

# ValueInvestor

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The Leading Authority on Value Investing

## INSIGHT

## Built to Last

*In a market where high-flying technology companies tend to get the lion's share of attention, a seemingly stodgy, cyclical company like Installed Business Products can fall through the cracks. Such an oversight might present opportunity.*

It's hard to find a ten-year stock chart more impressive than the one for Installed Building Products, which as its name suggests distributes and installs building products – particularly insulation – used in residential and commercial construction. For what at first blush might be considered a stodgy, cyclical company, its shares' return of 880% over the past decade outpaces tech luminaries including Alphabet, Meta Platforms and Microsoft.

The news lately for shareholders has been rather less exciting. The stock at a recent \$172 is down nearly 40% from its 52-week high, in large part over fears that high prices and stubbornly high mortgage rates will dampen new-home demand, while labor shortages and high labor costs will restrict new-home supply. Having traded at a 10-year average of 18x forward earnings, that multiple today is less than 15x.

All of which spells opportunity, says John Rotonti of Bastion Fiduciary, who thinks near-term headwinds won't dent IBP's successful business model or long-term growth prospects. The company is one of two large insulation installers in the U.S. – the other is TopBuild [BLD] – benefitting from clear economies of scale. It buys in bulk from large insulation producers with special discounts and flexible terms, translating into an ability to offer better prices and more timely delivery to customers while still earning higher margins. It has expanded its share of wallet with builders by extending the products and services it offers, now including things like garage doors, rain gutters, shower doors, waterproofing and fireproofing.

In a fragmented market, IBP has also been adept in making bolt-on acquisitions,

200 or so over the past 25 years. Acquisitions have typically been accretive to profitability as acquired local businesses benefit from IBP's buying power, from new relationships with national builders, and from the ability to sell additional products to their local customers. This acquisition

engine – led by 60-year-old founder/CEO Jeffery Edwards – has been a key driver of the company's sales growing 21% annually and EPS growing a remarkable 34% annually since it went public in 2014. Returns on invested capital since 2019 have increased by 700 basis points.

### INVESTMENT SNAPSHOT

#### Installed Building Products

(NYSE: IBP)

**Business:** Building-products distributor focused on selling and installing insulation used in home and commercial construction.

#### Share Information (@2/26/25):

<b>Price</b>	<b>172.00</b>
52-Week Range	162.20 – 281.04
Dividend Yield	1.8%
Market Cap	\$4.81 billion

#### Financials (TTM)

Revenue	\$2.91 billion
Operating Profit Margin	13.3%
Net Profit Margin	8.7%

#### Valuation Metrics

(@2/26/25):

	<b>IBP</b>	<b>S&amp;P 500</b>
P/E (TTM)	19.1	25.8
Forward P/E (Est.)	15.3	22.6

#### Largest Institutional Owners

(@12/31/24 or latest filing):

<b>Company</b>	<b>% Owned</b>
BlackRock	14.2%
Vanguard Group	9.4%
State Street	4.5%

#### Short Interest (as of 2/15/25):

Shares Short/Float	6.2%
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#### IBP PRICE HISTORY



#### THE BOTTOM LINE

Near-term fears about the U.S. housing market are masking the power of the company's business model to drive growth and profitability, says John Rotonti. He expects to benefit as a shareholder at least in line with IBP's prospective mid-teens annual EPS growth.

Sources: S&P Capital IQ, company reports, other publicly available information

Rotonti is bullish longer-term on U.S. housing as the industry underbuilding that has persisted since the financial crises eventually corrects. He also expects incremental demand in the insulation business as building codes require new construction to meet higher energy-efficiency standards

that can be met in large part through better insulation. He, and management, believe the company can increase earnings per share at a mid-teens annual rate.

“IBP trades at a big discount to the market and its history because everybody seems to hate housing,” he says. “If I’m

right about the growth, I don’t need the market to re-rate the stock in order for this to be a successful investment. But if I’m right about the growth I think the market will also re-rate the stock and I’ll have an even more successful investment.” <sup>vii</sup>



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