate may be limited;
- a substantial portion of our cash flow from operations will be dedicated to the payment of interest and principal on our indebtedness, thereby reducing the funds available to us for operations, capital expenditures, acquisitions, future business opportunities or obligations to pay rent in respect of our operating leases; and

Our ability to service our debt and other obligations will depend on our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategies. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, Credit Facilities.

**Restrictions in our existing credit facilities and any future facilities or any other indebtedness we may incur in the future, limit our ability to take certain actions and could adversely affect our business, financial condition, results of operations, and the value of our common stock.**

Our credit facilities, or any future facilities we enter into or other indebtedness we incur, impose certain restrictions and obligations on us. Under certain of these instruments, we must comply with defined covenants that limit our ability to, among other things:

- incur or guarantee additional debt and issue preferred stock;
- make distributions or dividends on or redeem or repurchase shares of common stock;
- make certain investments and acquisitions;

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- make capital expenditures;
- incur certain liens or permit them to exist;
- enter into certain types of transactions with affiliates;
- acquire, merge or consolidate with another company; or
- transfer, sell or otherwise dispose of all or substantially all of our assets.

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

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

### **If we default on our obligations under the instruments governing our indebtedness, we may not be able to make payments on the notes.**

A failure by us to comply with the agreements governing our indebtedness including, without limitation, our existing credit facilities or any future facilities, the indenture governing the notes offered hereby and our other contractual obligations (including restrictive, financial and other covenants included therein), to pay our indebtedness and fixed costs or to post collateral (including under hedging arrangements) could result in a variety of material adverse consequences, including a default under our indebtedness and the exercise of remedies by our creditors, lessors and other contracting parties, and such defaults could trigger additional defaults under other indebtedness or agreements.

Any such default under the agreements governing our existing or future indebtedness and the remedies sought by the holders of such indebtedness could make us unable to make payments to pay principal of, or premium, if any, and interest on the notes, substantially decrease the market value of the notes and result in a cross-default under the notes. In the event of a default under our existing credit facilities or any future facilities or in respect of other indebtedness, the holders of such indebtedness may be able to cause all of our available cash flow to be used to pay such indebtedness, may be able to terminate outstanding credit commitments and/or may be able to cease making loans to us and, in any event, could elect to declare all of the funds borrowed under the applicable agreement to be immediately due and payable, together with accrued and unpaid interest, and we could be forced into bankruptcy or liquidation.

If our operating performance declines, we may need to seek waivers from the holders of our indebtedness to avoid being in default under the instruments governing such indebtedness. If we breach our covenants under our indebtedness, we may not be able to obtain a waiver from the holders of such indebtedness on terms acceptable to us or at all. If this occurs, we would be in default under such indebtedness, the holders of such indebtedness and other lenders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation.

**Adverse credit ratings could increase our costs of borrowing money and limit our access to capital markets and commercial credit.**

Moody's Investor Service and Standard & Poor's routinely evaluate our credit profile on an ongoing basis and have assigned ratings for our long-term debt. If these rating agencies downgrade any of our current credit ratings, our borrowing costs could increase and our access to the capital and commercial credit markets could be adversely affected.

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

If interest rates increase, our debt service obligations on our variable rate indebtedness, if any exists at the balance sheet date, would increase even though the amount borrowed would remain the same, and our net income and cash flows would correspondingly decrease. Specifically, we had no outstanding borrowings on our Revolver, as hereinafter defined, as of December 31, 2019, but should we have a balance in the future, we would incur interest based on a rate that varies per the conditions set forth in our agreement.

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

Our term loan bears interest at a variable rate, however interest rate hedges in place mitigate the risk of interest rate fluctuations associated with a portion of the outstanding debt balance. These derivative instruments are indexed to LIBOR, the value of which could also be impacted if LIBOR is limited or discontinued. For some instruments, the method of transitioning to an alternative reference rate may be challenging, especially if we cannot agree with the respective counterparty about how to make the transition. If a contract is not transitioned to an alternative reference rate and LIBOR is discontinued, the impact on our contracts is likely to vary by contract. If LIBOR is discontinued or if the methods of calculating LIBOR change from their current form, interest rates on our current or future indebtedness may be adversely affected. While we expect LIBOR to be available in substantially its current form until the end of 2021, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified.

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

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

**Terrorist attacks or acts of war against the United States or increased domestic or international instability could have an adverse effect on our operations.**

Adverse developments in the war on terrorism, terrorist attacks against the United States or any outbreak or escalation of hostilities between the United States and any foreign power may cause disruption to the economy, our business, our employees and our customers, which could negatively impact our financial condition and results of operations.

**RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK**

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

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

- market conditions affecting the residential construction, commercial construction and building products industries;
- quarterly variations in our results of operations;
- changes in government regulations;
- the announcement of acquisitions by us or our competitors;
- changes in general economic and political conditions;
- volatility in the financial markets;
- results of our operations and the operations of others in our industry;
- changes in interest rates;
- threatened or actual litigation and government investigations;
- the addition or departure of key personnel;
- actions taken by our stockholders, including the sale or disposition of their shares of our common stock; and
- differences between our actual financial and operating results and those expected by investors and analysts and changes in analysts' recommendations or projections.

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

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

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

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

To comply with the requirements of being a public company, we may undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff.

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

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

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

We have approximately 30.0 million shares of common stock outstanding as of December 31, 2019. The shares of common stock are freely tradable, except for any shares of common stock that may be held or acquired by our directors, executive officers and other affiliates, the sale of which will be restricted under the Securities Act of 1933, as amended. As of December 31, 2019, approximately 2.2 million of the 3.0 million shares of common stock authorized for issuance under the 2014 Omnibus Incentive Plan were available for issuance. These shares will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

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

As of December 31, 2019, Jeff Edwards beneficially owns approximately 23.0% of our outstanding common stock. As a result of his beneficial ownership of our common stock, he has sufficient voting power to significantly influence all matters requiring stockholder approval, including the election of directors, amendment of our amended and restated certificate of incorporation and approval of significant corporate transactions, and he has significant influence over our management and policies. This concentration of voting power may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares of common stock, which could prevent stockholders from receiving a premium for their shares of common stock. These actions may be taken even if other stockholders oppose them. The interests of Jeff Edwards may not always coincide with the interests of other stockholders, and he may act in a manner that advances his best interests and not necessarily those of our other stockholders. In addition, under our amended and restated certificate of incorporation, Jeff Edwards is permitted to pursue corporate opportunities for himself, rather than for us.

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

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

- a classified board of directors with three-year staggered terms;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

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- the exclusive right of our board of directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of the holders of our stock or a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- a requirement that a special meeting of stockholders may be called only by a resolution duly adopted by our board of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with a stockholder owning 15% or more of such corporation's outstanding voting stock for a period of three years following the date on which such stockholder became an "interested" stockholder. In order for us to consummate a business combination with an "interested" stockholder within three years of the date on which the stockholder became "interested," either (1) the business combination or the transaction that resulted in the stockholder becoming "interested" must be approved by our board of directors prior to the date the stockholder became "interested," (2) the "interested" stockholder must own at least 85% of our outstanding voting stock at the time the transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans) or (3) the business combination must be approved by our board of directors and authorized by at least two-thirds of our stockholders (excluding the "interested" stockholder). This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

### **We have not historically paid any dividends and may not pay any dividends in the future.**

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

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

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

### **Item 1B. Unresolved Staff Comments**

None.

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### Item 2. Properties

#### Real Property

We lease office and warehouse space in 38 states, including our corporate office in Columbus, Ohio. Our leases are typically short in duration with customary extensions at our option. We believe suitable alternative space is available in all of our markets. We also own our cellulose manufacturing facility in Bucyrus, Ohio. The table below summarizes our locations as of December 31, 2019.

State	Number of Locations	Approximate Total Square Footage	State	Number of Locations	Approximate Total Square Footage
Alabama	3	29,150	Mississippi	1	8,000
Arizona	2	25,846	Nebraska	1	12,000
California	16	170,852	Nevada	2	15,350
Colorado	9	80,162	New Hampshire	7	60,812
Connecticut	2	26,128	New Jersey	2	30,300
Delaware	4	31,175	New York	10	100,900
Florida	22	175,997	North Carolina	15	142,940
Georgia	11	159,704	Ohio	12	445,165
Idaho	3	43,000	Oklahoma	3	29,008
Illinois	5	60,118	Oregon	1	30,013
Indiana	13	237,536	Pennsylvania	3	30,200
Kansas	1	14,206	South Carolina	7	99,511
Kentucky	4	46,330	Tennessee	6	71,482
Louisiana	1	10,000	Texas	18	281,272
Maine	4	38,750	Utah	4	77,955
Maryland	3	34,710	Vermont	1	31,020
Massachusetts	4	45,303	Virginia	5	62,341
Michigan	1	34,800	Washington	3	56,393
Minnesota	6	114,890	Wisconsin	9	174,228

#### Our Fleet

As of December 31, 2019, our fleet consisted of approximately 4,600 total vehicles that we either leased or owned, including approximately 4,400 installation vehicles, which our installers use to deliver and install products from our locations to job sites, and approximately 200 other vehicles that are utilized by our sales staff, branch managers and various senior management personnel. For additional information, see Note 7, Long-Term Debt, and Note 15, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

### Item 3. Legal Proceedings

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course, including wage and hour lawsuits. We carry insurance coverage that we believe to be reasonable under the circumstances, although insurance may or may not cover any or all of our liabilities in respect to claims and lawsuits. While management currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows, such matters are subject to inherent uncertainties. See Note 15, Commitments and Contingencies, within Item 8 of this Form 10-K for additional information on significant legal proceedings.

### Item 4. Mine Safety Disclosures

Not applicable.

**PART II**

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

**Market Information for Common Stock**

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

**Holders of Record**

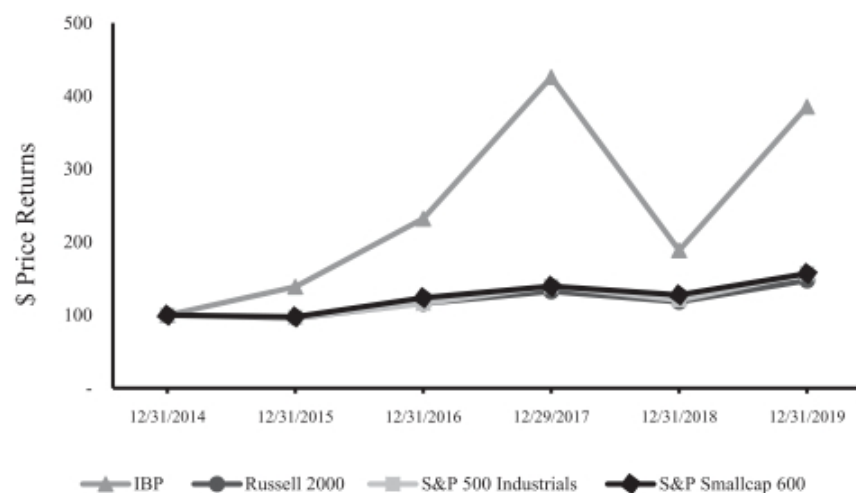
As of February 18, 2020, there were 799 holders of record of our common stock, one of which was Cede & Co., which is the holder of shares held through the Depository Trust Company.

**Dividend Policy**

During the years ended December 31, 2019, 2018 and 2017, we did not declare or pay any cash dividends on our capital stock. Any future determination relating to dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

**Stock Performance Graph**

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Russell 2000 Index (“Russell 2000”), (ii) the Standard & Poor’s Industrials Index (“S&P 500 Industrials”) and (iii) the S&P Smallcap 600 Index (“S&P Smallcap 600”). The graph assumes investments of \$100 in our common stock and in each of the three indices and the reinvestment of dividends for the last five fiscal years through December 31, 2019.



	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/29/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
<b>IBP</b>	100	139	232	426	189	386
<b>Russell 2000</b>	100	96	116	133	118	148
<b>S&amp;P 500 Industrials</b>	100	97	116	140	121	157
<b>S&amp;P Smallcap 600</b>	100	98	124	140	128	157



**Purchases of Equity Securities by the Issuer**

The following table shows the stock repurchase activity for the three months ended December 31, 2019:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (1)
October 1—31, 2019	—	\$ —	—	—
November 1—30, 2019	—	—	—	—
December 1—31, 2019	—	—	—	—
	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ 60.6 million</u>

- (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. In February 2020, our board of directors approved extending the current stock repurchase program to March 1, 2021. During the year ended December 31, 2019, we did not repurchase any shares under our stock repurchase program.

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**Item 6. Selected Financial Data**

The following tables set forth selected historical consolidated financial data that should be read in conjunction with Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K. The Consolidated Statements of Operations and Comprehensive Income data for the years ended and the Consolidated Balance Sheets data as of December 31, 2019, 2018, 2017, 2016 and 2015 are derived from our audited consolidated financial statements. The selected historical consolidated financial data in this section is not intended to replace our historical consolidated financial statements and the related notes thereto. Our historical results are not necessarily indicative of future results.

	Years ended December 31,				
	2019 (1)	2018 (2)	2017	2016	2015
<b>Statement of operations (in thousands, except per share amounts):</b>					
Net revenue	\$ 1,511,629	\$ 1,336,432	\$ 1,132,927	\$ 862,980	\$ 662,719
Cost of sales	1,076,809	964,841	808,901	610,532	474,426
Gross profit	434,820	371,591	324,026	252,448	188,293
<b>Operating expenses</b>					
Selling	75,016	67,105	58,450	49,667	37,702
Administrative and other	238,644	211,269	191,310	136,731	105,639
Operating income	121,160	93,217	74,266	66,050	44,952
Other expense	28,555	21,031	18,446	6,440	3,022
Income before income taxes	92,605	72,186	55,820	59,610	41,930
Income tax provision	24,446	17,438	14,680	21,174	15,413
Net income	68,159	54,748	41,140	38,436	26,517
Basic net income per share	\$ 2.29	\$ 1.76	\$ 1.30	\$ 1.23	\$ 0.85
Diluted net income per share	\$ 2.28	\$ 1.75	\$ 1.30	\$ 1.23	\$ 0.85
<b>Cash flow data (in thousands):</b>					
Net cash provided by operating activities	\$ 123,067	\$ 96,633	\$ 68,772	\$ 73,266	\$ 34,547
Net cash used in investing activities	\$ (131,733)	\$ (74,069)	\$ (200,443)	\$ (79,597)	\$ (111,365)
Net cash provided by financing activities	\$ 96,113	\$ 5,368	\$ 179,699	\$ 13,995	\$ 72,875
<b>Balance sheet data (in thousands):</b>					
Cash	\$ 177,889	\$ 90,442	\$ 62,510	\$ 14,482	\$ 6,818
Total current assets	\$ 581,949	\$ 411,545	\$ 354,942	\$ 192,391	\$ 150,232
Property and equipment, net	\$ 106,410	\$ 90,117	\$ 81,075	\$ 67,788	\$ 57,592
Total assets	\$ 1,099,479	\$ 834,658	\$ 738,746	\$ 462,095	\$ 373,572
Total debt (3)	\$ 575,539	\$ 463,454	\$ 359,722	\$ 166,720	\$ 143,677
Total stockholders’ equity	\$ 250,031	\$ 182,498	\$ 210,528	\$ 153,977	\$ 114,483

- (1) Amounts prior to 2019 do not reflect the impact of the adoption of Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), in the first quarter of 2019. See Note 8, Leases, within Item 8 of this Form 10-K for additional information.
- (2) Amounts prior to 2018 do not reflect the impact of the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), in the first quarter of 2018. See Note 2, Significant Accounting Policies, within Item 8 of this Form 10-K for additional information.
- (3) Total debt consists of current and long-term portions of long-term debt, finance lease obligations and vehicle financing arrangements. For the year ended December 31, 2016, we adopted ASU 2015-03 which resulted in a retrospective reclassification of \$0.5 million of debt issuance costs related to our long-term debt from other non-current assets to long-term debt as of December 31, 2015.

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We completed multiple business combinations in each year presented, with acquired net revenue, net income and total assets varying considerably depending on the number and size of the acquisitions completed in each year. This may affect comparability of results from year to year with the greatest impact being the acquisition of Alpha Insulation and Waterproofing on January 5, 2017, resulting in additional net revenue of \$116.1 million in that year. See Note 16, Business Combinations, within Item 8 of this Form 10-K for additional information.

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

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

#### **OVERVIEW**

We are one of the nation’s largest insulation installers for the residential new construction market and are also a diversified installer of complementary building products, including waterproofing, fire-stopping and fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving, mirrors and other products throughout the United States. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects in all 48 continental states and the District of Columbia from our national network of over 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 due to our strong balance sheet, liquidity and our continuing acquisition strategy.

A large portion of our net revenue comes from the U.S. residential new construction market, which depends upon a number of economic factors, including demographic trends, interest rates, consumer confidence, employment rates, housing inventory levels, foreclosure rates, the health of the economy and availability of mortgage financing. The strategic acquisitions of multiple companies over the last several years contributed meaningfully to our 13.1% increase in net revenue during the year ended December 31, 2019 compared to 2018.

We have omitted discussion of 2017 results where it would be redundant to the discussion previously included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

#### *2019 Highlights*

Net revenues increased 13.1%, or \$175.2 million, during 2019 compared to 2018, primarily driven by increased selling prices, the continued recovery of housing markets, the contributions of our recent acquisitions and growth across our end markets and products. We experienced strong sales growth year-over-year of approximately 11% in our combined residential new construction and repair and remodel end markets and approximately 25% in our commercial end-market. Gross margin of 28.8% benefited from selling price increases in 2019 resulting from significant insulation materials price increases in 2018.

In September 2019, we modified our debt structure in order to take advantage of the attractive market conditions. We issued \$300.0 million aggregate principal amount at maturity of senior unsecured notes (the “Senior Notes”) with interest 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, a portion of which we used to partially repay our outstanding obligations (including accrued and unpaid interest) under our term loan credit agreement (the “Term Loan Agreement”) and pay fees and expenses related to entry into the ABL Credit Agreement as defined below. In September 2019, we also entered into a new asset-based lending

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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 our previous revolving credit facility of up to \$150.0 million. As of December 31, 2019, we had no amounts outstanding on the ABL Revolver. In December 2019, we amended and restated our Term Loan. 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. See Liquidity and Capital Resources section below for further information about our debt.

We were successful at realizing selling price increases during the year to offset previous cost increases on the material we install. While we continue to proactively work with customers and suppliers to mitigate these cost impacts, we will likely continue to experience inflation on the materials we purchase in 2020.

We believe there are several trends that should drive long-term growth in the housing market, even if there are temporary periods of slowed growth. These long-term trends include an aging housing stock, population growth, household formation growth and the fact that housing starts are currently below long-term historic averages. We expect that our net revenue, gross profit and operating income will benefit from this growth.

### *2018 Highlights*

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

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

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

In February 2018, our board of directors authorized a \$50 million stock repurchase program, effective March 2, 2018, and in October 2018, our board of directors approved an additional stock repurchase program, effective November 6, 2018, pursuant to which we may purchase up to an additional \$100 million of our outstanding common stock. During the year ended December 31, 2018, we repurchased 2.1 million shares for \$89.4 million under our stock repurchase program.

### *Net revenue, cost of sales and gross profit*

The components of gross profit for 2019, 2018 and 2017 were as follows (dollars in thousands):

	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>
Net revenue	\$ 1,511,629	13.1%	\$ 1,336,432	18.0%	\$ 1,132,927
Cost of sales	1,076,809	11.6%	964,841	19.3%	808,901
Gross profit	<u>\$ 434,820</u>	17.0%	<u>\$ 371,591</u>	14.7%	<u>\$ 324,026</u>
Gross profit percentage	28.8%		27.8%		28.6%

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Net revenues increased during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily driven by acquisitions, organic growth from our existing branches and increased selling prices. As a percentage of net revenues, gross profit increased during the year ended December 31, 2019 compared to the year ended December 31, 2018 attributable primarily to achieving higher selling prices resulting from the higher material costs we experienced in 2018. 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 our Installed Building Products Foundation. On a dollar basis, cost of sales included increases from acquired businesses of approximately \$43.1 million and depreciation expense increased \$5.4 million as a result of increased investment in vehicles and equipment to support our growth, including growth from acquisitions. See Note 16, Business Combinations, in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K for information on our acquisitions.

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

	Twelve months ended December 31,		
	2019	2018	2017
<b><u>Period-over-period Growth</u></b>			
Sales Growth	13.1%	18.0%	31.3%
Same Branch Sales Growth (1)	8.6%	11.5%	9.8%
Single-Family Sales Growth (2)	10.5%	20.0%	17.6%
Single-Family Same Branch Sales Growth (1)(2)	4.8%	12.1%	7.9%
Residential Sales Growth (3)	10.9%	18.4%	24.6%
Residential Same Branch Sales Growth (1)(3)	5.9%	11.4%	11.3%
<b><u>Same Branch Sales Growth</u></b>			
Volume Growth (1)(4)	2.6%	6.1%	5.8%
Price/Mix Growth (1)(5)	5.4%	5.4%	4.0%
Large Commercial Sales Growth (1)	14.3%	11.5%	N/A
<b><u>U.S. Housing Market (6)</u></b>			
Total Completions Growth	6.0%	2.8%	8.8%
Single-Family Completions Growth (2)	7.6%	5.6%	7.7%

- (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 feel the revenue growth measures are important indicators of how our business is performing during the current growth phase of the company; however, we may rely on different metrics in the future as the company matures and enters a new phase. We utilize gross profit percentage to monitor our most significant variable costs and to evaluate labor efficiency and success at passing increasing costs of materials to customers.

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### *Operating Expenses*

Operating expenses for 2019, 2018 and 2017 were as follows (dollars in thousands):

	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>
<b>Selling</b>	<b>\$ 75,016</b>	<b>11.8%</b>	<b>\$ 67,105</b>	<b>14.8%</b>	<b>\$ 58,450</b>
Percentage of total net revenue	5.0%		5.0%		5.2%
<b>Administrative</b>	<b>\$ 214,134</b>	<b>15.2%</b>	<b>\$ 185,850</b>	<b>13.0%</b>	<b>\$ 164,453</b>
Percentage of total net revenue	14.2%		13.9%		14.5%
<b>Amortization</b>	<b>\$ 24,510</b>	<b>-3.6%</b>	<b>\$ 25,419</b>	<b>-5.4%</b>	<b>\$ 26,857</b>
Percentage of total net revenue	1.6%		1.9%		2.4%

### Selling

The dollar increase in selling expenses in 2019 was primarily driven by a year-over-year increase in selling wages, benefits and commissions of \$6.0 million, or 10.0%, which supported our increased net revenue of 13.1%. Selling expense remained flat as a percentage of sales primarily due to maintaining our selling leverage as we increased sales.

### Administrative

The increase in administrative expenses in 2019 was primarily due to an increase in wages and benefits in the amount of \$16.1 million, which was attributable to both acquisitions and organic growth as well as company performance. During 2019, we saw our costs related to liability insurance increase \$5.2 million and our costs related to facilities increase \$4.0 million due to overall growth in our business.

### Amortization

Our intangible assets include non-competes, customer listings, trade names and backlog. Amortization of intangibles attributable to acquisitions decreased by \$0.9 million in 2019 due to no longer amortizing the backlog intangible asset associated with our acquisition of Alpha during the year ended December 31, 2019 compared to expense of \$13.9 million during the year ended December 31, 2018. This decrease was offset by additional amortization expense resulting from new intangible assets from 2019 acquisitions.

### *Other Expense*

Other expense, net for 2019, 2018 and 2017 was as follows (dollars in thousands):

	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>
Interest expense, net	\$ 28,104	37.1%	\$ 20,496	17.9%	\$ 17,381
Other	451	-15.7%	535	-49.8%	1,065
<b>Total other expense</b>	<b>\$ 28,555</b>	<b>35.8%</b>	<b>\$ 21,031</b>	<b>14.0%</b>	<b>\$ 18,446</b>

The year-over-year increase in other expense, net during 2019 and 2018 was primarily a result of increased debt levels associated with our debt-related financing transactions to support acquisition-related growth. See Note 7 to our audited consolidated financial statements included in this Form 10-K for further information regarding debt balances, our Senior Notes offering and Term Loan modification/extinguishment.

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### *Income Tax Provision*

Income tax provision and effective tax rates for 2019, 2018 and 2017 were as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income tax provision	\$24,446	\$17,438	\$14,680
Effective tax rate	26.4%	24.2%	26.3%

During the year ended December 31, 2019, our tax rate was unfavorably impacted by the tax effect of losses incurred by separate companies to which no benefit can be recognized due to a full valuation allowance against the losses and various permanent items.

During the year ended December 31, 2018, our tax rate was favorably impacted by excess tax benefits from share-based compensation arrangements and by the usage of net operating losses for a tax filing entity which previously had a full valuation allowance. This favorability was offset by the tax effect of losses incurred by separate companies to which no benefit can be recognized due to a full valuation allowance against the losses.

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Unrealized (loss) gain on cash flow hedge, net of taxes	\$ (6,712)	\$ (1,050)	\$ 507

During the years ended December 31, 2019 and 2018, our cash flow hedge position decreased primarily due to unexpected declines in interest rates.

## **KEY FACTORS AFFECTING OUR OPERATING RESULTS**

### *Trends in the Construction Industry*

Our operating results may vary based on the amount and type of products we install and the mix of our end markets among new single-family, multi-family and commercial builders and owners of existing homes. We expect to benefit from the continued growth in single-family new residential construction as housing returns to historic stabilized levels. We maintain a mix of business among all types of homebuilders ranging from small custom builders to large regional and national homebuilders as well as a wide range of commercial builders. Net revenue derived from our ten largest homebuilder customers in the United States was approximately 15% for the year ended December 31, 2019. The residential new construction and repair and remodel markets represented approximately 82% and 84% of our total net revenue for the years ended December 31, 2019 and 2018, respectively, with the remaining portion attributable to the commercial construction end market.

### *Cost of Materials*

We purchase the materials that we install primarily from manufacturers. The industry supply of materials we install has experienced disruptions in the past but stabilized in 2019. 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 throughout 2019 as evidenced by our 1.0% improvement in gross profit as a percentage of sales during the year ended December 31, 2019 compared to the year ended December 31, 2018. We will continue to work with our customers to adjust selling prices to offset higher costs as they occur.

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### *Cost of Labor*

Our business is labor intensive. As of December 31, 2019, we had approximately 8,500 employees, most of whom work as installers on local construction sites. We expect to spend more to hire, train and retain installers to support our growing business in 2020, as tight labor availability continues within the construction industry. We offer a comprehensive benefits package, which many of our local competitors are not able to provide, which will increase costs as we hire additional personnel. Our workers' compensation costs also continue to increase as we increase our coverage for additional personnel.

While the availability of labor in many markets continued to tighten as the demand for employees, particularly installers, increases, we experienced improved employee retention, turnover and labor efficiency rates in the year ended December 31, 2019. 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 our new 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. In 2019, we donated \$1.4 million to the Foundation.

### *Other Factors*

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

### **INFLATION**

Our performance is dependent to a significant extent upon the levels of U.S. residential new construction spending, which is affected by factors such as interest rates, inflation, consumer confidence and unemployment. We do not believe that inflation has had a material impact on our business, financial condition or results of operations in 2019.

### **SEASONALITY**

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

### **LIQUIDITY AND CAPITAL RESOURCES**

Our capital resources primarily consist of cash from operations and borrowings under our 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. We may also use our resources to fund our optional stock repurchase program. Our investments consist of highly liquid instruments primarily including corporate bonds and commercial paper. As of December 31, 2019, 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 the years ended December 31, 2019, 2018 and 2017.



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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, the value of derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. We continue to review the impact the LIBOR phase-out will have on the Company.

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

	2019	2018
Cash and cash equivalents	\$ 177,889	\$ 90,442
Short-term investments	37,961	10,060
ABL Revolver	200,000	150,000
Less: outstanding letters of credit and cash collateral	(38,672)	(28,887)
Total liquidity (1)	<u>\$ 377,178</u>	<u>\$ 221,615</u>

- (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 December 31, 2019, total liquidity would be reduced by \$31.9 million 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 December 31, 2019, we had \$198.3 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.50% 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 December 31, 2019 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 December 31, 2019, we were in compliance with all applicable covenants under the Term Loan Agreement, ABL Credit Agreement and the Senior Notes.

### *Derivative Instruments*

As of December 31, 2019, we had two interest rate swaps, each with an associated floor, with a total beginning notional of \$200.0 million, one that amortizes quarterly to \$95.3 million at a maturity date of May 31, 2022 and one that amortizes quarterly to \$93.3 million at a maturity date of April 15, 2025. These two swaps combined serve to hedge \$196.5 million of the variable cash flows on our Term Loan as of December 31, 2019. We also had a forward interest rate swap with an associated floor beginning May 31, 2022 with a beginning notional of \$100.0 million that amortizes quarterly to \$97.0 million at a maturity date of April 15, 2025. These three swaps serve to hedge substantially all of the variable cash flows on our Term Loan until maturity.

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### *Vehicle and Equipment Notes*

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

Total gross assets and respective outstanding loan balances relating to our master loan and equipment agreements were \$130.2 million and \$72.7 million as of December 31, 2019, respectively, and \$98.7 million and \$60.4 million as of December 31, 2018, respectively. See Note 7 to our audited consolidated financial statements included in this Form 10-K for more information regarding our Master Loan and Security Agreement, Master Equipment Lease Agreement and Master Loan Agreements.

### *Letters of Credit and Bonds*

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

	<u>As of December 31, 2019</u>
Performance bonds	\$ 59,816
Insurance letters of credit and cash collateral	49,712
Permit and license bonds	7,156
Total bonds and letters of credit	<u>\$ 116,684</u>

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

### **Historical cash flow information**

#### *Working Capital*

We carefully manage our working capital and operating expenses. As of December 31, 2019, and 2018, our working capital, including cash, was \$367.8 million, or 24.3% of net revenue, and \$229.9 million, or 17.2% of net revenue, respectively. The increase in working capital year-over-year in 2019 was driven primarily by a \$115.3 million increase in cash and cash equivalents and investments resulting from issuance of our Senior Notes and positive operating cash flows, and an increase in accounts receivable and inventories resulting from, and supporting, our increased net revenue. These increases were offset by a partial payment of our Term Loan and an increase in accounts payable. We continue to look for opportunities to reduce our working capital as a percentage of net revenue.

#### *Cash Flows from Operating Activities*

Net cash provided by operating activities was \$123.1 million and \$96.6 million for the years ended December 31, 2019 and 2018, respectively. Generally, the primary drivers of our cash flow from operations are operating income, adjusted for certain non-cash items, offset by cash payments for taxes and interest on our outstanding

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debt. Our cash flows from operations can be impacted by the timing of our cash collections on sales and collection of retainage amounts. In addition, cash flows are generally stronger in the third quarter as a result of increased construction activity.

### *Cash Flows from Investing Activities*

**Business Combinations** . In 2019 and 2018, we made cash payments, net of cash acquired, of \$51.7 million and \$57.7 million, respectively, on business combinations. See Note 16, Business Combinations, to our audited consolidated financial statements included in this Form 10-K for more information regarding our business acquisitions in 2019, 2018 and 2017.

**Capital Expenditures** . Total cash paid for property and equipment was \$50.2 million and \$35.2 million for the years ended December 31, 2019 and 2018, respectively, and primarily related to purchases of vehicles and various equipment to support our growing operations and increased net revenue. We expect to continue to support any increases in 2020 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**. In 2019 and 2018, we invested \$52.8 million and \$22.8 million, respectively, in short-term investments consisting primarily of corporate bonds and commercial paper and had \$25.1 million and \$42.8 million in short-term investments mature in 2019 and 2018, respectively.

### *Cash Flows from Financing Activities*

We utilize our credit facilities and Senior Notes to support our operations and continuing acquisitions. To support those initiatives, 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 \$6.7 million in debt issuance costs during the year ended December 31, 2019, resulting in a net cash inflow of \$97.5 million. We received \$100.0 million in cash, reduced by \$2.0 million in debt issuance costs, by amending our Term Loan during the year ended December 31, 2018. During the years ended December 31, 2019 and 2018, we also received proceeds of \$33.1 million and \$25.4 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 \$21.3 million and \$14.1 million during the years ended December 31, 2019 and 2018, respectively. In addition, we made \$4.2 million and \$5.6 million in principal payments on our finance leases during the years ended December 31, 2019 and 2018, respectively. Lastly, we repurchased approximately 2.1 million shares of our common stock for \$89.4 million during the year ended December 31, 2018 as part of our stock repurchase plan. We did not repurchase any shares under our stock repurchase plan during the year ended December 31, 2019. See Note 11, Stockholders' Equity, for more information surrounding our stock repurchase plan.

### **Capped Call Agreement**

Certain of our stockholders entered into a capped call agreement with the underwriters of the secondary offering of our common stock completed on June 17, 2014. This agreement provided these stockholders with an option to call from the underwriters a total of approximately 1.0 million shares of our common stock at a capped price, with settlement required to be made in cash. During 2016, these stockholders exercised the call option with respect to approximately 0.7 million of the shares. In addition, in the fourth quarter of 2016, these stockholders simultaneously cancelled the remaining portion of the call option and purchased a new call option from the underwriters. This new capped call agreement provided these stockholders with the option to call from the underwriters a total of approximately 0.4 million shares of our common stock at a capped price. The option was exercised on April 16, 2018 and was settled in cash. The capped call agreement was between these stockholders and the underwriters and does not represent compensation to the stockholders for services rendered to us. The

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price paid for the option represents the fair value of that transaction and we are not a party to the agreement. Accordingly, we have not recorded any expense related to this transaction. There were no capped call agreements as of December 31, 2019 or 2018.

### Contractual Obligations

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2019. Some of the amounts included in the table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, our actual payments may vary from those reflected in the table. In addition, certain other long-term liabilities included on the Consolidated Balance Sheets as well as our unrecognized tax benefits under Accounting Standards Codification ("ASC") 740, "Income Taxes," have been excluded from the contractual obligations table because of the inherent uncertainty and the inability to reasonably estimate the timing of cash outflows.

(in thousands)	Payments due by period						
	Total	2020	2021	2022	2023	2024	Thereafter
Long-term debt obligations (1)	\$ 764,694	\$ 52,368	\$ 46,588	\$ 42,025	\$ 36,142	\$ 30,014	\$ 557,557
Finance lease obligations (2)	7,023	3,081	1,973	1,037	673	259	—
Operating lease obligations (3)	50,407	17,047	12,247	7,438	4,207	2,643	6,825
Purchase obligations (4)	35,132	21,132	14,000	—	—	—	—

- (1) Long-term debt obligations include interest payments on our Senior Notes, Term Loan, our notes payable to sellers of acquisitions, and vehicles purchased under the Master Loan and Security Agreement, the Master Equipment Agreement and the Master Loan Agreements. Long-term debt obligations do not include commitment fees on the unused portion of the ABL Revolver since those fees are subject to change based on the factors described in the ABL Credit Agreement. Interest on seller obligations maturing through March 2025 is estimated using current market rates. For additional information, see Note 7, Long-Term Debt, to our audited consolidated financial statements included in this Form 10-K.
- (2) We maintain certain production vehicles under a finance lease structure. The leases expire on various dates through December 2024. Finance lease obligations, as disclosed above, include estimated interest expense payments. In determining expected interest expense payments, we utilize the rates embedded in the lease documentation.
- (3) We lease certain locations, vehicles and equipment under operating lease agreements, including, but not limited to, corporate offices, branch locations and various office and operating equipment. In some instances, these lease agreements exist with related parties. For additional information, see Note 14, Related Party Transactions, to our audited consolidated financial statements included in this Form 10-K.
- (4) As of December 31, 2019, we had a product supply agreement extending through December 31, 2021. For additional information, see Note 15, Commitments and Contingencies, to our audited consolidated financial statements included in this Form 10-K.

### Off-Balance Sheet Arrangements

As of December 31, 2019 and 2018, other than letters of credit issued under our ABL Revolver and performance and license bonds, we had no material off-balance sheet arrangements with unconsolidated entities. Upon adoption of ASU 2016-02 on January 1, 2019, long-term operating leases were recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. Therefore, as of December 31, 2018, our operating leases were accounted for under Topic 840 and considered material off-balance sheet arrangements. See Note 2, Significant Accounting Policies, to our audited consolidated financial statements included in this Form 10-K for further information.

## **Critical Accounting Policies and Estimates**

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

### *Revenue Recognition*

Our revenues are derived primarily through contracts with customers whereby we install insulation and other complementary building products and are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. 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 significant judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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

Billing on our long-term contracts occurs primarily on a monthly basis throughout the contract period whereby we submit invoices for customer payment based on actual or estimated costs incurred during the billing period. On certain of our long-term contracts the customer may withhold payment on an invoice equal to a percentage of the invoice amount, which will be subsequently paid after satisfactory completion of each installation project.

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This amount is referred to as retainage and is common practice in the construction industry, as it allows for customers to ensure the quality of the service performed prior to full payment. Retainage receivables are classified as current or long-term assets based on the expected time to project completion.

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

### *Accounts Receivable*

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

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were \$33.4 million and \$28.0 million as of December 31, 2019 and 2018, respectively.

### *Goodwill*

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

### *Leases*

On January 1, 2019, we adopted ASC 842, "Leases" which, among other changes, requires us to record liabilities classified as operating leases on our Condensed Consolidated Balance Sheets along with a corresponding right-of-use asset. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. See Note 8, "Leases," to our audited consolidated financial statements included in this Form 10-K for additional information.

### *Derivatives and Hedging Activities*

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow

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hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 10, Derivatives and Hedging, to our audited consolidated financial statements included in this Form 10-K for additional information on our accounting policy for derivative instruments and hedging activities.

### *Share-Based Compensation*

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

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

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

### *Business Combinations*

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs classified as Level 3 inputs. These inputs include projected sales, margin and tax rate. At times, the total purchase price for a business combination could be less than the estimated fair values of acquired tangible and intangible assets. In these cases, we record a gain on bargain purchase within Other Expenses in the Consolidated Statements of Operations and Comprehensive Income rather than goodwill in accordance with generally accepted accounting principles.

### *Insurance Liabilities*

We carry insurance for a number of risks, including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. Liabilities relating to claims associated with these risks are estimated by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions. In estimating our liability for such claims, we periodically analyze our historical trends, including loss development, and apply appropriate loss development



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factors to the incurred costs associated with the claims with the assistance of external actuarial consultants. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our reserves and corresponding expenses could be affected if future claim experience differs significantly from historical trends and actuarial assumptions.

### *Taxes*

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

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

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Tax Act that was enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. During the year end December 31, 2018, the Company recognized a \$0.8 million benefit due to timing provision to return adjustments which impacted deferred balances at the 35% rate that were then revalued at the lower corporate rate. See Note 13, Income Taxes, for additional information.

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

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

### *Estimated Fair Value of Financial Instruments*

Accounts receivable, accounts payable and accrued liabilities as of December 31, 2019 and 2018 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of our long-term debt, including the Term Loan and our ABL Revolver as of December 31, 2019 and 2018, approximate fair value due to the variable rate nature of the agreements. The carrying amounts of the obligations associated with our operating and finance leases as well as our vehicle and equipment notes approximate fair value as of December 31, 2019 and 2018. Our Senior Notes are not recorded at fair value in the Consolidated Balance Sheets. See Note 9, Fair Value Measurements, for estimated fair value of the Senior Notes, assessed by utilizing third-party quotes derived from market pricing. All debt classifications represent Level 2 fair value measurements.

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

### **Recent Accounting Pronouncements**

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

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

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. As of December 31, 2019, we had \$198.3 million outstanding on the Term Loan, net of unamortized debt issuance costs, no outstanding borrowings on the ABL Revolver and \$0.1 million outstanding under various finance leases subject to variable interest rates. Our two interest rate swaps, each with an associated floor, combine to reduce exposure to market risks on our Term Loan by \$196.0 million as of December 31, 2019. As a result, total variable rate debt of \$4.1 million was exposed to market risks as of December 31, 2019. A hypothetical one percentage point increase (decrease) in interest rates on our variable rate debt would increase (decrease) our annual interest expense by approximately \$41 thousand. 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, the value of derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. We continue to review the impact the LIBOR phase-out will have on the Company.

### **Item 8. Financial Statements and Supplementary Data**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Installed Building Products, Inc

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Installed Building Products, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 8 to the financial statements, effective January 1, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, using the modified retrospective approach.

### Basis for Opinion

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

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

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Revenue on certain contracts recognized over time – Refer to Notes 2 and 3 to the financial statements**

*Critical Audit Matter Description*

The Company recognizes revenue from the majority of its installation contracts when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For contracts that are not complete at the reporting date (“uncompleted contracts”), the Company recognizes revenue over time utilizing a cost-to-cost input method, as the Company believes this represents the best measure of when goods and services are transferred to the customer. When this method is used, the Company estimates the cost to complete individual contracts and records 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 estimated costs to complete each contract requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs related to 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.

The Company’s estimation process for determining revenues for uncompleted contracts accounted for under the cost-to-cost approach is based upon historical experience, the professional judgment and knowledge of the Company’s project management, operational and financial professionals, and an assessment of the key underlying factors, such as the value of executed contracts, change orders, and related contract costs, that may impact the revenues and costs of uncompleted contracts.

Given the judgments necessary to estimate the relationship between executed contract value and contract costs, auditing the amount of revenue recognized for uncompleted contracts involves a high degree of auditor judgment.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to estimated revenue recognized on uncompleted contracts included the following, among others:

- We tested the effectiveness of the Company’s controls over the determination of uncompleted contract revenue, including those over estimated total costs and revenues recognized through performance obligations.
- We inquired of project managers, observed selected projects, and evaluated the reasonableness of management’s ability to accurately estimate costs by comparing incurred contract costs on uncompleted contracts to management’s projections.
- We compared accounting records to executed contracts and change orders to verify accuracy of contract values in the Company’s estimates.
- We considered the impact of change orders and other related contract costs that may impact the determination of revenue and estimated costs to completion.
- We tested the mathematical accuracy of the Company’s calculation of revenue recognized over time.
- We selected a sample of contract costs incurred as of December 31, 2019, agreed the costs to supplier invoices or other supporting documents, and evaluated whether the costs were properly allocated to the contracts included in management’s calculation of revenue recognized over time.
- We developed an expectation of revenue for uncompleted contracts with remaining performance obligations as of December 31, 2019 based on (1) consideration of incurred contract costs and (2) results realized by the Company on completed contracts. We compared this expectation to the Company’s revenue recognized on uncompleted contracts at December 31, 2019.

*/s/ Deloitte & Touche LLP*

Columbus, Ohio  
February 27, 2020

We have served as the Company’s auditor since 2013.

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

	As of December 31,	
	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 177,889	\$ 90,442
Investments	37,961	10,060
Accounts receivable (less allowance for doubtful accounts of \$ 6,878 and \$5,085 at December 31, 2019 and 2018, respectively)	244,519	214,121
Inventories	74,606	61,162
Other current assets	46,974	35,760
Total current assets	581,949	411,545
Property and equipment, net	106,410	90,117
Operating lease right-of-use assets	45,691	—
Goodwill	195,652	173,049
Intangibles, net	153,562	149,790
Other non-current assets	16,215	10,157
Total assets	\$ 1,099,479	\$ 834,658
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ 24,164	\$ 22,642
Current maturities of operating lease obligations	15,459	—
Current maturities of finance lease obligations	2,747	4,806
Accounts payable	98,871	96,949
Accrued compensation	33,636	27,923
Other current liabilities	39,272	29,366
Total current liabilities	214,149	181,686
Long-term debt	545,031	432,182
Operating lease obligations	29,785	—
Finance lease obligations	3,597	3,824
Deferred income taxes	9,175	6,695
Other long-term liabilities	47,711	27,773
Total liabilities	849,448	652,160
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred Stock; \$0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at December 31, 2019 and 2018, respectively	—	—
Common stock; \$0.01 par value: 100,000,000 authorized, 32,871,504 and 32,723,972 issued and 30,016,340 and 29,915,611 shares outstanding at December 31, 2019 and 2018, respectively	329	327
Additional paid in capital	190,230	181,815
Retained earnings	173,371	105,212
Treasury stock; at cost: 2,855,164 and 2,808,361 shares at December 31, 2019 and 2018, respectively	(106,756)	(104,425)
Accumulated other comprehensive loss	(7,143)	(431)
Total stockholders' equity	250,031	182,498
Total liabilities and stockholders' equity	\$ 1,099,479	\$ 834,658

See accompanying notes to consolidated financial statements

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

	Years ended December 31,		
	2019	2018	2017
Net revenue	\$ 1,511,629	\$ 1,336,432	\$ 1,132,927
Cost of sales	1,076,809	964,841	808,901
Gross profit	434,820	371,591	324,026
Operating expenses			
Selling	75,016	67,105	58,450
Administrative	214,134	185,850	164,453
Amortization	24,510	25,419	26,857
Operating income	121,160	93,217	74,266
Other expense			
Interest expense, net	28,104	20,496	17,381
Other	451	535	1,065
Income before income taxes	92,605	72,186	55,820
Income tax provision	24,446	17,438	14,680
Net income	<u>\$ 68,159</u>	<u>\$ 54,748</u>	<u>\$ 41,140</u>
Other comprehensive (loss) income, net of tax:			
Unrealized (loss) gain on cash flow hedge, net of tax benefit (provision) of \$2,225, \$284 and (\$206) for the twelve months ended December 31, 2019, 2018 and 2017, respectively	(6,712)	(1,050)	507
Comprehensive income	<u>\$ 61,447</u>	<u>\$ 53,698</u>	<u>\$ 41,647</u>
Basic net income per share	<u>\$ 2.29</u>	<u>\$ 1.76</u>	<u>\$ 1.30</u>
Diluted net income per share	<u>\$ 2.28</u>	<u>\$ 1.75</u>	<u>\$ 1.30</u>
Weighted average shares outstanding:			
Basic	29,752,644	31,107,231	31,639,283
Diluted	29,873,106	31,229,558	31,756,363

See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except share amounts)

	Common Stock		Additional Paid In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount			Shares	Amount		
BALANCE—January 1, 2017	<u>32,135,176</u>	<u>\$ 321</u>	<u>\$ 158,581</u>	<u>\$ 7,294</u>	<u>(650,402)</u>	<u>\$ (12,219)</u>	<u>\$ —</u>	<u>\$ 153,977</u>
Net income				41,140				41,140
Purchase of remaining interest in subsidiary			(1,888)					(1,888)
Issuance of common stock for acquisition	282,577	3	10,856					10,859
Issuance of common stock awards to employees	101,241	1	(1)					—
Surrender of common stock awards by employees					(12,386)	(562)		(562)
Share-based compensation expense			6,195					6,195
Share-based compensation issued to directors	5,940		300					300
Other comprehensive income, net of tax							507	507
BALANCE—January 1, 2018	<u>32,524,934</u>	<u>\$ 325</u>	<u>\$ 174,043</u>	<u>\$ 48,434</u>	<u>(662,788)</u>	<u>\$ (12,781)</u>	<u>\$ 507</u>	<u>\$ 210,528</u>
Net income				54,748				54,748
Cumulative effect of accounting changes, net of tax				2,030			112	2,142
Issuance of common stock awards to employees	194,093	2	(2)					—
Surrender of common stock awards by employees					(43,871)	(2,282)		(2,282)
Share-based compensation expense			7,598					7,598
Share-based compensation issued to directors	4,945		176					176
Common stock repurchase					(2,101,702)	(89,362)		(89,362)
Other comprehensive loss, net of tax							(1,050)	(1,050)
BALANCE—January 1, 2019	<u>32,723,972</u>	<u>\$ 327</u>	<u>\$ 181,815</u>	<u>\$ 105,212</u>	<u>(2,808,361)</u>	<u>\$ (104,425)</u>	<u>\$ (431)</u>	<u>\$ 182,498</u>
Net income				68,159				68,159
Issuance of common stock awards to employees	139,862	2	(2)					—
Surrender of common stock awards by employees					(46,803)	(2,331)		(2,331)
Share-based compensation expense			8,057					8,057
Share-based compensation issued to directors	7,670		360					360
Other comprehensive loss, net of tax							(6,712)	(6,712)
BALANCE—December 31, 2019	<u>32,871,504</u>	<u>\$ 329</u>	<u>\$ 190,230</u>	<u>\$ 173,371</u>	<u>(2,855,164)</u>	<u>\$ (106,756)</u>	<u>\$ (7,143)</u>	<u>\$ 250,031</u>

See accompanying notes to consolidated financial statements

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

	Years ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net income	\$ 68,159	\$ 54,748	\$ 41,140
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Depreciation and amortization of property and equipment	38,862	33,306	28,285
Amortization of operating lease right-of-use assets	15,691	—	—
Amortization of intangibles	24,510	25,419	26,857
Amortization of deferred financing costs and debt discount	1,184	1,164	1,093
Provision for doubtful accounts	4,312	2,630	2,834
Write-off of debt issuance costs	3,725	1,164	2,113
Gain on sale of property and equipment	(140)	(1,098)	(492)
Noncash stock compensation	8,727	7,839	6,592
Deferred income taxes	5,341	470	(6,160)
<b>Changes in assets and liabilities, excluding effects of acquisitions</b>			
Accounts receivable	(29,582)	(30,166)	(19,955)
Inventories	(10,597)	(15,717)	(3,667)
Other assets	(16,959)	(4,552)	(4,602)
Accounts payable	947	8,146	6,303
Income taxes receivable/payable	(3,944)	10,273	(18,605)
Other liabilities	12,831	3,007	7,036
Net cash provided by operating activities	<u>123,067</u>	<u>96,633</u>	<u>68,772</u>
<b>Cash flows from investing activities</b>			
Purchases of investments	(52,795)	(22,818)	(30,194)
Maturities of short term investments	25,061	42,782	—
Purchases of property and equipment	(50,167)	(35,232)	(31,668)
Acquisitions of businesses, net of cash acquired of \$334, \$0 and \$247 in 2019, 2018 and 2017, respectively	(51,706)	(57,740)	(137,120)
Proceeds from sale of property and equipment	761	1,958	959
Other	(2,887)	(3,019)	(2,420)
Net cash used in investing activities	<u>(131,733)</u>	<u>(74,069)</u>	<u>(200,443)</u>
<b>Cash flows from financing activities</b>			
Proceeds from senior notes (Note 7)	300,000	—	—
Proceeds from term loan (Note 7)	—	100,000	300,000
Payments on term loan (Note 7)	(195,750)	(2,750)	(97,750)
Proceeds from delayed draw term loan	—	—	112,500
Payments on delayed draw term loan	—	—	(125,000)
Proceeds from vehicle and equipment notes payable	33,090	25,443	22,460
Debt issuance costs	(6,691)	(1,992)	(8,281)
Principal payments on long-term debt	(21,316)	(14,130)	(10,002)
Principal payments on finance lease obligations	(4,157)	(5,604)	(7,314)
Acquisition-related obligations	(6,732)	(3,954)	(4,464)
Repurchase of common stock	—	(89,363)	—
Surrender of common stock awards by employees	(2,331)	(2,282)	(562)
Purchase of remaining interest in subsidiary	—	—	(1,888)
Net cash provided by financing activities	<u>96,113</u>	<u>5,368</u>	<u>179,699</u>
Net change in cash and cash equivalents	87,447	27,932	48,028
Cash and cash equivalents at beginning of period	90,442	62,510	14,482
Cash and cash equivalents at end of period	<u>\$ 177,889</u>	<u>\$ 90,442</u>	<u>\$ 62,510</u>
<b>Supplemental disclosures of cash flow information</b>			
Net cash paid during the period for:			
Interest	\$ 20,943	\$ 20,075	\$ 13,758
Income taxes, net of refunds	22,633	4,950	38,887
<b>Supplemental disclosure of noncash activities</b>			
Common stock issued for acquisition of business	—	—	10,859
Right-of-use assets obtained in exchange for operating lease obligations	18,907	—	—
Termination of operating lease obligations and right-of-use assets	(2,946)	—	—
Property and equipment obtained in exchange for finance lease obligations	2,809	2,208	4,440
Seller obligations in connection with acquisition of businesses	7,543	7,540	5,128
Unpaid purchases of property and equipment included in accounts payable	1,903	1,773	2,003

See accompanying notes to consolidated financial statements



INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATON**

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.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Principles of Consolidation

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

Use of Estimates

Preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgements and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual amounts could differ from such estimates.

Cash and Cash Equivalents

We consider all highly-liquid investments purchased with original term to maturity of three months or less to be cash equivalents. We had \$99.2 million and \$69.8 million of cash equivalents as of December 31, 2019 and 2018, respectively. Substantially all cash is held in banks providing FDIC coverage of \$0.25 million per depositor.

Revenue and Cost Recognition

On January 1, 2018, we adopted the new accounting standard ASC 606, “Revenue from Contracts with Customers,” using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. See Note 3, Revenue Recognition, for the detailed revenue recognition policy.

Derivative Instruments and Hedging Activities

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 10, Derivatives and Hedging, for additional information on our accounting policy for derivative instruments and hedging activities.

Investment Policy

Marketable securities with original maturities longer than three months but less than one year from the settlement date are classified as investments within current assets. These investments consist of highly liquid investment grade instruments primarily including corporate bonds and commercial paper. Investments for which we have the ability and positive intent to hold to maturity are carried at amortized cost. The difference between the acquisition costs and face values of held-to-maturity investments is amortized over the remaining term of the investments and added to or subtracted from the acquisition cost and interest income. As of December 31, 2019, all of our investments were classified as held-to-maturity.

Business Combinations

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

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

Accounts Receivable

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

Retainage receivables represent the amount retained by our customers to ensure the quality of the installation and is received after satisfactory completion of each installation project. Management regularly reviews aging of retainage receivables and changes in payment trends and records an allowance when collection of amounts due are considered at risk. Amounts retained by project owners under construction contracts and included in accounts receivable were \$33.4 million and \$28.0 million as of December 31, 2019 and 2018, respectively. In addition, as of December 31, 2019, \$0.5 million of retainage receivables are recorded in other long-term assets.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. The allowance is determined by management based on our historical losses, specific

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

customer circumstances and general economic conditions. We analyze aged accounts receivable and generally increase the allowance as receivables age. Management reviews accounts receivable and records an allowance for specific customers based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed. This analysis is performed regularly and the allowance is adjusted accordingly. The following table sets forth our allowance for doubtful accounts (in thousands):

January 1, 2017	\$ 3,397
Charged to costs and expenses	2,834
Charged to other accounts (1)	699
Deductions (2)	(2,125)
December 31, 2017	<u>\$ 4,805</u>
Charged to costs and expenses	2,630
Charged to other accounts (1)	675
Deductions (2)	(3,025)
December 31, 2018	<u>\$ 5,085</u>
Charged to costs and expenses	4,312
Charged to other accounts (1)	1,269
Deductions (2)	(3,788)
December 31, 2019	<u>\$ 6,878</u>

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

#### Concentration of Credit Risk

Credit risk is our risk of financial loss from the non-performance of a contractual obligation on the part of our counterparty. Such risk arises principally from our receivables from customers and cash and bank balances. Substantially all of our trade accounts receivable are from entities engaged in residential and commercial construction. We perform periodic credit evaluations of our customers' financial condition. The general credit risk of our counterparties is not considered to be significant. In addition, no individual customer made up more than 3% of accounts receivable or 4% of net revenue for the years ended December 31, 2019, 2018 and 2017.

#### Inventories

Inventories consist of insulation, waterproofing materials, garage doors, rain gutters, window blinds, shower doors, mirrors, closet shelving and other products. We value inventory at each balance sheet date to ensure that it is carried at the lower of cost or net realizable value with cost determined using the first-in, first-out ("FIFO") method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. As of December 31, 2019 and 2018, substantially all inventory was finished goods. Inventory provisions are recorded to reduce inventory to the lower of cost or net realizable value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items such as product discontinuance, engineering/material changes, or regulatory-related changes.

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

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

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

Goodwill

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

Impairment of Other Intangible and Long-Lived Assets

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

We review long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair net realizable value less cost to sell at the date management commits to a plan of disposal. There was no impairment loss for the years ended December 31, 2019, 2018 and 2017.

Other Liabilities

Our workers' compensation insurance program, for a significant portion of our business, is considered a high deductible program whereby we are responsible for the cost of claims under approximately \$0.8 million. Our

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

general liability insurance program is considered a high retention program whereby we are responsible for the cost of claims up to approximately \$2.0 million, subject to an aggregate cap of \$8.0 million. Our vehicle liability insurance program is considered a high deductible program whereby we are responsible for the cost of claims under approximately \$1.0 million. In each case, if we do not pay these claims, our insurance carriers are required to make these payments to the claimants on our behalf. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through December 31, 2019 and 2018. We establish case reserves for reported claims using case-basis evaluation of the underlying claims data and we update as information becomes known. We regularly monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

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

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

#### Advertising Costs

Advertising costs are generally expensed as incurred. Advertising expense was approximately \$3.9 million, \$3.8 million and \$3.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, and is included in selling expense on the Consolidated Statements of Operations and Comprehensive Income.

#### Deferred Financing Costs

Deferred financing costs and debt issuance costs combined, totaling \$8.2 million and \$6.4 million, net of accumulated amortization as of December 31, 2019 and 2018, respectively, are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method. The deferred financing costs are included in other non-current assets while the debt issuance costs are included in long-term debt on the Consolidated Balance Sheets as of December 31, 2019 and 2018, respectively. The related amortization expense of these costs combined was \$1.2 million, \$1.2 million and \$1.1 million and is included in interest expense, net on the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017, respectively.

We wrote off \$3.3 million in previously capitalized loan costs during the year ended December 31, 2019. In addition, we expensed loan costs of approximately \$0.4 million, \$1.1 million and \$1.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, associated with our credit facilities because they did not meet the requirements for capitalization. These amounts are included in interest expense, net on the Condensed

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations and Comprehensive Income. We also had \$6.7 million in new costs associated with the debt-related financing transactions incurred during the year ended December 31, 2019. The deferred financing costs are included in other non-current assets while the debt issuance costs are included in long-term debt on the Condensed Consolidated Balance Sheets. These costs are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method.

For additional information on our debt instruments, see Note 7, Long-Term Debt.

Leases

On January 1, 2019, we adopted the new accounting standard ASU 2016-02, "Leases," which requires substantially all leases, with the exception of leases with a term of one year or less, to be recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. This ASU also requires disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows. See Note 8, Leases, for further information regarding our lease accounting policies.

Share-Based Compensation

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

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

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

Income Taxes

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

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

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. During the year end December 31, 2017, the Company recognized a \$3.8 million tax benefit as a result of revaluing the ending net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, and also recognized a \$0.8 million benefit in 2018 due to timing provision to return adjustments which impacted deferred balances at the 35% rate that were then revalued at the lower corporate rate. See Note 13, Income Taxes, for additional information.

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

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

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

INSTALLED BUILDING PRODUCTS, INC.  
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Estimated Fair Value of Financial Instruments

See Note 9, Fair Value Measurements, for related accounting policies.

Recently Adopted Accounting Pronouncements

Standard	Effective Date	Adoption
ASU 2016-02, <i>Leases (Topic 842)</i>	January 1, 2019	This Accounting Standards Update (“ASU”) requires substantially all leases, with the exception of leases with a term of one year or less, to be recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. This ASU also requires disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows. See Note 8, Leases, for further information regarding the effects of adopting this standard.

Recently Issued Accounting Pronouncements Not Yet Adopted

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

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2016-13, <i>Financial Instruments-Credit Losses (Topic 326)</i>	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.	Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.	Upon adoption of this pronouncement, we expect the accounts receivable balance and the contract assets balance included in other current assets on our Condensed Consolidated Balance Sheets to be affected, with an offsetting amount recorded to retained earnings in the period of adoption. We are still quantifying the impact of the ASU and its related amendments on our consolidated financial statements, but do not expect it to be material.



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Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2017-04, <i>Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>	To address concerns over the cost and complexity of the two-step goodwill impairment test, this pronouncement removes the second step of the goodwill impairment test. Going forward, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.	Annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.	We anticipate the adoption of this ASU will not have a material impact on our consolidated financial statements or disclosures.
ASU 2018-13, <i>Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement</i>	This pronouncement amends Topic 820 to eliminate, add and modify certain disclosure requirements for fair value measurements.	Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.	We will modify our disclosures to conform to the new requirements beginning with filings covering periods subsequent to the adoption date.
ASU 2019-12, <i>Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes</i>	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.

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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.

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

	Year ended December 31,			
	2019		2018	
Residential new construction	\$ 1,138,475	75%	\$ 1,026,473	77%
Repair and remodel	98,771	7%	89,977	7%
Commercial	274,383	18%	219,982	16%
Net revenues	<u>\$ 1,511,629</u>	<u>100%</u>	<u>\$ 1,336,432</u>	<u>100%</u>

	Year ended December 31,			
	2019		2018	
Insulation	\$ 970,070	64%	\$ 876,118	66%
Waterproofing	112,075	7%	97,683	7%
Shower doors, shelving and mirrors	105,745	7%	90,352	7%
Garage doors	89,959	6%	79,539	6%
Rain gutters	49,788	3%	44,203	3%
Window blinds	41,641	3%	28,981	2%
Other building products	142,351	10%	119,556	9%
Net revenues	<u>\$ 1,511,629</u>	<u>100%</u>	<u>\$ 1,336,432</u>	<u>100%</u>

INSTALLED BUILDING PRODUCTS, INC.  
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Contract Assets and Liabilities

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

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

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Contract assets	\$22,138	\$15,092
Contract liabilities	(8,888)	(7,468)

Uncompleted contracts were as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Costs incurred on uncompleted contracts	\$110,818	\$114,826
Estimated earnings	61,185	58,952
Total	172,003	173,778
Less: Billings to date	155,599	163,112
Net under billings	<u>\$ 16,404</u>	<u>\$ 10,666</u>

Net under billings were as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets)	\$22,138	\$15,092
Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities)	(5,734)	(4,426)
Net under billings	<u>\$16,404</u>	<u>\$10,666</u>

The difference between contract assets and contract liabilities as of December 31, 2019 compared to December 31, 2018 is primarily the result of timing differences between our performance of obligations under contracts and customer payments. During the year ended December 31, 2019, we recognized \$7.2 million of revenue that was included in the contract liability balance at December 31, 2018. We did not recognize any impairment losses on our receivables and contract assets during the years ended December 31, 2019 and 2018.

Remaining performance obligations represent the transaction price of contracts for which work has not been performed and excludes unexercised contract options and potential modifications. As of December 31, 2019, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was \$90.7 million. We expect to satisfy remaining performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

INSTALLED BUILDING PRODUCTS, INC.  
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Practical Expedients and Exemptions

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

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

**NOTE 4 – INVESTMENTS**

Cash and cash equivalents include investments in money market funds that are valued based on the net asset value of the funds. The investments in these funds were \$99.2 million and \$69.8 million as of December 31, 2019 and 2018, respectively.

All other investments are classified as held-to-maturity and consist of highly liquid instruments including primarily corporate bonds and commercial paper. As of December 31, 2019 and 2018, the amortized cost of these investments equaled the net carrying value, which was \$38.0 million and \$10.1 million, respectively. All held-to-maturity securities as of December 31, 2019 mature in one year or less. See Note 9, Fair Value Measurements, for additional information.

**NOTE 5 – PROPERTY AND EQUIPMENT**

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

	As of December 31,	
	2019	2018
Land	\$ 108	\$ —
Buildings	3,901	—
Leasehold improvements	7,748	6,717
Furniture, fixtures and equipment	49,199	38,369
Vehicles and equipment	203,310	177,969
	264,266	223,055
Less: accumulated depreciation and amortization	(157,856)	(132,938)
	<u>\$ 106,410</u>	<u>\$ 90,117</u>

We recorded the following depreciation and amortization expense on our property and equipment, by income statement category (in thousands):

	As of December 31,		
	2019	2018	2017
Cost of sales	\$36,922	\$31,526	\$26,731
Administrative	1,939	1,779	1,554

Property and equipment as of December 31, 2019 and 2018 of \$72.7 million and \$59.9 million, respectively, were fully depreciated but still being utilized in our business.

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**NOTE 6 – GOODWILL AND INTANGIBLES**

Goodwill

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

	Goodwill (Gross)	Accumulated Impairment Losses	Goodwill (Net)
January 1, 2018	\$225,470	\$ (70,004)	\$155,466
Business combinations	17,023	—	17,023
Other	560	—	560
December 31, 2018	243,053	(70,004)	173,049
Business combinations	22,405	—	22,405
Other	198	—	198
December 31, 2019	<u>\$265,656</u>	<u>\$ (70,004)</u>	<u>\$195,652</u>

Other changes included in the above table for the years ended December 31, 2019 and 2018 include minor adjustments for the allocation of certain acquisitions still under measurement as well as several immaterial tuck-in acquisitions. For additional information regarding changes to goodwill resulting from acquisitions, see Note 16, Business Combinations.

At October 1, 2019, our measurement date, we tested goodwill for impairment by performing a “step one” test in conformity with generally accepted accounting principles and determined that no impairment of goodwill was required. As such, no impairment of goodwill was recognized for the year ended December 31, 2019. In addition, no impairment of goodwill was recognized for the years ended December 31, 2018 or 2017.

Intangibles, net

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

	As of December 31,					
	2019			2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<b>Amortized intangibles:</b>						
Customer relationships	\$ 169,334	\$ 69,388	\$ 99,946	\$ 148,635	\$ 52,514	\$ 96,121
Covenants not-to-compete	16,959	10,617	6,342	14,682	7,572	7,110
Trademarks and tradenames	69,718	22,609	47,109	64,432	18,256	46,176
Backlog	14,080	13,915	165	14,060	13,677	383
	<u>\$ 270,091</u>	<u>\$ 116,529</u>	<u>\$ 153,562</u>	<u>\$ 241,809</u>	<u>\$ 92,019</u>	<u>\$ 149,790</u>

There was no intangible asset impairment loss for the years ended December 31, 2019, 2018 and 2017.

The gross carrying amount of intangibles increased approximately \$28.3 million and \$37.3 million during the years ended December 31, 2019 and 2018, respectively. Intangibles associated with business combinations accounted for approximately \$28.0 million and \$36.1 million of the increases during the years ended December 31, 2019 and 2018, respectively. For more information, see Note 16, Business Combinations. Amortization expense on intangible

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assets totaled approximately \$24.5 million, \$25.4 million and \$26.9 million during the years ended December 31, 2019, 2018 and 2017, respectively. Remaining estimated aggregate annual amortization expense is as follows (in thousands):

2020	\$ 25,741
2021	24,399
2022	23,479
2023	20,568
2024	17,053
Thereafter	42,322

**NOTE 7 – LONG-TERM DEBT**

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

	As of December 31,	
	2019	2018
Senior Notes due 2028, net of unamortized debt issuance costs of \$4,823 and \$0, respectively	\$295,177	\$ —
Term loan, net of unamortized debt issuance costs of \$1,662 and \$4,834, respectively	198,338	390,916
Vehicle and equipment notes, maturing through December 2024; payable in various monthly installments, including interest rates ranging from 2.5% to 4.8%	72,714	60,391
Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 4% to 6%	2,966	3,517
	<u>569,195</u>	<u>454,824</u>
Less: current maturities	(24,164)	(22,642)
Long-term debt, less current maturities	<u>\$545,031</u>	<u>\$432,182</u>

Remaining required repayments of debt principal, gross of unamortized debt issuance costs, as of December 31, 2019 are as follows (in thousands):

2020	\$ 24,164
2021	19,223
2022	15,350
2023	9,997
2024	4,155
Thereafter	502,791

**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.

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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 December 31, 2019, we had \$198.3 million, net of unamortized debt issuance costs, due on our Term Loan. The amended Term Loan also has a margin of 1.50% 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 December 31, 2019 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.

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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 December 31, 2019, approximately \$85.4 million of the various loan agreements was available for purchases of equipment.

Total gross assets relating to our Master Loan and Equipment Agreements were \$130.2 million and \$98.7 million as of December 31, 2019 and 2018, respectively, none of which were fully depreciated as of December 31, 2019 or 2018, respectively. The net book value of assets under these agreements was \$68.2 million and \$58.2 million as of December 31, 2019 and 2018, respectively. Depreciation of assets held under these agreements is included within cost of sales on the Consolidated Statements of Operations and Comprehensive Income.

**NOTE 8 – LEASES**

On January 1, 2019, we adopted ASC 842, “Leases” which, among other changes, requires us to record liabilities classified as operating leases on our Condensed Consolidated Balance Sheets along with a corresponding right-of-use asset. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. We elected the package of practical expedients available for expired or existing contracts, which allowed us to carryforward our historical assessments of whether contracts are or contain leases, lease classification tests and treatment of initial direct costs. We also elected to not separate lease components from non-lease components for all fixed payments, and we exclude variable lease payments in the measurement of right-of-use assets and lease obligations.

Upon adoption of ASC 842, we recorded a \$44.9 million increase in other assets, a \$1.4 million decrease to other current assets, a \$1.0 million decrease to other current liabilities and a \$44.5 million increase to operating lease obligations. These adjustments are the result of assigning a right-of-use asset and related lease liability to our operating leases. We did not record any cumulative effect adjustments to opening retained earnings, and adoption of the lease standard had no impact to cash from or used in operating, financing, or investing activities on our consolidated cash flow statements.

We determine if an arrangement is a lease at inception. Most of our operating leases do not provide an implicit rate so we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. 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. Leases with an initial term of 12 months or less are not recorded on the balance sheet as we recognize lease expense for these leases on a straight-line basis over the lease term.

Most lease agreements include one or more renewal options, all of which are at our sole discretion. Generally, future renewal options that have not been executed as of the balance sheet date are excluded from right-of-use



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assets and related lease liabilities. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Some of our vehicle lease agreements include provisions for residual value guarantees and any expected payment is included in our lease liability.

Lease Position as of December 31, 2019

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

(in thousands)	Classification	As of December 31, 2019
<b>Assets</b>		
Non-Current		
Operating	Operating lease right-of-use assets	\$ 45,691
Finance	Property and equipment, net	7,148
Total lease assets		<u>\$ 52,839</u>
<b>Liabilities</b>		
Current		
Operating	Current maturities of operating lease obligations	\$ 15,459
Financing	Current maturities of finance lease obligations	2,747
Non-Current		
Operating	Operating lease obligations	29,785
Financing	Finance lease obligations	3,597
Total lease liabilities		<u>\$ 51,588</u>
Weighted-average remaining lease term		
Operating leases		4.6 years
Finance leases		2.7 years
Weighted-average discount rate (1)		
Operating leases		4.67%
Finance leases		4.85%

(1) Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019.

Lease Costs

The table below presents certain information related to the lease costs for finance and operating leases during 2019:

(in thousands)	Classification	As of December 31, 2019
Operating lease cost (1)	Administrative	\$ 21,024
Finance lease cost		
Amortization of leased assets (2)	Cost of sales	4,942
Interest on finance lease obligations	Interest expense, net	341
Total lease costs		<u>\$ 26,307</u>

(1) Includes variable lease costs of \$2.5 million and short-term lease costs of \$0.9 million.

(2) Includes variable lease costs of \$0.9 million.

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Other Information

The table below presents supplemental cash flow information related to leases during 2019 (in thousands):

	As of December 31, 2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows for operating leases	\$ 17,521
Operating cash flows for finance leases	341
Financing cash flows for finance leases	4,157

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 December 31, 2019 (in thousands):

	Finance Leases		Operating Leases		Total Operating
		Related Party	Other		
2020	\$ 3,081	\$ 1,091	\$ 15,956	\$ 17,047	
2021	1,973	946	11,301	12,247	
2022	1,037	869	6,569	7,438	
2023	673	415	3,792	4,207	
2024	259	425	2,218	2,643	
Thereafter	—	398	6,427	6,825	
Total minimum lease payments	7,023	\$ 4,144	\$ 46,263	50,407	
Less: Amounts representing executory costs	(167)			—	
Less: Amounts representing interest	(512)			(5,163)	
Present value of future minimum lease payments	6,344			45,244	
Less: Current obligation under leases	(2,747)			(15,459)	
Long-term lease obligations	<u>\$ 3,597</u>			<u>\$ 29,785</u>	

Disclosures Related to Periods Prior to Adoption of ASC 842 under ASU 2016-02

Lease amounts presented as of December 31, 2018 are in accordance with accounting guidance in effect prior to adoption of ASC 842, "Leases," on January 1, 2019. Total assets relating to capital leases were approximately \$58.7 million and a total of approximately \$32.0 million were fully depreciated as of December 31, 2018. The net book value of assets under capital leases was approximately \$9.5 million as of December 31, 2018. Amortization of assets held under capital leases is included within cost of sales on the Consolidated Statements of Operations and Comprehensive Income.

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Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2018 were as follows (in thousands):

	Capital Leases	Operating Leases		
		Related Party	Other	Total Operating
2019	\$ 5,207	\$ 1,159	\$14,418	\$ 15,577
2020	2,253	1,184	11,293	12,477
2021	1,339	1,058	7,014	8,072
2022	452	972	4,335	5,307
2023	93	51	2,613	2,664
Thereafter	—	—	4,695	4,695
	<u>9,344</u>	<u>\$ 4,424</u>	<u>\$44,368</u>	<u>\$ 48,792</u>
Less: Amounts representing executory costs	(255)			
Less: Amounts representing interest	(459)			
Total obligation under capital leases	8,630			
Less: Current portion of capital leases	(4,806)			
Long-term capital lease obligation	<u>\$ 3,824</u>			

**NOTE 9 – FAIR VALUE MEASUREMENTS**

Fair Values

Fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820, “Fair Value Measurement,” establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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.

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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 December 31, 2019 and 2018 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 years ended December 31, 2019, 2018 and 2017, 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 December 31, 2019 and 2018 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 December 31, 2019 and 2018, 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 December 31, 2019 and 2018. All debt classifications represent Level 2 fair value measurements.

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

	As of December 31, 2019				As of December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>								
Cash equivalents	\$ 99,242	\$ 99,242	\$ —	\$ —	\$ 69,807	\$ 69,807	\$ —	\$ —
Derivative financial instruments	—	—	—	—	1,765	—	1,765	—
<b>Total financial assets</b>	<b>\$ 99,242</b>	<b>\$ 99,242</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 71,572</b>	<b>\$ 69,807</b>	<b>\$ 1,765</b>	<b>\$ —</b>
<b>Financial liabilities:</b>								
Derivative financial instruments	\$ 9,446	\$ —	\$ 9,446	\$ —	\$ 2,275	\$ —	\$ 2,275	\$ —
Contingent consideration	3,854	—	—	3,854	5,098	—	—	5,098
<b>Total financial liabilities</b>	<b>\$ 13,300</b>	<b>\$ —</b>	<b>\$ 9,446</b>	<b>\$ 3,854</b>	<b>\$ 7,373</b>	<b>\$ —</b>	<b>\$ 2,275</b>	<b>\$ 5,098</b>

See Note 4, 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.

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

Contingent consideration liability—January 1, 2019	\$ 5,098
Preliminary purchase price	2,275
Fair value adjustments	(410)
Accretion in value	564
Amounts cancelled	(371)
Amounts paid to sellers	(3,302)
Contingent consideration liability—December 31, 2019	<u>\$ 3,854</u>

The accretion in value of contingent consideration liabilities is included within administrative expenses on the 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 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):

	<u>As of December 31, 2019</u>		<u>As of December 31, 2018</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Investments	\$ 37,961	\$ 37,958	\$ 10,060	\$ 10,053
Senior Notes (1)	300,000	321,114	—	—

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

See Note 4, 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**

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We manage exposure to a wide variety of business and operational risks through our core business activities. We manage economic risks, including interest rate, liquidity and credit risk primarily by overseeing the amount, sources and duration of debt funding and the use of derivative financial instruments. Specifically, we have entered into derivative financial instruments to manage exposure to interest rate movements that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing and duration of our known or expected cash receipts and known or expected cash payments principally related to our investments and borrowings.

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 year ended December 31, 2019, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments

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over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2019, we had two interest rate swaps, each with an associated floor, with a total beginning notional of \$200.0 million, one that amortizes quarterly to \$95.3 million at a maturity date of May 31, 2022 and one that amortizes quarterly to \$93.3 million at a maturity date of April 15, 2025. We also had a forward interest rate swap with an associated floor beginning May 31, 2022 with a beginning notional of \$100.0 million that amortizes quarterly to \$97.0 million at a maturity date of April 15, 2025. These three swaps serve to hedge substantially all of the variable cash flows on our Term Loan until maturity. The assets and liabilities associated with these derivative instruments are included in other current assets, other non-current assets, other current liabilities, and other long-term 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 years ended December 31, 2019 or 2018.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense, net as interest payments are made on our variable-rate debt. Over the next twelve months, we estimate that an additional \$1.6 million will be reclassified as an increase to interest expense, net.

Additionally, we do not use derivatives for trading or speculative purposes and we currently do not have any derivatives that are not designated as hedges. As of December 31, 2019, we have not posted any collateral related to these agreements.

**NOTE 11 – STOCKHOLDERS’ EQUITY**

As of December 31, 2019 and 2018, we had losses of \$7.1 million and \$0.4 million, respectively, in accumulated other comprehensive income on our Consolidated Balance Sheets, which represents the effective portion of the unrealized loss on our derivative instruments. For additional information, see Note 10, Derivatives and Hedging Activities.

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. In February 2020, our board of directors approved extending the current stock repurchase program to March 1, 2021. During the year ended December 31, 2018, we repurchased 2.1 million shares of our outstanding common stock for \$89.4 million, leaving \$60.6 million available for future purchases under our stock repurchase program. We did not repurchase any shares during the twelve months ended December 31, 2019.

The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation.

**NOTE 12 – EMPLOYEE BENEFITS**

Healthcare

We participate in multiple healthcare plans, of which our primary plan is partially self-funded with an insurance company paying benefits in excess of stop loss limits per individual. Our healthcare benefit expense (net of employee contributions) was approximately \$21.9 million, \$17.8 million and \$17.4 million for the years ended

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December 31, 2019, 2018 and 2017, respectively, for all plans. An accrual for estimated healthcare claims incurred but not reported (“IBNR”) is included within accrued compensation on the Consolidated Balance Sheets and was \$2.6 million and \$2.3 million as of December 31, 2019 and 2018, respectively.

#### Workers’ Compensation

We participate in multiple workers’ compensation plans. Under these plans, for a significant portion of our business, we use a high deductible program to cover losses above the deductible amount on a per claim basis. We accrue for the estimated losses occurring from both asserted and unasserted claims. Workers’ compensation liability for premiums is included in other current liabilities on the Consolidated Balance Sheets. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of IBNR claims. In estimating these reserves, historical loss experience and judgments about the expected levels of costs per claim are considered. These claims are accounted for based on actuarial estimates of the undiscounted claims, including IBNR. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals.

Workers’ compensation expense totaled \$15.4 million, \$12.8 million and \$13.5 million for the years ended December 31, 2019, 2018 and 2017, respectively, and is included in cost of sales on the Consolidated Statements of Operations and Comprehensive Income. Workers’ compensation known claims and IBNR reserves included on the Consolidated Balance Sheets were as follows (in thousands):

	As of December 31,	
	2019	2018
Included in other current liabilities	\$ 6,777	\$ 5,795
Included in other long-term liabilities	10,874	9,447
	<u>\$ 17,651</u>	<u>\$ 15,242</u>

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

	As of December 31,	
	2019	2018
Included in other non-current assets	\$ 2,098	\$ 1,888

#### Retirement Plans

We participate in multiple 401(k) plans, whereby we provide a matching contribution of wages deferred by employees and can also make discretionary contributions to each plan. Certain plans allow for discretionary employer contributions only. These plans cover substantially all our eligible employees. During the years ended December 31, 2019, 2018 and 2017, we recognized 401(k) plan expenses of \$2.0 million, \$1.7 million and \$1.6 million, respectively, which is included in administrative expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income.

#### Share-Based Compensation

##### *Common Stock Awards*

During the years ended December 31, 2019, 2018 and 2017, we granted approximately eight thousand, five thousand and six thousand shares of restricted stock, respectively, at a price of \$52.13, \$60.65 and \$50.50 per

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share, respectively, which represents market price on the grant dates to non-employee members of our board of directors. The stock issued in 2019 and 2018 vest over a one year service term whereas the stock issued in 2017 vested on the grant date since there was no service period associated with those awards. Accordingly, we recorded \$0.4 million, \$0.2 million and \$0.3 million in compensation expense for the years ended December 31, 2019, 2018 and 2017, respectively, related to these grants within administrative expenses on the Consolidated Statements of Operations and Comprehensive Income at the time of grant. The weighted-average grant date fair value is the same as the issue price for all shares granted in 2019, 2018 and 2017.

In addition, in each of the years ended December 31, 2019, 2018 and 2017, we granted approximately 0.1 million shares of our common stock under our 2014 Omnibus Incentive Plan to our employees. The shares granted during each year ended December 31, 2019, 2018 and 2017 vest in three equal installments (rounded to the nearest whole share) annually on April 20<sup>th</sup> through 2022.

We recorded share-based compensation expense associated with these non-performance-based awards issued to employees of \$4.3 million, \$4.0 million and \$2.7 million for the years ended December 31, 2019, 2018 and 2017, respectively, within administrative expense on the Consolidated Statements of Operations and Comprehensive Income. As of December 31, 2019, there was \$4.8 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 1.8 years. Shares forfeited are returned as treasury shares and available for future issuances. See the table below for changes in shares and related weighted average fair market value per share.

*Employees – Performance-Based Stock Awards*

During the year ended December 31, 2019, we issued under our 2014 Omnibus Incentive Plan approximately 83 thousand shares of our common stock to certain officers, which vest in two equal installments on each of April 20, 2020 and April 20, 2021. These shares were issued in connection with the performance-based targets established in 2018. In addition, during the year ended December 31, 2019, we established, and our board of directors approved, performance-based targets in connection with common stock awards to be issued to certain officers in 2020 contingent upon achievement of these targets. Share-based compensation expense associated with these performance-based awards was \$3.0 million, \$2.0 million and \$1.0 million for the years ended December 31 2019, 2018 and 2017, respectively.

As of December 31, 2019, there was \$3.5 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 1.6 years using the graded-vesting method. See the table below for changes in shares and related weighted average fair market value per share.

*Employees – Performance-Based Restricted Stock Units*

During the year ended December 31, 2018, we established, and our board of directors approved, performance-based stock units in connection with common stock awards which we issued to certain employees during the year ended December 31, 2019. In addition, during the year ended December 31, 2019, we established, and our board of directors approved, performance-based stock units in connection with common stock awards to be issued to certain employees in 2020 contingent upon achievement of a performance target, which was met in 2019, as well as a one-year service period. These units will be accounted for as equity-based awards that will be settled with a fixed number of common shares. Share-based compensation expense associated with these performance-based units was \$0.7 million, \$1.6 million and \$2.6 million for the years ended December 31 2019, 2018 and 2017, respectively.



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As of December 31, 2019, there was \$0.2 million of unrecognized compensation expense related to nonvested performance-based 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 0.3 years. See the table below for changes in shares and related weighted average fair market value per share.

*Share-Based Compensation Summary*

During the years ended December 31, 2019, 2018 and 2017, our employees surrendered approximately 45 thousand, 41 thousand and 11 thousand, respectively, of our common stock to satisfy tax withholding obligations arising in connection with the vesting of common stock awards issued under our 2014 Omnibus Incentive Plan. We recognized excess tax benefits of approximately \$0.3 million, \$0.5 million and \$0.6 million for the years ended December 31, 2019, 2018 and 2017, respectively, within the income tax provision on the Consolidated Statements of Operations and Comprehensive Income.

Amounts for each category of equity-based award for employees as of December 31, 2019 and changes during the year ended December 31, 2019 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, 2018	173,189	\$ 47.40	115,698	\$ 52.25	13,248	\$ 56.05
Granted	88,529	50.94	82,692	45.65	13,933	51.62
Vested	(106,660)	42.30	(31,404)	41.00	(12,808)	56.05
Forfeited/Cancelled	(2,176)	52.13	(6,697)	65.60	(1,187)	53.26
Nonvested awards/units at December 31, 2019	<u>152,882</u>	<u>\$ 52.93</u>	<u>160,289</u>	<u>\$ 50.49</u>	<u>13,186</u>	<u>\$ 51.62</u>

During the years ended December 31, 2019, 2018 and 2017, we recorded the following stock compensation expense, by income statement category (in thousands):

	2019	2018	2017
Cost of sales	\$ 374	\$ 846	\$ 965
Selling	194	451	571
Administrative	8,159	6,549	5,055
	<u>\$8,727</u>	<u>\$7,846</u>	<u>\$6,591</u>

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.

As of December 31, 2019, approximately 2.2 million of the 3.0 million shares of common stock authorized for issuance were available for issuance under the 2014 Omnibus Incentive Plan.

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**NOTE 13 – INCOME TAXES**

The provision for income taxes is comprised of (in thousands):

	Years ended December 31,		
	2019	2018	2017
<b>Current:</b>			
Federal	\$ 14,850	\$13,486	\$17,557
State	4,127	3,641	3,302
	<u>18,977</u>	<u>17,127</u>	<u>20,859</u>
<b>Deferred:</b>			
Federal	4,585	221	(5,895)
State	884	90	(284)
	<u>5,469</u>	<u>311</u>	<u>(6,179)</u>
<b>Total tax expense</b>	<u>\$ 24,446</u>	<u>\$17,438</u>	<u>\$14,680</u>

The reconciliation between our effective tax rate on net income and the federal statutory rate is as follows (dollars in thousands):

	Years ended December 31,					
	2019		2018		2017	
Income tax at federal statutory rate	\$ 19,447	21.0%	\$15,159	21.0%	\$19,537	35.0%
Stock compensation	(255)	(0.3%)	(436)	(0.6%)	(581)	(1.0%)
Qualified Production Activity Deduction	—	0.0%	—	0.0%	(1,715)	(3.1%)
Other permanent items	737	0.8%	(667)	(0.8%)	197	0.4%
Change in valuation allowance	276	0.3%	312	0.4%	285	0.5%
Change in uncertain tax positions	67	0.1%	969	1.3%	(1,807)	(3.2%)
State income taxes, net of federal benefit	4,174	4.5%	2,911	4.0%	2,150	3.8%
Rate impact of the Tax Act	—	0.0%	(810)	(1.1%)	(3,386)	(6.1%)
<b>Total tax expense</b>	<u>\$ 24,446</u>	<u>26.4%</u>	<u>\$17,438</u>	<u>24.2%</u>	<u>\$14,680</u>	<u>26.3%</u>

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Components of the net deferred tax asset or liability are as follows (in thousands):

	As of December 31,	
	2019	2018
<b>Deferred Tax Assets</b>		
Long-term		
Accrued reserves and allowances	\$ 5,140	\$ 4,245
Allowance for doubtful accounts	514	500
Inventories	437	335
Property and equipment	303	—
Intangibles	5,615	4,937
Net operating loss carryforwards	1,240	1,446
Other	5	4
Long-term deferred tax assets	13,254	11,467
Less: Valuation allowance	(1,512)	(1,255)
Net deferred tax assets	11,742	10,212
<b>Deferred Tax Liabilities</b>		
Long-term		
Accrued reserves and allowances	(252)	(365)
Property and equipment	(4,176)	(2,091)
Intangibles	(4,307)	(3,850)
Investment in partnership	(11,857)	(10,266)
Other	(325)	(242)
Long-term deferred tax liabilities	(20,917)	(16,814)
Net deferred tax liabilities	<u>\$ (9,175)</u>	<u>\$ (6,602)</u>

As of December 31, 2019, we have recorded a deferred tax asset of \$1.2 million reflecting the benefit of \$5.4 million in federal and state income tax net operating loss (NOL) carryforwards, the earliest of which expires in 2030.

Valuation Allowance

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets on a jurisdiction and by tax filing entity basis. A significant piece of objective negative evidence evaluated is cumulative losses incurred over the most recent three-year period. Such objective evidence limits our ability to consider other subjective positive evidence such as our projections for future growth.

Based on this evaluation, a valuation allowance has been recorded as of December 31, 2019 and 2018 for the net deferred tax assets recorded on certain of our wholly owned subsidiaries. Such deferred tax assets relate primarily to net operating losses that are not more likely than not realizable. However, the amount of the deferred tax asset considered realizable could be adjusted if our estimate of future taxable income during the carryforward period changes, or if objective negative evidence in the form of cumulative losses is no longer present. Additional weight may be given to subjective evidence such as our projections for growth in this situation.

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Uncertain Tax Positions

We are subject to taxation in the United States and various state jurisdictions. As of December 31, 2019, our tax years for 2016 through 2018 are subject to examination by the tax authorities. A rollforward of the gross unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefit, January 1, 2017	\$ 4,097
Increase as a result of tax positions taken during the period	4,353
Decrease as a result of tax positions taken during the period	(2,311)
Decrease as a result of expiring statutes	(1,689)
Unrecognized tax benefit, December 31, 2017	<u>\$ 4,450</u>
Increase as a result of tax positions taken during the period	3,846
Decrease as a result of tax positions taken during the period	(2,850)
Decrease as a result of expiring statutes	(97)
Unrecognized tax benefit, December 31, 2018	<u>\$ 5,349</u>
Increase as a result of tax positions taken during the period	2,866
Decrease as a result of tax positions taken during the period	(2,482)
Decrease as a result of expiring statutes	(16)
Unrecognized tax benefit, December 31, 2019	<u>\$ 5,717</u>

Unrecognized tax benefits of \$2.8 million at December 31, 2019 would affect the effective tax rate. Interest expense and penalties accrued related to uncertain tax positions as of December 31, 2019 are \$0.4 million.

We expect a decrease to the amount of unrecognized tax benefits (exclusive of penalties and interest) within the next twelve months of zero to \$2.0 million.

Determining uncertain tax positions and the related estimated amounts requires judgment and carry estimation risk. If future tax law changes or interpretations should come to light, or additional information should become known, our conclusions regarding unrecognized tax benefits may change.

**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 related ownership. For additional information, see Note 15, Commitments and Contingencies.

For the years ended December 31, 2019, 2018 and 2017, the amount of sales to common or related parties as well as the purchases from and rent expense paid to common or related parties were as follows (in thousands):

	Years ended December 31,		
	2019	2018	2017
Sales	\$13,488	\$12,636	\$10,250
Purchases	1,810	1,587	1,294
Rent	1,040	1,099	1,154

INSTALLED BUILDING PRODUCTS, INC.  
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At December 31, 2019 and 2018, we had related party balances of approximately \$1.7 million and \$2.3 million, respectively, included in accounts receivable on our Consolidated Balance Sheets. These balances primarily represent trade accounts receivable arising during the normal course of business with various related parties. M/I

Homes, Inc., a customer whose Chairman, President and Chief Executive Officer is a member of our board of directors, accounted for \$1.3 million and \$1.2 million of these balances as of December 31, 2019 and 2018, respectively.

On November 5, 2018, as part of our stock repurchase program, we entered into a share repurchase agreement with PJAM IBP Holdings, Inc. ("PJAM") for the purchase of 150 thousand shares of our common stock for a purchase price of approximately \$5.1 million, or \$34.11 per share, which represented a 3.0% discount to the last reported price of our common stock on November 2, 2018. Jeff Edwards, our Chief Executive Officer, is the President of PJAM and, in such role, has sole voting and dispositive power over the shares held by PJAM and is deemed the beneficial owner of the shares of our common stock held by PJAM.

#### NOTE 15 – COMMITMENTS AND CONTINGENCIES

##### Accrued General Liability and Auto Insurances

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

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Included in other current liabilities	\$ 3,538	\$1,848
Included in other long-term liabilities	18,184	6,608
	<u>\$21,722</u>	<u>\$8,456</u>

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

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Insurance receivables and indemnification assets for claims under fully insured policies	\$ 7,491	\$2,484
Insurance receivables for claims that exceeded the stop loss limit	2,321	53
Total insurance receivables and indemnification assets included in other non-current assets	<u>\$ 9,812</u>	<u>\$2,537</u>

##### Leases

See Note 8, Leases, for further information on 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

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$21.1 million for 2020 and \$14.0 million for 2021. During the fourth quarter of 2019, our commitment for the year ended December 31, 2019 was reduced to \$11.8 million, which is equal to the total amount we purchased during the year.

**NOTE 16 – BUSINESS COMBINATIONS**

As part of our ongoing strategy to expand geographically and increase market share in certain markets, we completed six, ten and ten business combinations during the years ended December 31, 2019, 2018 and 2017, respectively, as well as several insignificant tuck-in acquisitions merged into existing operations in 2019, 2018 and 2017, in which we acquired 100% of the voting equity interests in each acquired entity. Acquisition-related costs amounted to \$2.1 million, \$2.7 million and \$3.9 million for the years ended December 31, 2019, 2018 and 2017, respectively, and are included in Administrative expenses on the Consolidated Statements of Operations and Comprehensive Income. The goodwill to be 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 \$21.2 million of goodwill for tax purposes as a result of 2019 acquisitions.

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. The largest of our 2019 acquisitions were 1st State Insulation, LLC (“1st State Insulation”), Expert Insulation, Inc. and Expert Insulation of Brainerd, Inc. (collectively, “Expert Insulation”) and Premier Building Supply, LLC (“Premier”). In each table, “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 year ended December 31, 2019 (in thousands):

2019 Acquisitions	Date	Acquisition Type	Cash Paid	Seller Obligations	Total Purchase Price	Revenue	Net Income (Loss)
1st State Insulation	3/18/2019	Asset	\$ 5,125	\$ 1,355	\$ 6,480	\$ 9,828	\$ 476
Expert Insulation	6/24/2019	Asset	16,165	1,993	18,158	6,484	155
Premier	11/18/2019	Share	25,000	2,765	27,765	2,161	(62)
Other	Various	Asset	5,750	1,430	7,180	3,339	23
Total			<u>\$52,040</u>	<u>\$ 7,543</u>	<u>\$59,583</u>	<u>\$ 21,812</u>	<u>\$ 592</u>

For the year ended December 31, 2018 (in thousands):

Name	Date	Acquisition Type	Cash Paid	Seller Obligations	Total Purchase Price	Revenue	Net Income (Loss)
CDG	3/19/2018	Asset	\$ 9,440	\$ 1,973	\$11,413	\$11,466	\$ 531
AFT	10/31/2018	Asset	19,707	1,510	21,217	3,530	(13)
Other	Various	Shares/Asset	28,593	4,057	32,650	24,329	639
Total			<u>\$57,740</u>	<u>\$ 7,540</u>	<u>\$65,280</u>	<u>\$39,325</u>	<u>\$ 1,157</u>

INSTALLED BUILDING PRODUCTS, INC.  
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For the year ended December 31, 2017 (in thousands):

Name	Date	Acquisition Type	Cash Paid	Seller Obligations	Fair Value of Common Stock Issued	Total Purchase Price	Revenue	Net (Loss) Income
Alpha (1)	1/5/2017	Share	\$103,810	\$ 2,002	\$ 10,859	\$116,671	\$116,070	\$ (1,148)
Columbia	6/26/2017	Asset	8,768	225	—	8,993	6,046	86
Astro	9/18/2017	Asset	9,144	482	—	9,626	1,829	11
Other	Various	Asset	15,645	2,419	—	18,064	20,457	573
Total			<u>\$137,367</u>	<u>\$ 5,128</u>	<u>\$ 10,859</u>	<u>\$153,354</u>	<u>\$144,402</u>	<u>\$ (478)</u>

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

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):

Estimated fair values:	2019				
	1st State	Expert	Premier	Other	Total
Cash	\$ —	\$ —	\$ 334	\$ —	\$ 334
Accounts receivable	—	1,796	2,930	479	5,205
Inventories	291	723	1,242	410	2,666
Other current assets	—	—	—	3	3
Property and equipment	989	235	876	887	2,987
Intangibles	3,382	6,740	14,300	3,619	28,041
Goodwill	1,857	8,545	10,238	1,765	22,405
Other non-current assets	—	161	329	41	531
Accounts payable and other current liabilities	(39)	(42)	(2,484)	(24)	(2,589)
Fair value of assets acquired and purchase price	6,480	18,158	27,765	7,180	59,583
Less seller obligations	1,355	1,993	2,765	1,430	7,543
Cash paid	<u>\$5,125</u>	<u>\$16,165</u>	<u>\$ 25,000</u>	<u>\$5,750</u>	<u>\$52,040</u>

INSTALLED BUILDING PRODUCTS, INC.  
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	2018			
	CDG	AFT	Other	Total
<b>Estimated fair values:</b>				
Accounts receivable	\$ 1,731	\$ —	\$ 4,104	\$ 5,835
Inventories	514	565	1,136	2,215
Other current assets	28	—	918	946
Property and equipment	933	2,882	2,169	5,984
Intangibles	3,711	13,470	18,904	36,085
Goodwill	4,898	4,415	7,766	17,079
Other non-current assets	36	13	82	131
Accounts payable and other current liabilities	(438)	(128)	(2,429)	(2,995)
Fair value of assets acquired and purchase price	11,413	21,217	32,650	65,280
Less fair value of common stock issued	—	—	—	—
Less seller obligations	1,973	1,510	4,057	7,540
Cash paid	<u>\$ 9,440</u>	<u>\$ 19,707</u>	<u>\$ 28,593</u>	<u>\$ 57,740</u>

	2017				Total
	Alpha	Columbia	Astro	Other	
<b>Estimated fair values:</b>					
Cash	\$ 247	\$ —	\$ —	\$ —	\$ 247
Accounts receivable	29,851	989	924	3,157	34,921
Inventories	1,852	704	296	1,544	4,396
Other current assets	4,500	8	36	96	4,640
Property and equipment	1,528	659	640	1,820	4,647
Intangibles	57,200	4,760	5,168	9,688	76,816
Goodwill	38,511	2,209	2,932	4,190	47,842
Other non-current assets	383	36	—	219	638
Accounts payable and other current liabilities	(17,401)	(372)	(370)	(2,650)	(20,793)
Fair value of assets acquired	116,671	8,993	9,626	18,064	153,354
Less fair value of common stock issued	10,859	—	—	—	10,859
Less seller obligations	2,002	225	482	2,419	5,128
Cash paid	<u>\$ 103,810</u>	<u>\$ 8,768</u>	<u>\$ 9,144</u>	<u>\$ 15,645</u>	<u>\$ 137,367</u>

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-compete 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).

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



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do not agree to the total gross increases of these assets as shown in Note 6, Goodwill and Intangibles, during the years ended December 31, 2019, 2018 and 2017 due to minor adjustments to goodwill for the allocation of certain acquisitions still under measurement, an immaterial goodwill reclassification in the year ended December 31, 2017 related to the prior period, as well as other immaterial intangible assets added during the ordinary course of business. In addition, goodwill and intangibles increased during the years ended December 31, 2019, 2018 and 2017 due to various small acquisitions merged into existing operations that do not appear in the above tables.

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

	2019		2018		2017	
	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)
<b>Acquired intangibles assets</b>						
Customer relationships	\$ 20,659	8	\$ 27,149	8	\$ 39,922	8
Trademarks and trade names	5,286	15	6,075	15	20,667	15
Non-competition agreements	2,096	5	2,401	5	2,628	5
Backlog	—	—	460	2	13,600	1.5

Pro Forma Information (unaudited)

The unaudited pro forma information has been prepared as if the 2019 acquisitions had taken place on January 1, 2018, the 2018 acquisitions had taken place on January 1, 2017 and the 2017 acquisitions had taken place on January 1, 2016. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2018, 2017 and 2016 and the unaudited pro forma information does not purport to be indicative of future financial operating results (in thousands, except for per share data).

	Unaudited Pro Forma for the years ended December 31,		
	2019	2018	2017
Net revenue	\$ 1,549,797	\$ 1,436,713	\$ 1,246,017
Net income	70,389	61,148	48,016
Basic net income per share	2.37	1.97	1.52
Diluted net income per share	2.36	1.96	1.51

Unaudited pro forma net income reflects additional intangible asset amortization expense of \$2.1 million, \$6.2 million and \$5.9 million for the years ended December 31, 2019, 2018 and 2017, respectively, as well as additional income tax expense of \$0.8 million, \$2.0 million and \$2.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

**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 as of December 31, 2019, 2018 and 2017, was 120 thousand, 122 thousand and 117 thousand, respectively.

INSTALLED BUILDING PRODUCTS, INC.  
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**NOTE 18 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized unaudited quarterly financial results for 2019 and 2018 is as follows (in thousands, except per share data):

	Three months ended				Total Year
	March 31	June 30	September 30	December 31	
<b>2019</b>					
Net revenue	\$342,135	\$371,814	\$ 396,449	\$ 401,231	\$1,511,629
Gross profit	89,438	107,257	118,087	120,038	434,820
Net income	8,834	18,919	21,212	19,194	68,159
Basic net income per share	0.30	0.64	0.71	0.64	2.29
Diluted net income per share	0.30	0.63	0.71	0.64	2.28
<b>2018</b>					
Net revenue	\$301,728	\$332,584	\$ 348,999	\$ 353,121	\$1,336,432
Gross profit	79,976	95,643	97,334	98,638	371,591
Net income	6,394	16,315	15,563	16,476	54,748
Basic net income per share	0.20	0.52	0.50	0.54	1.76
Diluted net income per share	0.20	0.52	0.50	0.53	1.75

The financial information included in the table above is computed independently each quarter. As a result, the sum of each quarter's numbers may not equal the total numbers for the respective year.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2019 with the participation of the Company's principal executive officer and principal financial officer as required by Exchange Act Rule 13a-15(b). Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that, as of December 31, 2019, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

INSTALLED BUILDING PRODUCTS, INC.  
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Management, under the supervision of the principal executive officer and the principal financial officer, assessed the effectiveness of our internal control over financial reporting, excluding the internal control over financial reporting at the subsidiaries listed below that we acquired during 2019 as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*. The scope of management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2019 includes all of the Company’s subsidiaries except the subsidiaries listed below, which were acquired during 2019 and whose financial statements constitute the percentages of total assets and net revenue listed below of the consolidated financial statements of the Company as of and for the year ended December 31, 2019:

<u>Subsidiary</u>	<u>Acquisition Date</u>	<u>Percentage of Total Assets</u>	<u>Percent of Net Revenue</u>
1st State Insulation	March 18, 2019	0.6%	0.7%
Expert Insulation	June 24, 2019	1.7%	0.4%
Therm-Con/Foamtech	August 19, 2019	0.2%	0.2%
Northeast Spray Insulation	September 23, 2019	0.2%	0.0%
Premier Building Supply	November 18, 2019	2.5%	0.1%
Gulf Coast Insulation	December 9, 2019	0.3%	0.0%

Management excluded the internal control over financial reporting at these subsidiaries from its assessment in accordance with the guidance of the staff of the SEC that an assessment of a recently acquired business may be omitted from the scope of management’s assessment of internal control over financial reporting for one year following the acquisition. Based on this assessment, management has determined that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which follows below.

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

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2019 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 9B. Other Information**

None.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the stockholders and the Board of Directors of Installed Building Products, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Installed Building Products, Inc. (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 27, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, using the modified retrospective approach.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the subsidiaries listed below, which were acquired during 2019 and whose financial statements constitute the percentages of total revenues and assets listed below of the consolidated financial statements of the Company as of and for the year ended December 31, 2019.

Subsidiary	Acquisition Date	Percentage of Total Assets	Percent of Net Revenue
1st State Insulation	March 18, 2019	0.6%	0.7%
Expert Insulation	June 24, 2019	1.7%	0.4%
Therm-Con/Foamtech	August 19, 2019	0.2%	0.2%
Northeast Spray Insulation	September 23, 2019	0.2%	0.0%
Premier Building Supply	November 18, 2019	2.5%	0.1%
Gulf Coast Insulation	December 9, 2019	0.3%	0.0%

Accordingly, our audit did not include the internal control over financial reporting of the subsidiaries listed above.

**Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the

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design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ Deloitte & Touche LLP*

Columbus, Ohio  
February 27, 2020

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be set forth under the headings “Election of Directors,” “Executive Officers and Certain Significant Employees,” “Corporate Governance” and “Delinquent Section 16(a) Reports” in our definitive proxy statement for the 2020 Annual Meeting of Stockholders (“2020 Proxy Statement”) to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019 and is incorporated herein by reference.

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our code of business conduct and ethics is posted on the investor relations page on our website which is located at <http://investors.installedbuildingproducts.com>. We will post any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website.

**Item 11. Executive Compensation**

The information required by this item will be set forth under the headings “Executive Compensation,” “Pay Ratio Disclosure” and “Compensation Committee Interlocks and Insider Participation” in our 2020 Proxy Statement and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in our Proxy Statement for our 2020 Annual Meeting of Stockholders, to be filed on or before April 17, 2020, and such information is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be set forth under the headings “Certain Relationships and Related-Party Transactions” and “Corporate Governance” in our 2020 Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information required by this item will be set forth under the heading “Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures” in our 2020 Proxy Statement and is incorporated herein by reference.

**PART IV****Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as a part of this Form 10-K:

1. Financial Statements: The Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm for Installed Building Products, Inc. are presented in Item 8, Financial Statements and Supplementary Data, of Part II of this Form 10-K.
2. Financial Schedules: All financial statement schedules have been omitted because they are inapplicable, not required, or shown in the consolidated financial statements and notes in Item 8, Financial Statements and Supplementary Data, of Part II of this Form 10-K.

(b) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
2.1†	<a href="#">Share Purchase Agreement, dated as of October 29, 2016, among EMPER Holdings, LLC; PREEM Holdings I, LLC; PREEM Holdings II, LLC; Vikas Verma; Henry Schmueckle; Vikas Verma in his capacity as the equityholders' representative; and Installed Building Products, Inc., incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 31, 2016.</a>
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of Installed Building Products, Inc., incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 25, 2014.</a>
3.2	<a href="#">Amended and Restated Bylaws of Installed Building Products, Inc., incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 28, 2018.</a>
4.1	<a href="#">Form of Common Stock Certificate of Installed Building Products, Inc., incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed on January 27, 2014.</a>
4.2	<a href="#">Indenture, dated September 26, 2019, among Installed Building Products, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee (including the Form of Note), incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 27, 2019.</a>
4.3*	<a href="#">Description of Installed Building Product, Inc.'s Securities Registered Pursuant to Section 12 of the Exchange Act.</a>
10.1#	<a href="#">Form of Indemnification Agreement for directors and officers, incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1/A filed on January 27, 2014.</a>
10.2#	<a href="#">Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards, incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 filed on January 9, 2014.</a>
10.3#	<a href="#">Amendment No. 1, dated as of November 1, 2016, to Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 28, 2017.</a>
10.4#*	<a href="#">Amendment No. 2, dated as of November 1, 2019, to Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeffrey W. Edwards.</a>
10.5#	<a href="#">Installed Building Products, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1/A filed on January 27, 2014.</a>

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<u>Exhibit Number</u>	<u>Description</u>
10.6#	<a href="#"><u>Amendment, dated as of February 24, 2017, to the Installed Building Products, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on February 28, 2017.</u></a>
10.7	<a href="#"><u>Term Loan Credit Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., the lenders party thereto from time to time, Royal Bank of Canada, as term administrative agent, and RBC Capital Markets, UBS Securities LLC and Jefferies Finance LLC as joint lead arrangers and joint bookrunners, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.8	<a href="#"><u>Credit Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., the subsidiary guarantors from time to time party thereto, the financial institutions from time to time party thereto, and SunTrust Bank, as issuing bank, swing bank and administrative agent, with SunTrust Robinson Humphrey, Inc. as left lead arranger and bookrunner, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.9	<a href="#"><u>ABL/Term Loan Intercreditor Agreement, dated April 13, 2017, by and among Installed Building Products, Inc., SunTrust Bank, as ABL agent, Royal Bank of Canada, as term loan agent, and each of the agents and certain of the Company's subsidiaries from time to time party thereto, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.10	<a href="#"><u>Term Collateral Agreement, dated April 13, 2017, among Installed Building Products, Inc., certain of its subsidiaries and Royal Bank of Canada, as term collateral agent, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.11	<a href="#"><u>Security Agreement, dated April 13, 2017, among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.12	<a href="#"><u>Term Guarantee Agreement, dated April 13, 2017, among certain of Installed Building Products, Inc.'s subsidiaries and Royal Bank of Canada, as term collateral agent, incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 17, 2017.</u></a>
10.13	<a href="#"><u>Amendment No. 1, dated October 26, 2017, to Term Loan Credit Agreement by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as lead arranger and bookrunner, incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed on February 28, 2018.</u></a>
10.14	<a href="#"><u>First Amendment, dated November 30, 2017, to Term Loan Credit Agreement, by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as lead arranger and bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 1, 2017.</u></a>
10.15	<a href="#"><u>First Amendment, dated October 26, 2017, to the Credit Agreement among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on February 28, 2018.</u></a>
10.16	<a href="#"><u>Second Amendment, dated December 26, 2017, to the Credit Agreement among Installed Building Products, Inc., certain of its subsidiaries and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K filed on February 28, 2018.</u></a>
10.17	<a href="#"><u>Second Amendment to Term Loan Credit Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., the other loan parties party thereto, the participating lenders and fronting bank party thereto, Royal Bank of Canada, as administrative agent, and RBC Capital Markets, as joint lead arranger and joint bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 19, 2018.</u></a>



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<u>Exhibit Number</u>	<u>Description</u>
10.18	<a href="#"><u>Third Amendment to Credit Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., the lenders party thereto, and SunTrust Bank, as administrative agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 19, 2018.</u></a>
10.19	<a href="#"><u>Restatement Agreement, dated as of December 17, 2019, among Installed Building Products, Inc., as Borrower, the Lenders party thereto and Bank of America, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 18, 2019.</u></a>
10.20	<a href="#"><u>First Amendment to ABL/Term Loan Intercreditor Agreement, dated as of June 19, 2018, by and among Installed Building Products, Inc., SunTrust Bank, as ABL agent, and Royal Bank of Canada, as term loan agent, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 19, 2018.</u></a>
10.21	<a href="#"><u>Second Amendment to ABL/Term Loan Intercreditor Agreement, dated as of December 17, 2019, by and among Installed Building Products, Inc., as Borrower, Bank of America, N.A., as ABL Agent, and Bank of America, N.A., as Term Loan Agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 18, 2019.</u></a>
10.22	<a href="#"><u>Purchase Agreement, dated as of September 16, 2019, by and among Installed Building Products, Inc., as issuer, the subsidiary guarantors party thereto, and BofA Securities, Inc. for itself and on behalf of several initial purchasers, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 17, 2019.</u></a>
10.23	<a href="#"><u>Credit Agreement, dated September 26, 2019, among Installed Building Products, Inc., the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as issuing bank, swing bank and administrative agent, with KeyBank National Association, as a syndication agent and U.S. Bank National Association, as a syndication agent, and Bank of America, N.A., as lead arranger and bookrunner, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 27, 2019.</u></a>
10.24	<a href="#"><u>Security Agreement, dated September 26, 2019, among Installed Building Products, Inc., the other grantors party thereto and Bank of America, N.A., as administrative agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 27, 2019.</u></a>
10.25#	<a href="#"><u>Retirement and General Release Agreement, dated as of July 31, 2018, by and among Installed Building Products, Inc., Installed Building Products, LLC, TCI Contracting, LLC and J. Michael Nixon, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 3, 2018.</u></a>
10.26	<a href="#"><u>Share Repurchase Agreement, dated November 5, 2018, by and between Installed Building Products, Inc. and PJAM IBP Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 5, 2018.</u></a>
10.27#	<a href="#"><u>Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 14, 2014.</u></a>
10.28#	<a href="#"><u>Form of Performance Share Award Agreement, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 13, 2014.</u></a>
10.29#	<a href="#"><u>Form of Restricted Stock Agreement for Employees, incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on March 13, 2015.</u></a>
10.30#	<a href="#"><u>Form of Restricted Stock Agreement for awards made on or after April 19, 2017, incorporated by reference to Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.</u></a>

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<u>Exhibit Number</u>	<u>Description</u>
10.31#	<a href="#">Form of Performance Share Agreement for awards made on or after April 19, 2017, incorporated by reference to Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.</a>
10.32#	<a href="#">Form of Stock Award Agreement, incorporated by reference to Exhibit 10.37 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.</a>
10.33#	<a href="#">Form of Performance-Based Cash Award Agreement, incorporated by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.</a>
21.1*	<a href="#">List of Subsidiaries of Installed Building Products, Inc.</a>
23.1*	<a href="#">Consent of Deloitte &amp; Touche LLP.</a>
31.1*	<a href="#">CEO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">CFO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2*	<a href="#">CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS**	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
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.

# Indicates management contract or compensatory plan.

† Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

### **Item 16. Form 10-K Summary**

None

**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: February 27, 2020

INSTALLED BUILDING PRODUCTS, INC.

/s/ Jeffrey W. Edwards

By: Jeffrey W. Edwards  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey W. Edwards</u> Jeffrey W. Edwards	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	February 27, 2020
<u>/s/ Michael T. Miller</u> Michael T. Miller	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)	February 27, 2020
<u>/s/ Todd R. Fry</u> Todd R. Fry	Chief Accounting Officer and Treasurer (Principal Accounting Officer)	February 27, 2020
<u>/s/ Margot L. Carter</u> Margot L. Carter	Director	February 27, 2020
<u>/s/ Lawrence A. Hilsheimer</u> Lawrence A. Hilsheimer	Director	February 27, 2020
<u>/s/ Janet E. Jackson</u> Janet E. Jackson	Director	February 27, 2020
<u>/s/ Robert H. Schottenstein</u> Robert H. Schottenstein	Director	February 27, 2020
<u>/s/ Michael H. Thomas</u> Michael H. Thomas	Director	February 27, 2020
<u>/s/ Vikas Verma</u> Vikas Verma	Director	February 27, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Installed Building Products, Inc. (the "Company," "we," "us" or "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), namely its common stock, \$0.01 par value per share.

The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Second Amended and Restated Certificate of Incorporation (our "Charter") and our Amended and Restated By-laws (our "By-laws"), each of which have been filed with the Securities and Exchange Commission as exhibits to this Annual Report on Form 10-K.

**Authorized Capital Stock**

Our authorized capital stock consists of 100,000,000 shares of common stock, \$0.01 par value per share, and 5,000,000 shares of preferred stock, \$0.01 per value per share.

No shares of our preferred stock are designated, issued or outstanding. Our board of directors has the authority, without further action by our stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting, or the designation of, such series, any or all of which may be greater than the rights of common stock.

**Voting Rights**

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting shares are able to elect all of the directors. Generally, directors are elected by the vote of a majority of votes cast.

**Dividends**

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. Any determination relating to dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

## **Liquidation**

In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

## **Rights and Preferences**

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no sinking fund provisions applicable to our common stock. There are no redemption provisions applicable to any shares of our common stock.

## **Fully Paid and Nonassessable**

All of our outstanding shares of common stock are fully paid and nonassessable.

## **Certain Anti-Takeover Provisions**

Our Charter and Bylaws, as well as the Delaware General Corporation Law (the “DGCL”), contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

**Undesignated Preferred Stock.** The ability to authorize undesignated preferred stock will make it possible for our board of directors to issue preferred stock with super voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our company.

**Board Size; Filling of Vacancies.** Our Charter and Bylaws provide that the number of directors on our board of directors will be fixed exclusively by our board of directors. Newly created directorships resulting from any increase in our authorized number of directors will be filled solely by the vote of our remaining directors in office. Any vacancies in our board of directors resulting from death, resignation, retirement, disqualification or removal from office or other cause will be filled solely by a majority vote of our remaining directors, or a quorum of our remaining directors, in office.

**Classified Board of Directors.** Our Charter provides that our board of directors will be divided into three classes, with each class serving three-year staggered terms.

**Special Meetings of Stockholders.** Our Charter and Bylaws provide that special meetings of the stockholders may be called only by the chairman of our board of directors, our Chief Executive Officer, any two directors or upon a resolution approved by a majority of the total number of directors that we would have if there were no vacancies, and not by our stockholders.

**No Stockholder Action by Written Consent.** Our Charter provides that any action required or permitted to be taken by the stockholders may be effected only at a duly called annual or special meeting.

**Requirements for Advance Notification of Stockholder Nominations and Proposals.** Our Bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

**Business combinations with interested stockholders.** We are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with a stockholder owning 15% or more of such corporation's outstanding voting stock for a period of three years following the date on which such stockholder became an "interested" stockholder. In order for us to consummate a business combination with an "interested" stockholder within three years of the date on which the stockholder became "interested," either (1) the business combination or the transaction that resulted in the stockholder becoming "interested" must be approved by our board of directors prior to the date the stockholder became "interested," (2) the "interested" stockholder must own at least 85% of our outstanding voting stock at the time the transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans) or (3) the business combination must be approved by our board of directors and authorized by at least two-thirds of our stockholders (excluding the "interested" stockholder). This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

#### **Limitations on Liability, Indemnification of Officers and Directors and Insurance**

Our Charter and Bylaws contain provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by DGCL.

#### **Stock Exchange Listing**

Our common stock is listed on the NYSE under the symbol "IBP."

#### **Transfer Agent and Registrar**

The transfer agent and registrar for the shares for our common stock is Computershare.

**AMENDMENT NO. 2 TO  
EMPLOYMENT AGREEMENT  
OF  
JEFFREY W. EDWARDS**

This Amendment No. 2 to Employment Agreement (this "Amendment"), dated and effective as of November 1, 2019, is made by and among Installed Building Products, Inc., a Delaware corporation, having its principal offices at 495 South High Street, Suite 50, Columbus, Ohio 43215 (the "Company"), Installed Building Products, LLC, a Delaware limited liability company ("IBP LLC"), and Jeffrey W. Edwards (the "Executive").

RECITALS

WHEREAS, the parties entered into an Employment Agreement (the "Agreement"), dated as of November 1, 2013 and amended on November 1, 2016, pursuant to which the Company and IBP LLC employed the Executive as their respective Chief Executive Officer and President; and

WHEREAS, the parties desire to amend the Agreement to modify certain terms thereof in the manner set forth below; and

WHEREAS, capitalized terms used herein and not otherwise defined shall have the meaning given such terms in the Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein, and intending to be legally bound hereby, the parties agree as follows:

1. **Term of Employment.** Section 2 of the Agreement is hereby amended to extend the Expiration Date of the Agreement from November 1, 2019 to November 1, 2022.
2. **References to Agreement and Ratification.** Each reference to the Agreement that is made in the Agreement or in any other document shall hereafter be construed as a reference to the Agreement as amended hereby. Except as modified in this Amendment, all terms and provisions of the Agreement are ratified and shall remain in full force and effect.
3. **Severability.** Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.
4. **Governing Law.** The rights and obligations of all parties hereto shall be governed by the laws of the State of Ohio, without regard to conflicts of laws principles.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first set forth above.

INSTALLED BUILDING PRODUCTS, INC.

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

INSTALLED BUILDING PRODUCTS, LLC

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

/s/ Jeffrey W. Edwards  
Jeffrey W. Edwards



## Significant Subsidiaries of Installed Building Products, Inc.

<u>Name</u>	<u>Jurisdiction of Organization</u>
A+ Insulation of Kansas City, LLC	Delaware
Accurate Insulation LLC	Maryland
Accurate Insulation of Colorado, LLC	Delaware
Accurate Insulation of Delaware, LLC	Delaware
Accurate Insulation of Upper Marlboro, LLC	Delaware
Advanced Fiber, LLC	Delaware
Advanced Insulation, LLC	Delaware
All Construction Services, LLC	Delaware
All in One & Moore Building Systems, LLC	Delaware
Alpha Insulation & Water Proofing Company	Georgia
Alpha Insulation & Water Proofing Inc.	Texas
Alpine Insulation I, LLC	Delaware
American Insulation & Energy Services, LLC	Alabama
Any Season Insulation, LLC	Delaware
Apple Valley Insulation, a BDI Company, Inc.	California
Astro Insulation of Illinois, LLC	Delaware
Baytherm Insulation, LLC	Delaware
BDI Insulation of Idaho Falls, Inc.	Idaho
BDI Insulation of Salt Lake, LLC	Utah
BER Energy Services, LLC	Texas
Big City Insulation of Idaho, Inc.	Idaho
Big City Insulation, Inc.	Utah
B-Organized Insulation, LLC	Delaware
Broken Drum Insulation Visalia, Inc.	California
Broken Drum of Bakersfield, Inc.	California
Builders Installed Products of Maine, LLC	Delaware
Builders Installed Products of New Hampshire, LLC	Delaware
Builders Installed Products of New York, LLC	Delaware
Builders Installed Products of Vermont, LLC	Delaware
Building Materials Finance, Inc.	Delaware

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C.Q. Insulation, Inc.	Florida
CLS Insulation, LLC	Delaware
Cornhusker Insulation, LLC	Delaware
Crossroads Holdings, LLC	Delaware
Division 7 8 9 Supply, LLC	Delaware
East Coast Insulators II, LLC	Delaware
Eastern Contractor Services, Limited Liability Company	New Jersey
Ecologic Energy Solutions, LLC	Delaware
Edwards/Mooney & Moses, LLC	Delaware
Elite Spray Foam of Las Vegas, LLC	Delaware
EMPER Holdings, LLC	Delaware
Energy Savers of Louisville, LLC	Delaware
Expert Insulation of Minnesota, LLC	Delaware
FiberClass Insulation, LLC	Delaware
First State Building Products, LLC	Delaware
Fort Wayne Urethane, LLC	Delaware
Garage Door Systems, LLC	Delaware
Gold Insulation, Inc.	Delaware
Gold Star Insulation, L.P.	Delaware
Green Star Plus Insulation, LLC	Delaware
G-T-G, LLC	South Carolina
Gulf Coast Insulation, LLC	Delaware
Hinkle Insulation & Drywall Company, Incorporated	Texas
Horizon Electric Services, LLC	Delaware
IBHL A Holding Company, Inc.	Delaware
IBHL B Holding Company, Inc.	Delaware
IBHL II-A Holding Company, Inc.	Delaware
IBHL II-B Holding Company, Inc.	Delaware
IBP Arctic Express, LLC	Delaware
IBP Asset II, LLC	Delaware
IBP Asset, LLC	Delaware
IBP Corporation Holdings, Inc.	Delaware
IBP Exteriors, Inc.	New Jersey
IBP Holdings II, LLC	Delaware

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IBP Holdings, LLC	Delaware
IBP Legacy Glass & Supply, LLC	Delaware
IBP Logistics, LLC	Delaware
IBP of Mansfield, LLC	Delaware
IBP of Oklahoma, LLC	Delaware
IBP of San Antonio, LLC	Delaware
IBP of Toledo, LLC	Delaware
IBP Texas Assets I, LLC	Delaware
IBP Texas Assets II, LLC	Delaware
IBP Texas Assets III, LLC	Delaware
Installed Building Products – Panhandle, LLC	Delaware
Installed Building Products – Portland, LLC	Oregon
Installed Building Products II, LLC	Delaware
Installed Building Products of Fort Myers, LLC	Delaware
Installed Building Products of Houston, LLC	Delaware
Installed Building Products of Jacksonville, LLC	Delaware
Installed Building Products of Maine, LLC	Delaware
Installed Building Products of Miami, LLC	Delaware
Installed Building Products of Tampa, LLC	Delaware
Installed Building Products of Utah, LLC	Delaware
Installed Building Products of West Palm, LLC	Delaware
Installed Building Products, LLC	Delaware
Installed Building Solutions II, LLC	Delaware
Insulation Northwest, LLC	Delaware
Insulation Wholesale Supply, LLC	Nevada
InsulVail, LLC	Colorado
Key Insulation of Austin, LLC	Delaware
Key Insulation of San Antonio, LLC	Delaware
Lakeside Insulation, LLC	Delaware
Layman Brothers Insulation, LLC	Delaware
LKS Transportation, LLC	Delaware
Loveday Insulation, LLC	Delaware
M&D Insulation, LLC	Delaware
MAP Installed Building Products of Sagamore, LLC	Delaware

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MAP Installed Building Products of Seekonk, LLC	Delaware
Marv's Insulation, Inc.	Idaho
Metro Home Insulation, LLC	Delaware
Mid South Construction and Building Products, Inc.	Georgia
MIG Building Systems of East Syracuse, LLC	Delaware
MIG Building Systems, LLC	Delaware
Momper Insulation of Crown Point, LLC	Delaware
Momper Insulation of Elkhart, LLC	Delaware
Momper Insulation of Fort Wayne, LLC	Delaware
Northwest Insulation, LLC	Delaware
OJ Insulation Holdings, Inc.	Delaware
OJ Insulation, L.P.	Delaware
Pacific Partners Insulation North, a BDI Company, LLC	Washington
Pacific Partners Insulation South, a BDI Company, LLC	Washington
Parker Insulation and Building Products, LLC	Texas
PEG, LLC	Texas
Premier Building Supply SLC, LLC	Utah
Premier Building Supply, LLC	Utah
RaJan, LLC	Ohio
Rocket Insulation, LLC	Delaware
Rockford Insulation, LLC	Delaware
SCE of Chicago, LLC	Delaware
Sierra Insulation Contractors II, LLC	Delaware
Southern Insulators, LLC	Delaware
Spec 7 Insulation Co., LLC	Colorado
Suburban Insulation, Inc.	Pennsylvania
Superior Insulation Services, LLC	Delaware
Superior Insulation, LLC	Delaware
TCI Contracting of Charleston, LLC	Delaware
TCI Contracting of Hilton Head, LLC	Delaware
TCI Contracting of Kentucky, LLC	Delaware
TCI Contracting of Memphis, LLC	Delaware
TCI Contracting of Nashville, LLC	Delaware
TCI Contracting of the Gulf, LLC	Delaware

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TCI Contracting, LLC	Georgia
Thermal Control Insulation, LLC	Ohio
Therm-Con of Tennessee, LLC	Delaware
Tidewater Insulators, LLC	Delaware
Town Building Systems, LLC	Delaware
Trademark Roofing Company, Inc.	North Carolina
Trademark Seamless Gutter Co., Inc.	North Carolina
Trilok Industries, Inc.	Georgia
U.S. Insulation Corp.	Connecticut
Water-Tite Company, LLC	Delaware
Wilson Insulation Company, LLC	Georgia

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-195107 on Form S-8 of our reports dated February 27, 2020, relating to the consolidated financial statements of Installed Building Products, Inc., and the effectiveness of Installed Building Products, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Installed Building Products, Inc. for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Columbus, Ohio  
February 27, 2020

## 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 Annual Report on Form 10-K 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.

Date: February 27, 2020

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

## 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 Annual Report on Form 10-K 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.

Date: February 27, 2020

By: /s/ Michael T. Miller

Michael T. Miller

Executive Vice President and Chief Financial Officer



## 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. Annual Report on Form 10-K for the year ended December 31, 2019 (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: February 27, 2020

By: /s/ Jeffrey W. Edwards

Jeffrey W. Edwards  
President and Chief Executive Officer

## 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. Annual Report on Form 10-K for the year ended December 31, 2019 (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: February 27, 2020

By: /s/ Michael T. Miller

Michael T. Miller

Executive Vice President and Chief Financial Officer