

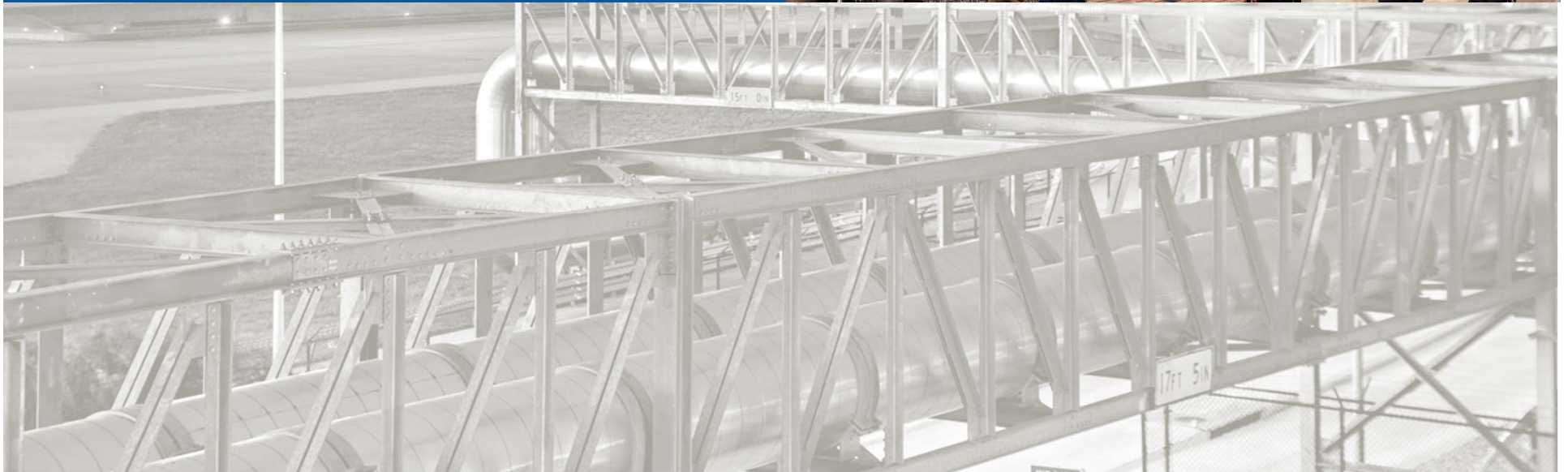
Q4 2017 Earnings Call

(NYSE: FIX)

February 23, 2018

Comfort Systems USA

Quality People. Building Solutions.



Q4 2017 Financial Results Highlights

Q4 Revenue increased \$69.0 million to \$461.1 million (same store increase of \$42.8 million)

Gross Profit was 20.3% vs. 22.5% in Q4 2016

SG&A increased \$7.1 million to \$70.0 million or 15.2% of revenue vs. \$63.0 million or 16.1% of revenue in Q4 2016

EPS was \$0.20 per diluted share (\$0.45 per diluted share excluding a \$0.25 reduction related to remeasurement of deferred tax assets)

Q4 2017 Cash Flow from Operations was \$48.4 million

Q4 2017 Backlog of \$948.4 million

Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data) (Unaudited)

	For the Three Months Ended				Variance	
	December 31,				\$	%
	2017		2016			
Revenue	\$ 461,072	100.0%	\$ 392,100	100.0%	\$ 68,972	17.6%
Cost of Services	367,341	79.7%	303,835	77.5%	63,506	20.9%
Gross Profit	93,731	20.3%	88,265	22.5%	5,466	6.2%
Selling, General and Administrative Expenses	70,033	15.2%	62,956	16.1%	7,077	11.2%
Goodwill Impairment	-	0.0%	-	0.0%	-	0.0%
Gain on Sale of Assets	(206)	0.0%	(238)	-0.1%	32	13.4%
Operating Income	<u>\$ 23,904</u>	5.2%	<u>\$ 25,547</u>	6.5%	<u>\$ (1,643)</u>	<u>-6.4%</u>
Net Income	<u>\$ 7,539</u>	1.6%	<u>\$ 16,867</u>	4.3%	<u>\$ (9,328)</u>	<u>-55.3%</u>
Non-GAAP Net Income As Adjusted ⁽¹⁾	<u>\$ 17,017</u>	3.7%	<u>\$ 16,867</u>	4.3%	<u>\$ 150</u>	<u>0.9%</u>
Diluted EPS	<u>\$ 0.20</u>		<u>\$ 0.45</u>		<u>\$ (0.25)</u>	<u>-55.6%</u>
Non-GAAP Diluted EPS As Adjusted ⁽¹⁾	<u>\$ 0.45</u>		<u>\$ 0.45</u>		<u>\$ -</u>	<u>0.0%</u>
Adjusted EBITDA ⁽²⁾	<u>\$ 33,818</u>	7.3%	<u>\$ 31,804</u>	8.1%	<u>\$ 2,014</u>	<u>6.3%</u>

⁽¹⁾ See Slide 11 for Supplemental Non-GAAP Information

⁽²⁾ See Slide 12 for GAAP Reconciliation to Adjusted EBITDA

2017 Financial Results Highlights

2017 Revenue increased \$153.6 million to \$1,787.9 million

Gross Profit was 20.5% vs. 21.0% for the same period in 2016

SG&A increased \$23.4 million to \$266.6 million or 14.9% of revenue vs. \$243.2 million or 14.9% of revenue for the same period in 2016

EPS was \$1.47 per diluted share (\$1.74 per diluted share excluding a \$0.25 remeasurement of deferred tax assets & a \$0.02 Q1 goodwill impairment)

2017 Cash Flow from Operations was \$114.1 million

Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data)

	For the Twelve Months Ended				Variance	
	December 31,		December 31,		\$	%
	2017		2016			
Revenue	\$ 1,787,922	100.0%	\$ 1,634,340	100.0%	\$ 153,582	9.4%
Cost of Services	1,421,641	79.5%	1,290,331	79.0%	131,310	10.2%
Gross Profit	366,281	20.5%	344,009	21.0%	22,272	6.5%
Selling, General and Administrative Expenses	266,586	14.9%	243,201	14.9%	23,385	9.6%
Goodwill Impairment	1,105	0.1%	-	0.0%	1,105	100.0%
Gain on Sale of Assets	(670)	0.0%	(761)	0.0%	91	12.0%
Operating Income	\$ 99,260	5.6%	\$ 101,569	6.2%	\$ (2,309)	-2.3%
Net Income	\$ 55,272	3.1%	\$ 64,896	4.0%	\$ (9,624)	-14.8%
Non-GAAP Net Income As Adjusted ⁽¹⁾	\$ 65,458	3.7%	\$ 64,896	4.0%	\$ 562	0.9%
Diluted EPS	\$ 1.47		\$ 1.72		\$ (0.25)	-14.5%
Non-GAAP Diluted EPS As Adjusted ⁽¹⁾	\$ 1.74		\$ 1.72		\$ 0.02	1.2%
Adjusted EBITDA ⁽²⁾	\$ 137,151	7.7%	\$ 126,974	7.8%	\$ 10,177	8.0%

⁽¹⁾ See Slide 11 for Supplemental Non-GAAP Information

⁽²⁾ See Slide 12 for GAAP Reconciliation to Adjusted EBITDA

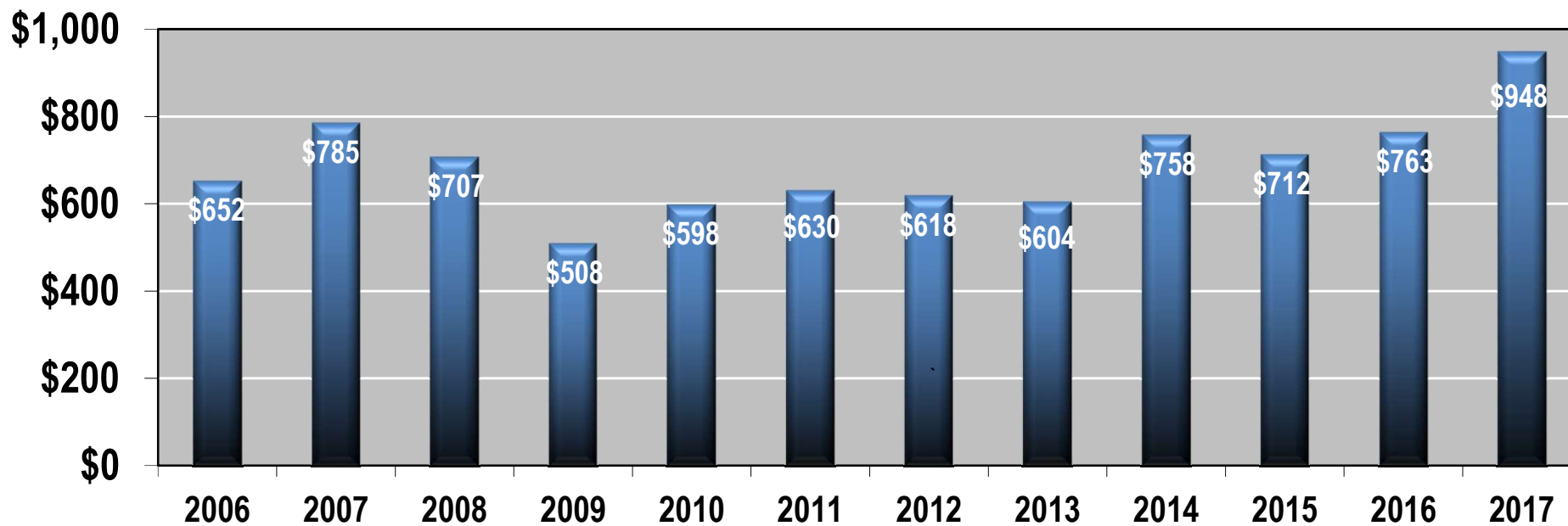
Key Financial Data – Balance Sheet

(\$ Millions)

	<u>12/31/2017</u>	<u>12/31/2016</u>
Cash	\$ 36.5	\$ 32.1
Working Capital	\$ 115.6	\$ 98.3
Goodwill	\$ 200.6	\$ 149.2
Intangible Assets, Net	\$ 76.0	\$ 42.4
Total Debt	\$ 60.5	\$ 2.8
Equity	\$ 417.9	\$ 376.6

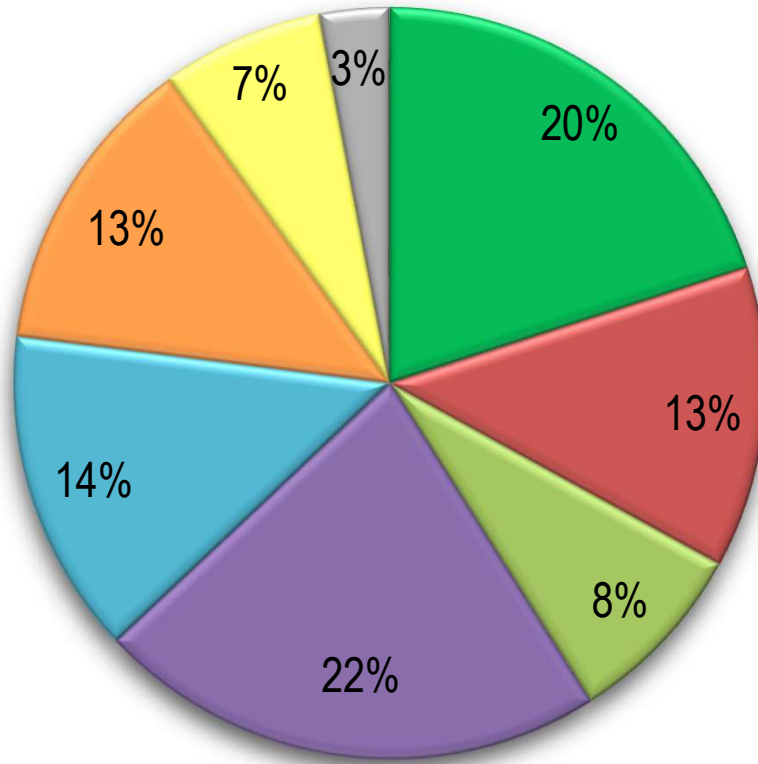
Backlog

(\$ Millions) (Unaudited)



2017 Revenue by Sector

(Unaudited)

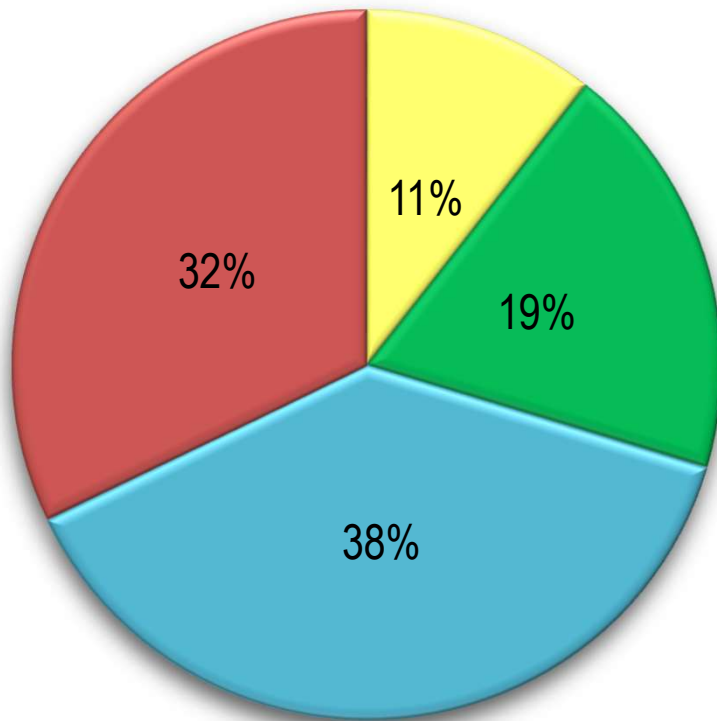


- Education
- Healthcare
- Government
- Industrial
- Office Buildings
- Retail/Restaurants/Entertainment
- Multi-Family/Residential
- Other

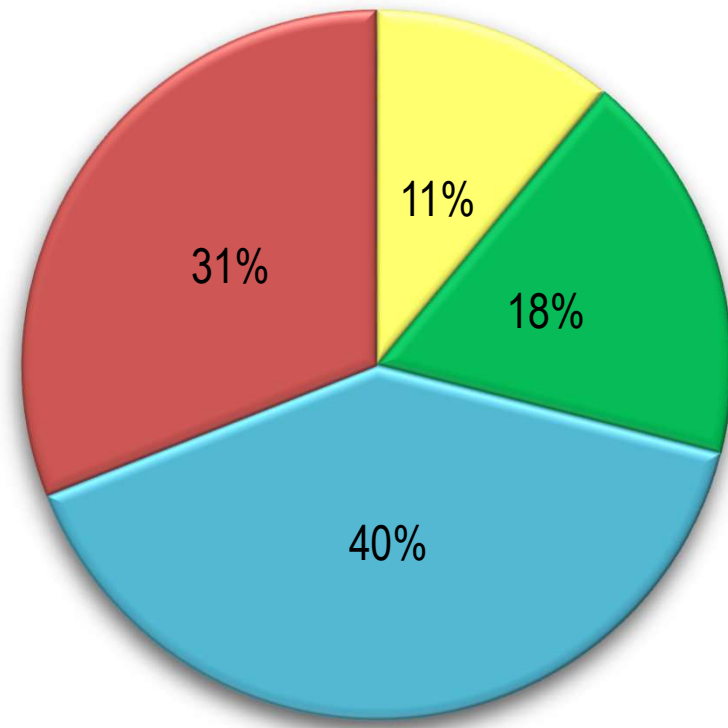
Revenue by Activity

(Unaudited)

2017



2016



 New Construction  Existing Building Construction  Service Projects  Service & Maintenance

APPENDIX

Appendix I – GAAP Reconciliation to Adjusted Net Income and EPS

(\$ Thousands, Except Per Share Data) (Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Net Income	\$ 7,539	\$ 16,867	\$ 55,272	\$ 64,896
Goodwill impairment, net of income tax expense of \$-, \$-, \$397 and \$-	-	-	708	-
Tax expense related to remeasurement of net deferred tax assets for the corporate tax rate reduction	9,478	-	9,478	-
Net income excluding goodwill impairment and tax expense related to the remeasurement of net deferred tax assets for the corporate tax rate reduction	<u>\$ 17,017</u>	<u>\$ 16,867</u>	<u>\$ 65,458</u>	<u>\$ 64,896</u>
Diluted income per share	\$ 0.20	\$ 0.45	\$ 1.47	\$ 1.72
Goodwill impairment	-	-	0.02	-
Tax expense related to remeasurement of net deferred tax assets for the corporate tax rate reduction	0.25	-	0.25	-
Diluted income per share excluding goodwill impairment and tax expense related to the remeasurement of net deferred tax assets for the corporate tax rate reduction	<u>\$ 0.45</u>	<u>\$ 0.45</u>	<u>\$ 1.74</u>	<u>\$ 1.72</u>

Note: Diluted income per share and net income, excluding goodwill impairment and tax expense related to the remeasurement of net deferred tax assets for the corporate tax rate reduction, are presented because the Company believes they reflect the results of the core ongoing operations of the Company, and we believe they are responsive to frequent questions we receive from third parties. However, these measures are not considered a primary measure of an entity's financial results under generally accepted accounting principles, and accordingly, these amounts should not be considered an alternative to operating results as determined under generally accepted accounting principles and as reported by the Company.

Appendix II – GAAP Reconciliation to Adjusted EBITDA

(\$ Thousands) (Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Net Income	\$ 7,539	\$ 16,867	55,272	\$ 64,896
Provision for Income Taxes	18,478	9,113	45,666	36,165
Other Expense (Income), net	(992)	(642)	(1,049)	(1,097)
Changes in the Fair Value of Contingent Earn-out Obligations	(1,870)	(263)	(3,715)	(731)
Interest Expense, net	749	472	3,086	2,336
Gain on Sale of Assets	(206)	(238)	(670)	(761)
Goodwill Impairment	-	-	1,105	-
Depreciation and Amortization	10,120	6,495	37,456	26,166
Adjusted EBITDA	<u>\$ 33,818</u>	<u>\$ 31,804</u>	<u>\$ 137,151</u>	<u>\$ 126,974</u>

Note: The Company defines adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) as net income, provision for income taxes, other expense (income), net, changes in the fair value of contingent earn-out obligations, interest expense, net, gain on sale of assets, goodwill impairment, and depreciation and amortization. Other companies may define Adjusted EBITDA differently. Adjusted EBITDA is presented because it is a financial measure that is frequently requested by third parties. However, Adjusted EBITDA is not considered under generally accepted accounting principles as a primary measure of an entity’s financial results, and accordingly, Adjusted EBITDA should not be considered an alternative to operating income (loss), net income (loss), or cash flows as determined under generally accepted accounting principles and as reported by the Company.

Appendix III – GAAP Reconciliation to Free Cash Flow

(\$ Thousands) (Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash from Operating Activities	\$ 48,398	\$ 41,434	\$ 114,090	\$ 91,188
Purchases of Property and Equipment	(18,637)	(5,960)	(35,467)	(23,217)
Proceeds from Sales of Property and Equipment	575	215	1,359	1,062
Free Cash Flow	<u>\$ 30,336</u>	<u>\$ 35,689</u>	<u>\$ 79,982</u>	<u>\$ 69,033</u>

Note: Free cash flow is defined as cash flow from operating activities less customary capital expenditures, plus the proceeds from asset sales. Other companies may define free cash flow differently. Free cash flow is presented because it is a financial measure that is frequently requested by third parties. However, free cash flow is not considered under generally accepted accounting principles as a primary measure of an entity's financial results, and accordingly, free cash flow should not be considered an alternative to operating income, net income, or cash flows as determined under generally accepted accounting principles and as reported by the Company.