Installed Building Products, Inc.
Form 10-Q
May 03, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 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

Installed Building Products, Inc.

(Exact name of registrant as specified in its charter)

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

(614) 221-3399

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	**IBP**	**New York Stock Exchange**

On April 26, 2019, the registrant had 30,011,640 shares of common stock, par value $0.01 per share, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

INSTALLED BUILDING PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 88,146	$ 90,442
Investments	10,026	10,060
Accounts receivable (less allowance for doubtful accounts of $5,442 and $5,085 at March 31, 2019 and December 31, 2018, respectively	216,997	214,121
Inventories	60,654	61,162
Other current assets	32,473	35,760
Total current assets	408,296	411,545
Property and equipment, net	91,391	90,117
Operating lease right-of-use assets	45,280	
Goodwill	174,959	173,049
Intangibles, net	147,409	149,790
Other non-current assets	10,374	10,157
Total assets	$ 877,709	$ 834,658
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 23,925	$ 22,642
Current maturities of operating lease obligations	14,241	
Current maturities of finance lease obligations	4,328	4,806
Accounts payable	88,872	96,949
Accrued compensation	22,371	27,923
Other current liabilities	28,680	29,366
Total current liabilities	182,417	181,686
Long-term debt	430,460	432,182
Operating lease obligations	30,682	
Finance lease obligations	3,974	3,824
Deferred income taxes	5,774	6,695

Other long-term liabilities	33,801	27,773
Total liabilities	687,108	652,160
Commitments and contingencies		
Stockholders equity		
Preferred Stock; $0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively		
Common stock; $0.01 par value: 100,000,000 authorized, 32,780,967 and 32,723,972 issued and 29,971,963 and 29,915,611 shares outstanding at March 31, 2019 and December 31, 2018, respectively	328	327
Additional paid in capital	183,836	181,815
Retained earnings	114,046	105,212
Treasury stock; at cost: 2,809,004 and 2,808,361 shares at March 31, 2019 and December 31, 2018, respectively	(104,429)	(104,425)
Accumulated other comprehensive loss	(3,180)	(431)
Total stockholders equity	190,601	182,498
Total liabilities and stockholders equity	$ 877,709	$ 834,658

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except share and per share amounts)

	Three months ended March 31, 2019	2018
Net revenue	$ 342,135	$ 301,728
Cost of sales	252,697	221,752
Gross profit	89,438	79,976
Operating expenses		
Selling	17,130	15,846
Administrative	48,431	44,203
Amortization	5,888	7,128
Operating income	17,989	12,799
Other expense		
Interest expense, net	5,676	4,040
Other	125	122
Income before income taxes	12,188	8,637
Income tax provision	3,354	2,243
Net income	$ 8,834	$ 6,394
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on cash flow hedge, net of tax benefit (provision) of $921 and ($386) for the three months ended March 31, 2019 and 2018, respectively	(2,749)	1,160
Comprehensive income	$ 6,085	$ 7,554
Basic and diluted net income per share	$ 0.30	$ 0.20
Weighted average shares outstanding:		
Basic	29,679,884	31,548,745
Diluted	29,806,653	31,772,581

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(in thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income	Stockholders Equity
BALANCE January 1, 2018	32,524,934	$ 325	$ 174,043	$ 48,434	(662,788)	$ (12,781)	$ 507	$ 210,528
Net income				6,394				6,394
Cumulative effect of accounting changes, net of tax				2,776			112	2,888
Issuance of common stock awards to employees	70,390	1	(1)					
Surrender of common stock awards by employees					(1,212)	(56)		(56)
Share-based compensation expense			2,307					2,307
Common stock repurchase					(412,717)	(24,640)		(24,640)
Other comprehensive income, net of tax							1,160	1,160
BALANCE March 31, 2018	32,595,324	$ 326	$ 176,349	$ 57,604	(1,076,717)	$ (37,477)	$ 1,779	$ 198,581

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Stockholders Equity
BALANCE January 1, 2019	32,723,972	$ 327	$ 181,815	$ 105,212	(2,808,361)	$ (104,425)	$ (431)	$ 182,498
Net income				8,834				8,834
	56,995	1	(1)					

Issuance of common stock awards to employees								
Surrender of common stock awards by employees					(643)	(4)		(4)
Share-based compensation expense			2,022					2,022
Other comprehensive loss, net of tax							(2,749)	(2,749)
BALANCE March 31, 2019	32,780,967	$ 328	$ 183,836	$ 114,046	(2,809,004)	$ (104,429)	$ (3,180)	$ 190,601

See accompanying notes to consolidated financial statements

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INSTALLED BUILDING PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities		
Net income	$ 8,834	$ 6,394
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	9,111	7,978
Amortization of operating lease right-of-use assets	3,798	
Amortization of intangibles	5,888	7,128
Amortization of deferred financing costs and debt discount	282	302
Provision for doubtful accounts	828	896
Gain on sale of property and equipment	(19)	(185)
Noncash stock compensation	2,022	2,240
Changes in assets and liabilities, excluding effects of acquisitions		
Accounts receivable	(3,704)	(7,058)
Inventories	799	(2,420)
Other assets	(1,048)	(4,139)
Accounts payable	(7,807)	(57)
Income taxes receivable / payable	2,746	1,303
Other liabilities	(5,841)	(6,297)
Net cash provided by operating activities	15,889	6,085
Cash flows from investing activities		
Purchases of investments	(7,482)	(17,782)
Maturities of short term investments	7,530	19,000
Purchases of property and equipment	(8,658)	(10,237)
Acquisitions of businesses	(5,125)	(11,505)
Proceeds from sale of property and equipment	196	283
Other	(420)	(1,050)
Net cash used in investing activities	(13,959)	(21,291)
Cash flows from financing activities		
Payments on term loan (Note 6)	(1,000)	(750)
Proceeds from vehicle and equipment notes payable	4,908	4,510
Debt issuance costs		(1)
Principal payments on long-term debt	(3,946)	(3,092)
Principal payments on finance lease obligations	(1,366)	(1,629)
Acquisition-related obligations	(2,818)	(1,740)
Repurchase of common stock		(24,640)

Surrender of common stock awards by employees		(4)		(56)
Net cash used in financing activities		(4,226)		(27,398)
Net change in cash and cash equivalents		(2,296)		(42,604)
Cash and cash equivalents at beginning of period		90,442		62,510
Cash and cash equivalents at end of period	$	88,146	$	19,906
Supplemental disclosures of cash flow information				
Net cash paid during the period for:				
Interest	$	5,816	$	3,914
Income taxes, net of refunds		737		899
Supplemental disclosure of noncash activities				
Right-of-use assets obtained in exchange for operating lease obligations		3,851		
Property and equipment obtained in exchange for finance lease obligations		1,108		312
Seller obligations in connection with acquisition of businesses		1,380		3,093
Unpaid purchases of property and equipment included in accounts payable		1,503		1,485

See accompanying notes to consolidated financial statements

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 ORGANIZATION

Installed Building Products (IBP), a Delaware corporation formed on October 28, 2011, and its wholly-owned subsidiaries (collectively referred to as the Company, and we, us and our) primarily install insulation, waterproofin fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors and other products for residential and commercial builders located in the continental United States. The Company operates in over 175 locations and its corporate office is located in Columbus, Ohio.

We have one operating segment and a single reportable segment. We offer our portfolio of services for new and existing single-family and multi-family residential and commercial building projects from our national network of branch locations.

Each of our branches has the capacity to serve all of our end markets. 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

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

The information furnished in the Condensed Consolidated Financial Statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (the SEC) have been omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to prevent the information presented from being misleading when read in conjunction with our audited consolidated financial statements and the notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the 2018 Form 10-K), as filed with the SEC on February 28, 2019. The December 31, 2018 Condensed Consolidated Balance Sheet data herein was derived from the audited consolidated financial statements but does not include all disclosures required by U.S. GAAP.

Our interim operating results for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected in future operating quarters. See Item 1A, Risk Factors, in our 2018 Form 10-K for additional information regarding risk factors that may impact our results.

Note 2 to the audited consolidated financial statements in our 2018 Form 10-K describes the significant accounting policies and estimates used in preparation of the audited consolidated financial statements. There have been no changes to our significant accounting policies during the three months ended March 31, 2019, except for the manner in which we account for leases as described in Note 7, Leases.

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Recently Adopted Accounting Pronouncements

Standard	Adoption
ASU 2016-02, *Leases (Topic 842)*	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 7, Leases, for further information regarding our lease accounting policies.

Recently Issued Accounting Pronouncements Not Yet Adopted

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

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)*	This pronouncement amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In addition, these amendments require the measurement of all expected credit losses for financial assets, including trade accounts receivable, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts.	Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.	We are currently evaluating whether this ASU will have a material impact on our consolidated financial statements.

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*	To address concerns over the cost and complexity of the two-step goodwill impairment test, this pronouncement removes the second step of the goodwill impairment test. Going forward, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit s carrying amount over its fair value, not to 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 disclosures.
ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*	This pronouncement amends Topic 820 to eliminate, add and modify certain disclosure requirements for fair value measurements.	Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.	We are currently evaluating the provisions of this ASU and the impact it will have on our disclosures.

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. We recognize revenue using the percentage-of-completion method of accounting, utilizing a cost-to-cost input approach as we believe this represents the best measure of when control of goods and services are transferred to the customer. An insignificant portion of our sales, primarily retail sales, is accounted for on a point-in-time basis when the sale occurs, adjusted accordingly for any return provisions. We do offer assurance-type warranties on certain of our installed products and services that do not represent a separate performance obligation and, as such, do not impact the timing or extent of revenue recognition.

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

When the percentage-of-completion method is used, we estimate the costs to complete individual contracts and record as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs (the cost-to-cost approach). Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue, requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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

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

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

	Three months ended March 31,			
	2019		2018	
Residential new construction	$ 261,310	77%	$ 229,642	76%
Repair and remodel	21,521	6%	20,472	7%
Commercial	59,304	17%	51,614	17%
Net revenues	$ 342,135	100%	$ 301,728	100%

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Three months ended March 31,			
	2019		2018	
Insulation	$ 221,223	65%	$ 202,275	67%
Waterproofing	22,385	7%	22,606	7%
Shower doors, shelving and mirrors	23,917	7%	20,260	7%
Garage doors	21,672	6%	15,466	5%
Rain gutters	11,199	3%	8,658	3%
Window blinds	9,384	3%	5,306	2%
Other building products	32,355	9%	27,157	9%
Net revenues	$ 342,135	100%	$ 301,728	100%

Contract Assets and Liabilities

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

	March 31, 2019	December 31, 2018
Contract assets	$ 19,565	$ 15,092
Contract liabilities	(7,792)	(7,468)

Uncompleted contracts were as follows (in thousands):

	March 31, 2019	December 31, 2018
Costs incurred on uncompleted contracts	$ 101,024	$ 114,826
Estimated earnings	52,670	58,952
Total	153,694	173,778
Less: Billings to date	139,100	163,112
Net under (over) billings	$ 14,594	$ 10,666

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

	March 31, 2019	December 31, 2018
Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets)	$ 19,565	$ 15,092
Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities)	(4,971)	(4,426)
Net under (over) billings	$ 14,594	$ 10,666

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The difference between contract assets and contract liabilities as of March 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 three months ended March 31, 2019, we recognized $6.3 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 three months ended March 31, 2019 or 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 March 31, 2019, the aggregate amount of the transaction price allocated to remaining uncompleted contracts was $89.5 million. We expect to satisfy remaining performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

Practical Expedients and Exemptions

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

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

NOTE 4 INVESTMENTS

Cash and cash equivalents includes investments in money market funds that are valued based on the net asset value of the funds. The investments in these funds were $71.2 million and $69.8 million as of March 31, 2019 and December 31, 2018, respectively.

All other investments are classified as held-to-maturity and consist of highly liquid instruments, primarily including corporate bonds and commercial paper. As of March 31, 2019 and December 31, 2018, the amortized cost of these investments equaled the net carrying value, which was $10.0 million and $10.1 million, respectively. All held-to-maturity securities as of March 31, 2019 mature in one year or less. See Note 8, Fair Value Measurements, for additional information.

NOTE 5 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, 2019	$ 243,053	$ (70,004)	$ 173,049
Business Combinations	1,882		1,882
Other	28		28
March 31, 2019	$ 244,963	$ (70,004)	$ 174,959

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Other changes included in the above table represent minor adjustments for the allocation of certain acquisitions still under measurement and one immaterial acquisition completed during the three months ended March 31, 2019.

We test goodwill for impairment annually during the fourth quarter of our fiscal year or earlier if there is an impairment indicator. No impairment was recognized during either of the three month periods ended March 31, 2019 or 2018. Accumulated impairment losses included within the above table were incurred over multiple periods, with the latest impairment charge being recorded during the year ended December 31, 2010.

Intangibles, net

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

	As of March 31, 2019			As of December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized intangibles:						
Customer relationships	$ 150,735	$ 56,530	$ 94,205	$ 148,635	$ 52,514	$ 96,121
Covenants not-to-compete	15,090	8,325	6,765	14,682	7,572	7,110
Trademarks and trade names	65,432	19,319	46,113	64,432	18,256	46,176
Backlog	14,060	13,734	326	14,060	13,677	383
	$ 245,317	$ 97,908	$ 147,409	$ 241,809	$ 92,019	$ 149,790

The gross carrying amount of intangibles increased approximately $3.5 million during the three months ended March 31, 2019 primarily due to business combinations. See Note 15, Business Combinations, for more information. Remaining estimated aggregate annual amortization expense is as follows (amounts, in thousands, are for the fiscal year ended):

Remainder of 2019	17,719
2020	22,744
2021	21,415
2022	20,494
2023	17,583
Thereafter	47,454

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 LONG-TERM DEBT

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

	As of March 31, 2019	As of December 31, 2018
Term loan, net of unamortized debt issuance costs of $4,642 and $4,834, respectively	$ 390,108	$ 390,916
Vehicle and equipment notes, maturing through March 2024; payable in various monthly installments, including interest rates ranging from 2.5% to 4.8%	60,811	60,391
Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 4% to 6%	3,466	3,517
	454,385	454,824
Less: current maturities	(23,925)	(22,642)
Long-term debt, less current maturities	$ 430,460	$ 432,182

NOTE 7 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. The impact primarily related to the change in 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 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 course of ordinary 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; certain manufacturing facilities to produce insulation materials; 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. Future renewal options that have not been executed as of the balance sheet date are excluded from right-of-use 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.

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INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Lease Position as of March 31, 2019

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

(in thousands)	Classification	As of March 31, 2019
Assets		
Non-Current		
Operating	Operating lease right-of-use assets	$ 45,280
Finance	Property and equipment, net	9,217
Total lease assets		$ 54,497
Liabilities		
Current		
Operating	Current maturities of operating lease obligations	$ 14,241
Financing	Current maturities of finance lease obligations	4,328
Non-Current		
Operating	Operating lease obligations	30,682
Financing	Finance lease obligations	3,974
Total lease liabilities		$ 53,225
Weighted-average remaining lease term		
Operating leases		4.5 years
Finance leases		2.3 years
Weighted-average discount rate		
Operating leases [(1)]		5.04%
Finance leases		4.57%

(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	Three months ended March 31, 2019
Operating lease cost [1]	Administrative	$ 4,987
Finance lease cost		
Amortization of leased assets [2]	Cost of sales	1,478
Interest on capital lease obligations	Interest expense, net	94
Total lease costs		$ 6,559

(1) Includes variable lease costs of $0.5 million and short-term lease costs of $0.2 million.

(2) Includes variable lease costs of $0.3 million.

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Other Information

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

	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 4,233
Operating cash flows for finance leases	94
Financing cash flows for finance leases	1,366

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 (in thousands):

	As of March 31, 2019			
	Related Party	Other	Total Operating	Finance Leases
Remainder of 2019	$ 774	$ 11,595	$ 12,369	$ 3,947
2020	1,055	12,240	13,295	2,539
2021	910	8,042	8,952	1,596
2022	836	4,615	5,451	663
2023	415	3,047	3,462	284
Thereafter	823	6,007	6,830	16
Total minimum lease payments	$ 4,813	$ 45,546	50,359	9,045
Less: Amounts representing executory costs				(255)
Less: Amounts representing interest			(5,436)	(488)
Present value of future minimum lease payments			44,923	8,302
Less: Current obligation under leases			(14,241)	(4,328)
Long-term lease obligations			$ 30,682	$ 3,974

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

Lease amounts presented as of December 31, 2018 and for the three months ended March 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.

Future minimum lease payments under noncancellable 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):

		Operating Leases		
	Capital 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
	9,344	$ 4,424	$ 44,368	$ 48,792
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	$ 3,824			

NOTE 8 FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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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 March 31, 2019 and December 31, 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 three months ended March 31, 2019 and 2018, 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 March 31, 2019 and December 31, 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 ABL Revolver as of March 31, 2019 and December 31, 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 March 31, 2019 and December 31, 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 Condensed Consolidated Balance Sheets and not described above were as follows (in thousands):

	As of March 31, 2019				As of December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets:								
Cash equivalents	$ 71,240	$ 71,240	$	$	$ 69,807	$ 69,807	$	$
Derivative financial instruments	805		805		1,765		1,765	
Total financial assets	$ 72,045	$ 71,240	$ 805	$	$ 71,572	$ 69,807	$ 1,765	$
Financial liabilities:								
Derivative financial instruments	$ 4,984	$	$ 4,984	$	$ 2,275	$	$ 2,275	$
Contingent consideration	4,977			4,977	5,098			5,098

Total financial liabilities	$ 9,961	$	$ 4,984	$ 4,977	$ 7,373	$	$ 2,275	$ 5,098

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		1,525
Fair value adjustments		(245)
Accretion in value		125
Amounts paid to sellers		(1,526)
Contingent consideration liability	March 31, 2019	$ 4,977

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

The carrying values and associated fair values of financial assets and liabilities that are not recorded at fair value in the Condensed Consolidated Balance Sheets and not described above include investments which represent a Level 2 fair value measurement and are as follows (in thousands):

	As of March 31, 2019		As of December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investments	$ 10,026	$ 10,026	$ 10,060	$ 10,053

See Note 4, Investments, for more information on cash equivalents and investments included in the table above. Also see Note 9, Derivatives and Hedging Activities, for more information on derivative financial instruments.

NOTE 9 DERIVATIVES AND HEDGING ACTIVITIES

Cash Flow Hedges of Interest Rate Risk

Our purpose for using interest rate derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. During the first three months of 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 over the life of the agreements without exchange of the underlying notional amount. As of March 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. Combined, these three swaps serve to hedge $200.0 million 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 8, 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 three months ended March 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 $0.1 million will be reclassified as an increase to interest expense, net.

INSTALLED BUILDING PRODUCTS, INC.

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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 March 31, 2019, the Company has not posted any collateral related to these agreements.

NOTE 10 STOCKHOLDERS EQUITY

As of March 31, 2019, we had $3.2 million in accumulated other comprehensive loss on our Condensed Consolidated Balance Sheet, which represents the effective portion of the unrealized loss on our derivative instruments. For additional information, see Note 9, Derivatives and Hedging Activities.

During the three months ended March 31, 2018, we repurchased 413 thousand shares of our outstanding common stock for an aggregate purchase price of $24.6 million or $59.70 average price per share as part of our stock repurchase plan in effect through February 28, 2020, unless extended by our board of directors. We did not repurchase any shares during the three months ended March 31, 2019. The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation.

NOTE 11 EMPLOYEE BENEFITS

Healthcare

Our healthcare benefit expense (net of employee contributions) for all plans was approximately $4.8 million and $4.4 million for the three months ended March 31, 2019 and 2018, respectively. An accrual for estimated healthcare claims incurred but not reported (IBNR) is included within accrued compensation on the Condensed Consolidated Balance Sheets and was $2.7 million and $2.3 million as of March 31, 2019 and December 31, 2018, respectively.

Workers Compensation

Workers compensation expense totaled $4.2 million and $3.8 million for the three months ended March 31, 2019 and 2018, respectively. Workers compensation known claims and IBNR reserves included on the Condensed Consolidated Balance Sheets were as follows (in thousands):

	March 31, 2019	December 31, 2018
Included in other current liabilities	$ 5,201	$ 5,795
Included in other long-term liabilities	11,138	9,447
	$ 16,339	$ 15,242

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

	March 31, 2019	December 31, 2018
Included in other non-current assets	$ 1,905	$ 1,888

INSTALLED BUILDING PRODUCTS, INC.

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Retirement Plans

We participate in multiple 401(k) plans, whereby we provide a matching contribution of wages deferred by employees and can also make discretionary contributions to each plan. Certain plans allow for discretionary employer contributions only. These plans cover substantially all our eligible employees. We recognized 401(k) plan expenses of $0.6 million and $0.4 million during the three months ended March 31, 2019 and 2018, respectively. These expenses are included in administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income.

Share-Based Compensation

Common Stock Awards

We periodically grant shares of our common stock to our board of directors and our employees. We did not grant any such shares to our board of directors during the three months ended March 31, 2019 or 2018, however we recorded $0.1 million of compensation expense during the three months ended March 31, 2019 related to prior grants to our board of directors. During the three months ended March 31, 2019 and 2018, we granted approximately 11 thousand and approximately eight thousand shares of our common stock, respectively, to employees and recorded $1.1 million and $0.9 million, respectively, of compensation expense associated with non-performance-based awards issued to employees.

During the three months ended March 31, 2019 and 2018, our employees surrendered approximately two hundred and one thousand shares of our common stock, respectively, to satisfy tax withholding obligations arising in connection with the vesting of common stock awards issued under our 2014 Omnibus Incentive Plan. We recognized excess tax benefits of $0.1 million within the income tax provision in the Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2018.

As of March 31, 2019, we had $4.5 million of unrecognized compensation expense related to these nonvested common stock awards issued to the 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 three months ended March 31, 2019, we issued under our 2014 Omnibus Incentive Plan approximately 46 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. In addition, during the three months ended March 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 and prior performance-based grants was $0.7 million and $0.4 million for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, we had $5.8 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 2.1 years using the graded-vesting method. See the table below for changes in shares and related weighted average fair market value per share.

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Employees   Performance-Based Restricted Stock Units

During 2018, we established, and our board of directors approved, performance-based restricted stock units in connection with common stock awards to be issued to certain employees in 2019 based upon achievement of a performance target. These units will be accounted for as equity-based awards that will be settled with a fixed number of common shares. We recorded $0.1 million and $0.9 million in compensation expense associated with these performance-based units during the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, we had $34 thousand of unrecognized compensation expense related to nonvested performance-based common stock units. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of 0.1 years. See the table below for changes in shares and related weighted average fair market value per share.

Share-Based Compensation Summary

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

	Common Stock Awards		Performance-Based Stock Awards		Performance-Based Restricted Stock Units	
	Awards	Weighted Average Fair Market Value Per Share	Awards	Weighted Average Fair Market Value Per Share	Units	Weighted Average Fair Market Value Per Share
Nonvested awards/units at December 31, 2018	173,189	$ 47.40	115,698	$ 52.25	13,248	$ 56.05
Granted	10,800	45.65	82,692	45.65		
Vested	(564)	54.98				
Forfeited/Cancelled	(445)	56.05	(6,697)	65.60	(440)	56.05
Nonvested awards/units at March 31, 2019	182,980	$ 47.25	191,693	$ 48.93	12,808	$ 56.05

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

Three months ended March 31,

	2019	2018
Cost of sales	$ 78	$ 475
Selling	44	283
Administrative	1,816	1,482
	$ 1,938	$ 2,240

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.

NOTE 12 INCOME TAXES

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

INSTALLED BUILDING PRODUCTS, INC.

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During the three months ended March 31, 2019, our effective tax rate was 27.5%. This rate was unfavorably impacted due to separate tax filing entities in a loss position for which a full valuation allowance is required, resulting in no tax benefit for recognized losses.

NOTE 13 RELATED PARTY TRANSACTIONS

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

We lease our headquarters and certain other facilities from related parties. See Note 7, Leases, for future minimum lease payments to be paid to these related parties.

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

	Three months ended March 31,	
	2019	2018
Sales	$ 2,661	$ 2,893
Purchases	388	363
Rent	260	281

As of March 31, 2019 and December 31, 2018, we had related party balances of approximately $2.0 million and $2.3 million, respectively, included in accounts receivable on our Condensed 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 $1.2 million of these balances as of both March 31, 2019 and December 31, 2018, respectively.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Accrued General Liability and Auto Insurance

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

	March 31, 2019	December 31, 2018
Included in other current liabilities	$ 1,914	$ 1,848

Included in other long-term liabilities	9,803	6,608
	$ 11,717	$ 8,456

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

	March 31, 2019	December 31, 2018
Insurance receivable and indemnification asset for claims under a fully insured policy	$ 2,484	$ 2,484
Insurance receivable for claims that exceeded the stop loss limit		