

# Stock Study Research

## Installed Building Products (IBP)

### Building Materials Industry Overview

The Building Materials Industry consists of a variety of companies that operate in residential homebuilding markets, commercial and industrial construction, as well as the cement and aggregates arena. In general, the industry is relatively cyclical and, thus, heavily correlated to the current global economic climate. Revenues are generated largely through individual consumers, domestic and international construction companies, and governments. In recent years, the group has enjoyed a fairly consistent stretch of economic expansion and prosperity. However, this decade has been challenging thus far, though operating conditions have been slowly on the mend, and ought to considerably improve in 2021 and beyond, barring further COVID-19-related setbacks. The industry is not completely out of the woods as far as pandemic headwinds are concerned, with some segments of the economy performing better than others. Residential housing and commercial construction have continued to thrive, while the resumption of industrial production and government projects remain tepid, for now.



### Company Description (Value Line)

Installed Building Products, Inc. (IBP) primarily installs insulation, garage doors, rain gutters, shower doors, closet shelving and mirrors. The company offers its portfolio of services through its national network of over 180 branch locations serving 48 states and the District of Columbia. It handles every stage of the installation process, including material procurement, project scheduling and logistics, multi-phase professional installation and quality inspection. IBP



serves regional and local homebuilders, construction firms, individual homeowners and repair and remodeling contractors. The company offers a variety of waterproofing options, including, sheet and hot applied waterproofing membranes, and air & vapor systems. In October 2020, IBP acquired Insulation Contractors/Magellan Insulation and Norkote, Inc. In November 2020, the company announced the acquisition of Weather Seal Insulation Co., LLC. Has 8500 employees.

### Business Model & Value Proposition

Our asset-light business model does not require a significant amount of capital expenditures and our primary capital requirement is to fund working capital needs. We were successful at realizing selling

## Stock Study Research

### Installed Building Products (IBP)

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.

#### Management (with any pertinent history related to business strategy)

Mr. Edwards, age 56 is our President, Chief Executive Officer and Chairman and has held these positions since 2011, 2004 and 1999, respectively. Mr. Edwards' position allows him to advise the Board on management's perspective over a full range of issues affecting the Company. Prior to joining us, Mr. Edwards acted as an officer and strategist for several companies that he and his family started, acquired or invested in over more than 40 years across a variety of industries, including multi-family and student housing development and management, industrial tool distribution, wholesale building supply, homebuilding, land and real estate development and real estate brokerage. Since 1988, Mr. Edwards has been involved in the launch of many business ventures as well as commercial real estate developments in central Ohio and elsewhere. He holds a B.S. in Marketing from Miami University.

#### Compensation (14A)

Our executive compensation philosophy is to provide a competitive compensation package weighted toward Company performance and aligned with our stockholders' long-term interests. A significant percentage of our executive compensation is in the form of performance-based awards. The Compensation Committee believes that our executive compensation program drives performance and increases stockholder value.

| Name               | Base Salary<br>(S) | Performance-<br>Based Cash<br>Award<br>Earned<br>(S) | Performance-<br>Based Cash<br>Award<br>Actually Paid<br>(S) <sup>(1)</sup> | Performance-<br>Based Restricted<br>Stock Award at<br>Grant Date Fair<br>Value<br>(S) | Total<br>(S) <sup>(2)</sup> |
|--------------------|--------------------|--|--|---|-----------------------------|
| Jeffrey W. Edwards | 680,000            | 721,393  | -  | 1,999,972   | 3,401,365                   |
| Michael T. Miller  | 340,000            | 280,542  | -  | 699,997   | 1,320,539                   |
| Jay P. Elliott     | 400,000            | 350,677  | -  | 749,984   | 1,500,661                   |
| W. Jeffrey Hire    | 310,000            | 100,193  | 100,193  | 114,992   | 525,186                     |
| Jason R. Niswonger | 290,000            | 100,193  | 100,193  | 109,971   | 500,164                     |

(1) Messrs. Edwards, Miller and Elliott agreed in advance to waive all performance-based incentive cash awards earned in 2019 to assist in funding programs under our Foundation. This column represents performance-based cash awards actually paid to each NEO.

(2) Represents the sum of Base Salary, Performance-Based Cash Award Earned and Performance-Based Restricted Stock Award at Grant Date Fair Value.

#### Strategic Growth Plan (10K, Section 7 – MD&A)/BUSINESS STRATEGY

Our product expansion strategy includes acquisitions of companies offering complementary products in our existing markets, organic introduction of product offerings in existing markets and pursuit of new product categories in large commercial markets. Revenue from insulation services represented approximately 74% of total revenues in 2013 compared to 64% in 2019, demonstrating our continued success in revenue growth from product diversification.

# Stock Study Research

## Installed Building Products (IBP)

Our end market and geographic expansion strategy includes acquisitions in residential markets and new commercial markets, opening new branches for the large commercial end market, and leveraging our multifamily sales growth in existing branches. In 2019 we acquired three companies that expanded our operations into four new residential markets and opened one new branch operating in the large commercial end market. We experienced significant organic growth in the multifamily end market in 2019 of approximately 13.5% over 2018.

### Valuation Analysis



## Stock Study Research Installed Building Products (IBP)

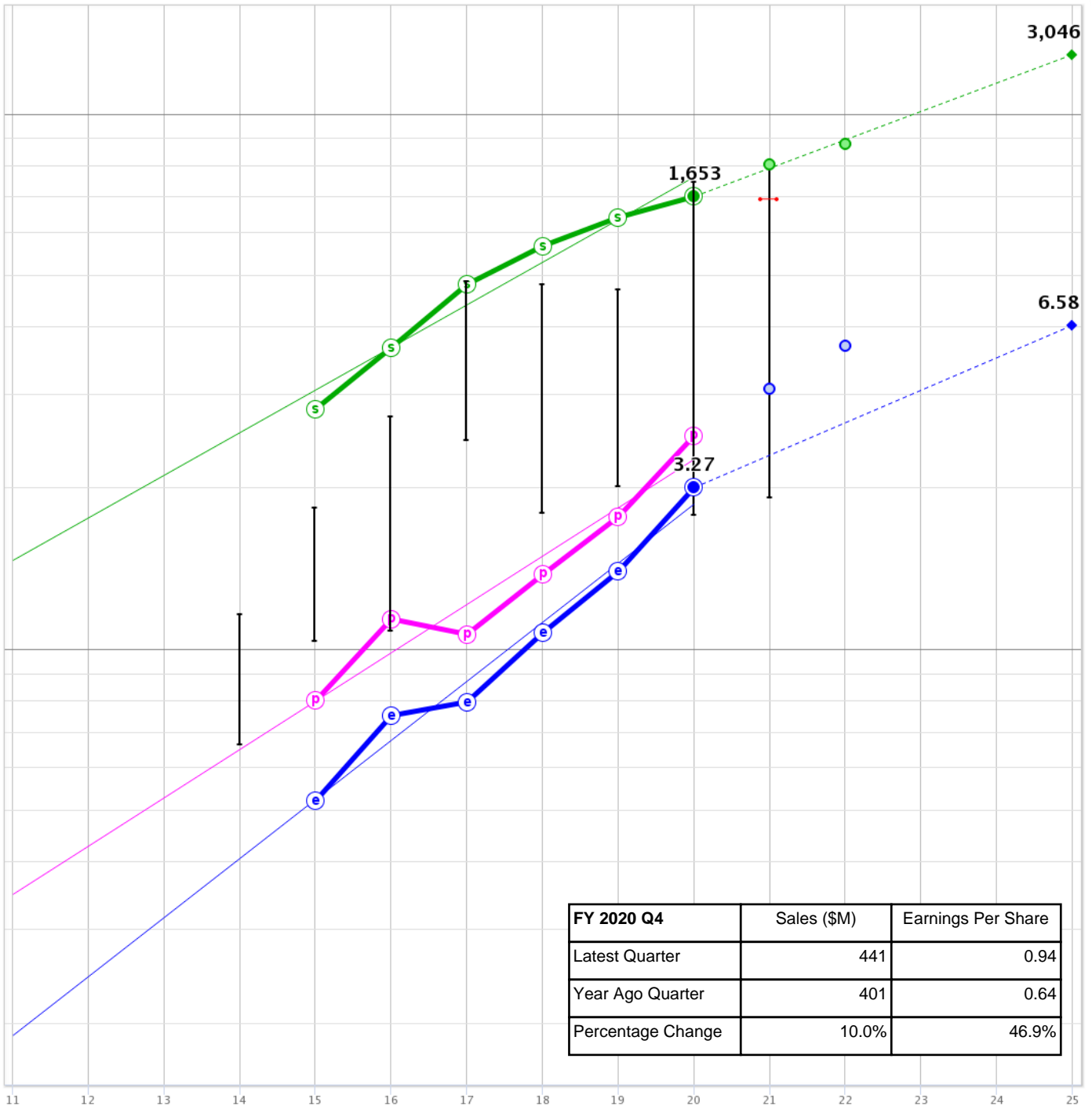
| Sector=Industrials; Industry=Building Products & Equipment |  |     |  |                   |                     |  |
|--|--|-----|--|-------------------|---------------------|--|
| QUALITY  | History  |     | Analysts                                 |                   |                     | Selection  |
| Company Sales  | TK Historical Growth Chart 1yr=13%,<br>3yr=20%, 5yr=23%<br>Trend is down 20% - 5%<br>Lows 2019=13%, 2018=18% |     | 2 yr. 12%-15%                            |                   |                     | Low risk range:<br>12-15%<br>Mid risk range:<br>15-17%<br>High risk range:<br>17%-20%  |
| Sales Growth   | History  |     | Company<br>Guidance                      | Analysts<br>Range | Combined<br>Range   |  |
|  | Norm (Avg)   | Low |  |                   |                     |  |
|  | 22%  | 13% | NA                                       | 12%-15%           | 12%-20%             |  |
| Life Cycle   | Explosive (+23%)   |     | Explosive (12%-15%)                      |                   |                     | Explosive  |
| Growth Strategy  | Yahoo 10-K Summary (MD&A)<br>Organic and/or Acquisition  |     | Acquisition<br>Stock Buy-Back            |                   |                     | Acquisition  |
| Profit Margin  | TK SSG 2A 5yr=5.9% MRY=6.1%  |     |  |                   |                     | 6%-6%  |
| ROE, Debt  | TK ROE 5yr=26% MRY=30%<br>Debt/Capital = 71% (trend=UP)<br>ROIC = 12%/(trend =steady)                        |     |  |                   |                     | ROE>EPS  |
| Taxes & Share  | TK 3y Taxes 26% - 26% (tbl)<br>Share buy-back? YES   |     |  |                   |                     | 26%-26%<br>30M-29M   |
| Company EPS  | TK Historical Growth Chart 1yr=30%,<br>3yr=24%, 5yr=26% Trend =up 24-26%<br>Lows 2017=6%, 2019=25%           |     | Analysts: 25%-36%<br>Calc EPS = 7% - 16% |                   |                     | Low risk range:<br>6%-11%<br>Mid risk range:<br>15%-17%<br>High risk range:<br>15%-20% |
| EPS Growth   | History  |     | Company<br>Guidance                      | Analysts<br>Range | Calculated<br>Range |  |
|  | Norm   | Low |  |                   |                     |  |
|  | 22%  | 6%  | NA                                       | 25%-36%           | 7%-16%              |  |

|  |                      |              |                               |               |     |
|--|----------------------|--------------|-------------------------------|---------------|-----|
| Company                                | Installed Building P |              | Date                          | 03/26/21      |     |
| Prepared by                            | TORBENSON            |              | Data taken from               | BI Stock Data |     |
| Where traded                           | NYS                  | Industry     | Building Products & Equipment |               |     |
| Capitalization --- Outstanding Amounts | Reference            |              |                               |               |     |
| Preferred (\$M)                        | 0.0                  | % Insiders   | % Institution                 |               |     |
| Common (M Shares)                      | 29.7                 | 1.3          | 98.6                          |               |     |
| Debt (\$M)                             | 623.0                | % to Tot Cap | 66.1                          | % Pot Dil     | 1.0 |

# Stock Selection Guide

Symbol: IBP

## 1 VISUAL ANALYSIS of Sales, Earnings, and Price



- |                                   |       |  |       |
|-----------------------------------|-------|--|-------|
| (1) Historical Sales Growth       | 20.1% | (3) Historical Earnings Per Share Growth       | 28.9% |
| (2) Estimated Future Sales Growth | 13.0% | (4) Estimated Future Earnings Per Share Growth | 15.0% |

## 2 EVALUATING Management

Installed Building P

|                         | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | Last 5 Year Avg. |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------|
| Pre-tax Profit on Sales | -2.4% | -1.2% | 2.5%  | 4.4%  | 6.3%  | 6.9%  | 4.9%  | 5.4%  | 6.1%  | 7.9%  | 6.2%             |
| % Earned on Equity      |       |       |       | -6.9% | 25.5% | 27.1% | 21.0% | 24.4% | 30.1% | 31.8% | 26.9%            |
| % Debt To Capital       | 78.2% | 75.5% | 83.9% | 36.9% | 55.7% | 52.0% | 63.1% | 71.7% | 71.3% | 66.1% | 64.8%            |

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 113.26 (03/26/21)

**HIGH THIS YEAR** 130.11

**LOW THIS YEAR** 31.28

|                                    | A     | B    | C         | D                                  | E         | F         | G           | H            |
|------------------------------------|-------|------|-----------|------------------------------------|-----------|-----------|-------------|--------------|
| Year                               | Price |      | Earnings  | Price Earnings Ratio               |           | Dividend  | % Payout    | % High Yield |
|                                    | High  | Low  | Per Share | High A / C                         | Low B / C | Per Share | F / C * 100 | F / B * 100  |
| 2016                               | 44.3  | 17.6 | 1.23      | 36.1                               | 14.4      | 0.00      | 0.0         | 0.0          |
| 2017                               | 79.4  | 40.0 | 1.30      | 61.1                               | 30.8      | 0.00      | 0.0         | 0.0          |
| 2018                               | 78.2  | 29.2 | 1.75      | 44.7                               | 16.7      | 0.00      | 0.0         | 0.0          |
| 2019                               | 76.5  | 32.8 | 2.28      | 33.5                               | 14.4      | 0.00      | 0.0         | 0.0          |
| 2020                               | 121.7 | 29.0 | 3.27      | 37.2                               | 8.9       | 0.00      | 0.0         | 0.0          |
| AVERAGE                            |       | 29.7 |           | 42.5                               | 17.0      |           | 3,669.7     |              |
| CURRENT/TTM                        |       |      | 3.28      |                                    |           | 1.20      | 36.6        |              |
| AVERAGE PRICE EARNINGS RATIO: 29.8 |       |      |           | CURRENT PRICE EARNINGS RATIO: 34.5 |           |           |             |              |

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 40.0 X Estimate High Earnings/Share 6.60 = Forecasted High Price \$ 263.9

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 30.0 X Estimate Low Earnings/Share 3.28 = Forecasted Low Price \$ 98.4

(b) Avg. Low Price of Last 5 Years 29.7

(c) Recent Market Low Price 29.0

(d) Price Dividend Will Support  $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.20}{0.00\%} = 0.0$

Selected Forecasted Low Price \$ 98.4

### C ZONING using 25%-50%-25%

Forecasted High Price 263.9 Minus Forecasted Low Price 98.4 = 165.5 Range. 25% of Range 41.4

Buy Zone 98.4 to 139.8

Hold Zone 139.8 to 222.5

Sell Zone 222.5 to 263.9

Present Market Price of 113.26 is in the **BUY** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{263.9 - 113.26}{113.26 - 98.4} = \frac{150.63}{14.86} = 10.1$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{263.9 - 113.26}{113.26} = 2.3299$  X 100 = 232.99 - 100 = 133.0 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**  $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{0.00}{113.26} = 0.0106 = 1.1\%$  Current Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{0.0\%}{40.00} = 0.0\%$

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{0.0\%}{35.00} = 0.0\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 18.4 %  
Average Yield 0.0 %  
Annualized Rate of Return 18.4 %

### COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 15.3 %  
Average Yield 0.0 %  
Annualized Rate of Return 15.3 %