



COMFORT SYSTEMS USA

Quality People. Building Solutions.

Q3 2021 Earnings Call

NYSE: FIX

October 28, 2021

SAFE HARBOR

Certain statements and information in this presentation may constitute forward-looking statements within the meaning of applicable securities laws and regulations. The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could,” or other similar expressions are intended to identify forward-looking statements, which are generally not historic in nature. These forward-looking statements are based on the current expectations and beliefs of Comfort Systems USA, Inc. and its subsidiaries (collectively, the “Company”) concerning future developments and their effect on the Company. While the Company’s management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting the Company will be those that it anticipates, and the Company’s actual results of operations, financial condition and liquidity, and the development of the industry in which the Company operates, may differ materially from those made in or suggested by the forward-looking statements contained in this press release. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this press release, those results or developments may not be indicative of our results or developments in subsequent periods. All comments concerning the Company’s expectations for future revenue and operating results are based on the Company’s forecasts for its existing operations and do not include the potential impact of any future acquisitions. The Company’s forward-looking statements involve significant risks and uncertainties (some of which are beyond the Company’s control) and assumptions that could cause actual future results to differ materially from the Company’s historical experience and its present expectations or projections.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: the use of incorrect estimates for bidding a fixed-price contract; undertaking contractual commitments that exceed the Company’s labor resources; failing to perform contractual obligations efficiently enough to maintain profitability; national or regional weakness in construction activity and economic conditions; the Company’s business being negatively affected by health crises or outbreaks of disease, such as epidemics or pandemics; financial difficulties affecting projects, vendors, customers, or subcontractors; the Company’s backlog failing to translate into actual revenue or profits; failure of third party subcontractors and suppliers to complete work as anticipated; difficulty in obtaining or increased costs associated with bonding and insurance; impairment to goodwill; errors in the Company’s percentage-of-completion method of accounting; the result of competition in the Company’s markets; the Company’s decentralized management structure; material failure to comply with varying state and local laws, regulations or requirements; debarment from bidding on or performing government contracts; shortages of labor and specialty building materials or material increases to the cost thereof; retention of key management; seasonal fluctuations in the demand for mechanical and electrical systems; the imposition of past and future liability from environmental, safety, and health regulations including the inherent risk associated with self-insurance; adverse litigation results; an increase in our effective tax rate; a material information technology failure or a material cyber security breach; risks associated with acquisitions; our ability to manage growth and geographically-dispersed operations; our ability to obtain financing on acceptable terms; and other risks detailed in our reports filed with the Securities and Exchange Commission (the “SEC”).

For additional information regarding known material factors that could cause the Company’s results to differ from its projected results, please see its filings with the SEC, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events, or otherwise.

NON-GAAP MEASURES

Certain measures in this presentation are not measures calculated in accordance with generally accepted accounting principles (“GAAP”). They should not be considered a replacement for GAAP results. Non-GAAP financial measures appearing in these slides are identified in the footnote. See the Appendices for a reconciliation of these non-GAAP measures to the most comparable GAAP financial measures.



Q3 2021 Financial Results Highlights

Q3 Revenue was \$833.9 million compared to \$714.1 million Q3 2020

Gross Profit percentage decreased to 19.1% vs. 20.6% in Q3 2020

SG&A increased to \$95.3 million from \$90.9 million in Q3 2020

EPS was \$1.27 per diluted share compared to \$1.36 in Q3 2020

Q3 2021 Cash Flow from Operations was \$42.6 million compared to \$52.6 million in Q3 2020

Q3 2021 Backlog of \$1.94 billion compared to \$1.84 billion in Q2 2021

Key Financial Data – Income Statement - QTD

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

	For the Three Months Ended				Variance	
	September 30,				\$	%
	2021		2020			
Revenue	\$ 833,896	100.0%	\$ 714,099	100.0%	\$ 119,797	16.8%
Cost of Services	674,684	80.9%	566,903	79.4%	107,781	19.0%
Gross Profit	159,212	19.1%	147,196	20.6%	12,016	8.2%
Selling, General and Administrative Expenses	95,287	11.4%	90,888	12.7%	4,399	4.8%
Gain on Sale of Assets	(180)	0.0%	(377)	-0.1%	197	-52.3%
Operating Income	<u>\$ 64,105</u>	7.7%	<u>\$ 56,685</u>	7.9%	<u>\$ 7,420</u>	<u>13.1%</u>
Net Income	<u>\$ 46,297</u>	5.6%	<u>\$ 50,088</u>	7.0%	<u>\$ (3,791)</u>	<u>-7.6%</u>
Diluted EPS	<u>\$ 1.27</u>		<u>\$ 1.36</u>		<u>\$ (0.09)</u>	<u>-6.6%</u>
Adjusted EBITDA ⁽¹⁾	<u>\$ 82,251</u>	9.9%	<u>\$ 71,658</u>	10.0%	<u>\$ 10,593</u>	<u>14.8%</u>

⁽¹⁾ See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

2021 YTD Financial Results Highlights

2021 YTD Revenue was \$2.22 billion compared to \$2.16 billion for the same period in 2020

Gross Profit percentage decreased to 18.4% from 19.0% for the same period in 2020

SG&A increased to \$271.1 million from \$268.9 million for the same period in 2020

EPS was \$2.90 per diluted share compared to \$2.92 for the same period in 2020

2021 YTD Cash Flow from Operations was \$152.7 million compared to \$216.4 million for the same period in 2020

Key Financial Data – Income Statement - YTD

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

	For the Nine Months Ended				Variance	
	September 30,				\$	%
	2021		2020			
Revenue	\$ 2,217,552	100.0%	\$ 2,157,698	100.0%	\$ 59,854	2.8%
Cost of Services	1,808,416	81.6%	1,747,714	81.0%	60,702	3.5%
Gross Profit	409,136	18.4%	409,984	19.0%	(848)	-0.2%
Selling, General and Administrative Expenses	271,050	12.2%	268,857	12.5%	2,193	0.8%
Gain on Sale of Assets	(1,021)	0.0%	(1,243)	-0.1%	222	-17.9%
Operating Income	<u>\$ 139,107</u>	6.3%	<u>\$ 142,370</u>	6.6%	<u>\$ (3,263)</u>	<u>-2.3%</u>
Net Income	<u>\$ 105,753</u>	4.8%	<u>\$ 107,299</u>	5.0%	<u>\$ (1,546)</u>	<u>-1.4%</u>
Diluted EPS	<u>\$ 2.90</u>		<u>\$ 2.92</u>		<u>\$ (0.02)</u>	<u>-0.7%</u>
Adjusted EBITDA ⁽¹⁾	<u>\$ 188,086</u>	8.5%	<u>\$ 187,251</u>	8.7%	<u>\$ 835</u>	<u>0.4%</u>

⁽¹⁾ See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

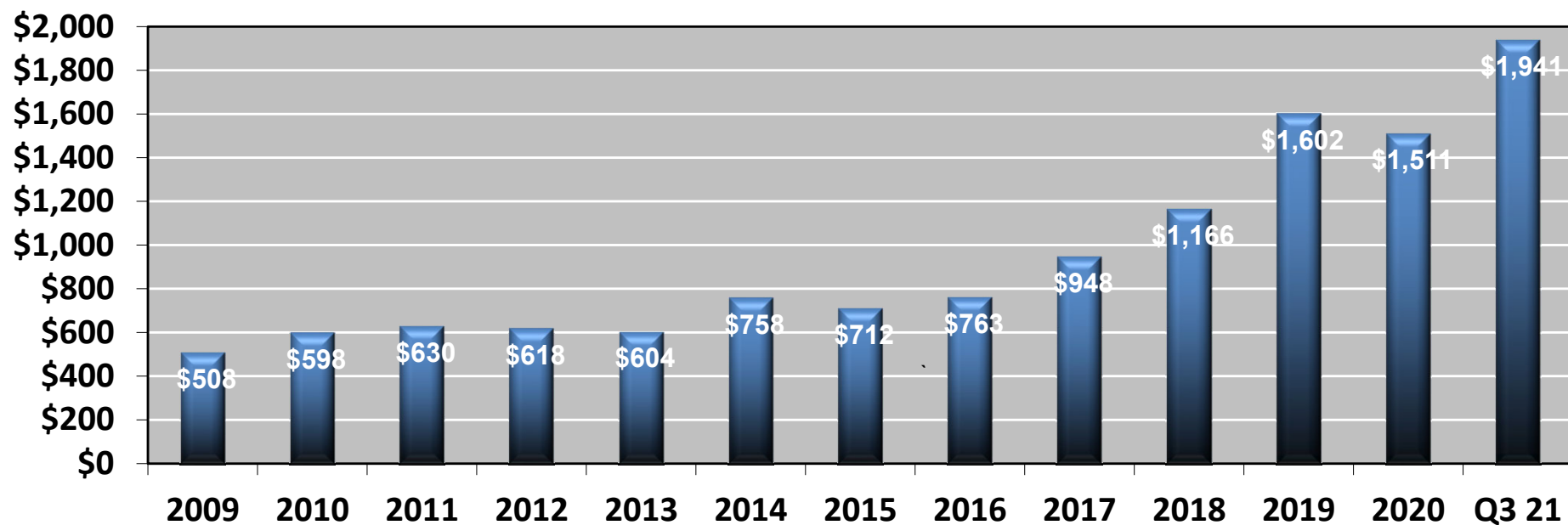
Key Financial Data – Balance Sheet

(\$ Millions)

	<u>9/30/2021</u> (Unaudited)	<u>12/31/2020</u>
Cash	\$ 67.7	\$ 54.9
Working Capital	\$ 162.4	\$ 118.9
Goodwill	\$ 527.0	\$ 464.4
Intangible Assets, Net	\$ 268.1	\$ 231.8
Total Debt	\$ 272.7	\$ 235.7
Equity	\$ 771.8	\$ 696.4

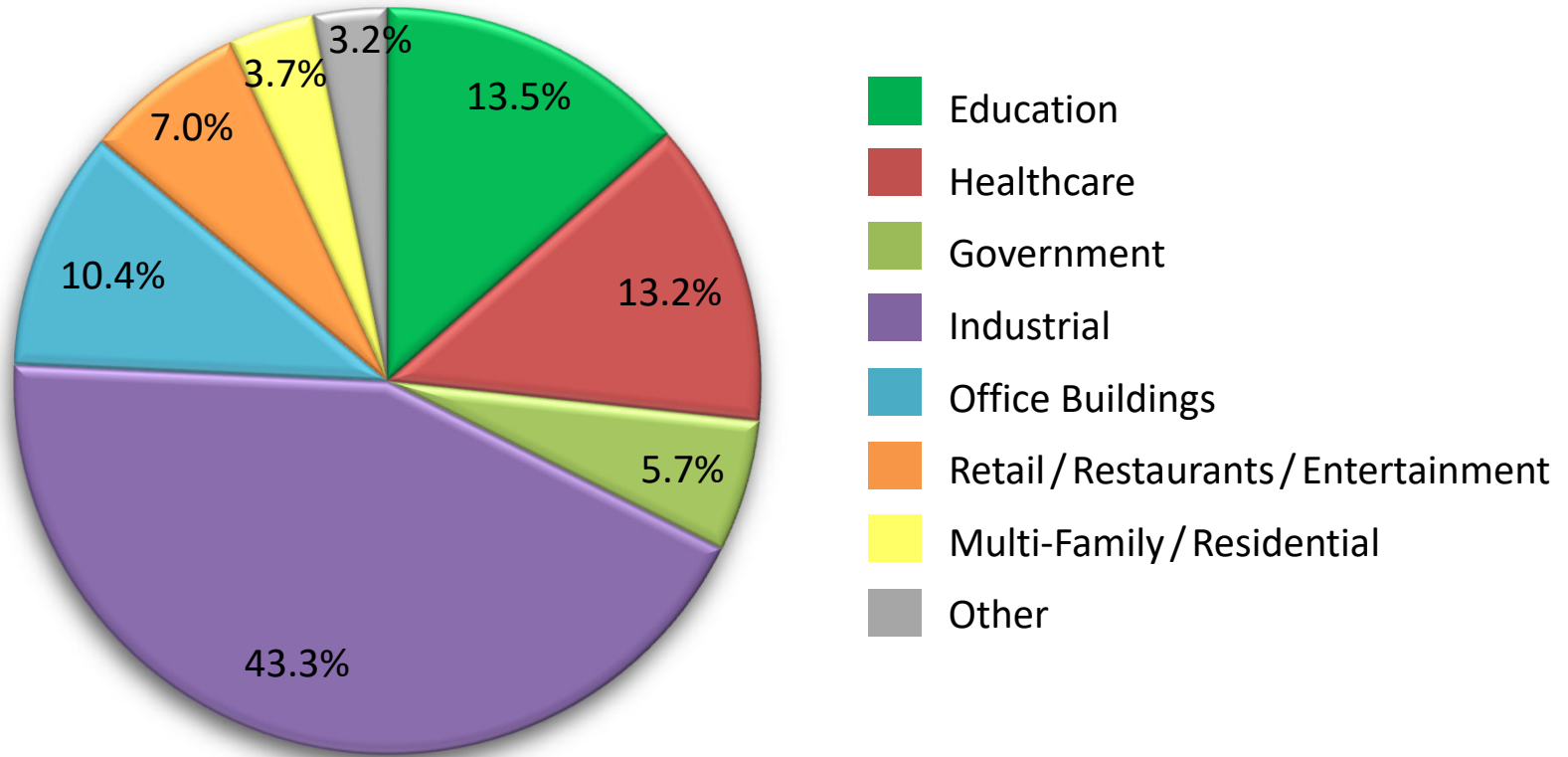
Backlog

(\$ Millions) (Unaudited)



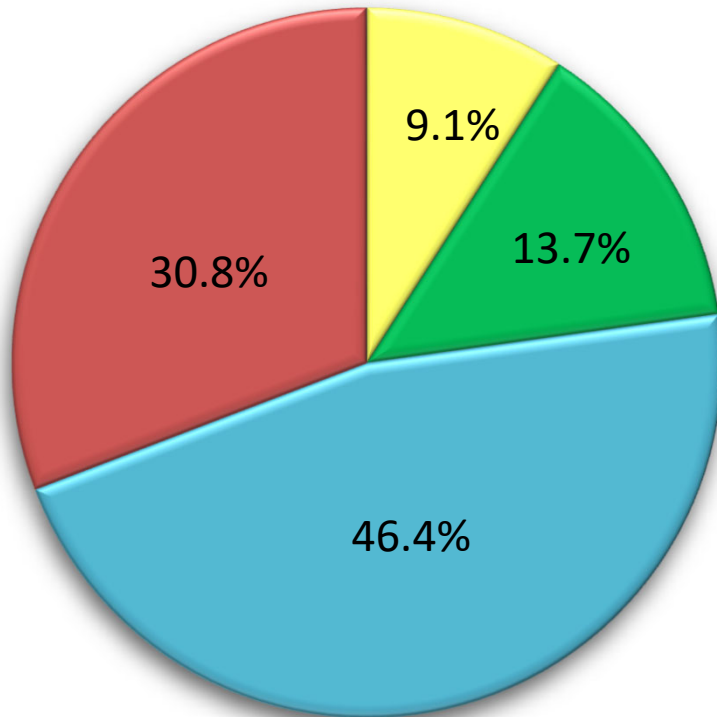
Revenue by Type of Customer

(YTD)

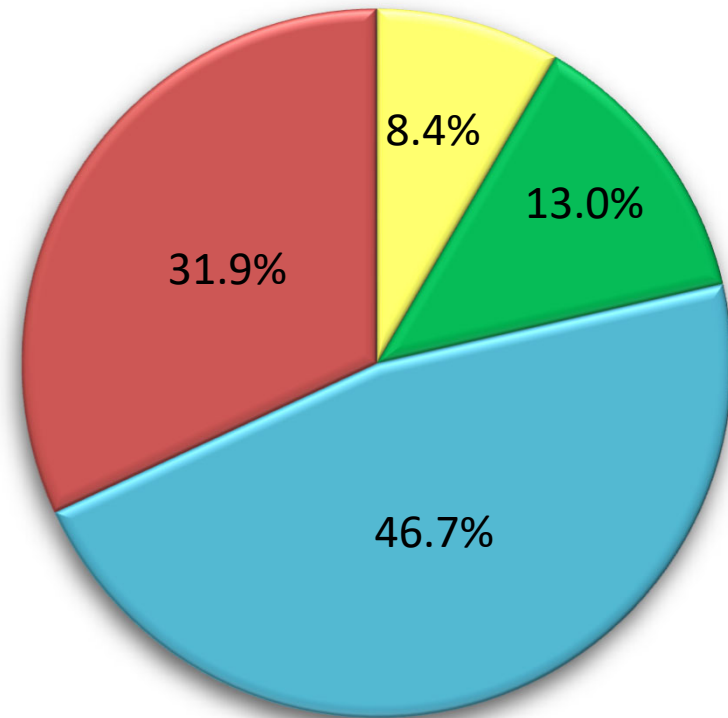


Revenue by Activity Type

YTD 2021



2020



■ New Construction ■ Existing Building Construction ■ Service Projects ■ Service Calls, Maintenance & Monitoring

APPENDIX

Appendix I – GAAP Reconciliation to Adjusted EBITDA

(\$ Thousands) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net Income	\$ 46,297	\$ 50,088	\$ 105,753	\$ 107,299
Provision for Income Taxes	14,999	8,279	33,553	30,100
Other Income, net	(20)	15	(112)	(10)
Changes in the Fair Value of Contingent Earn-out Obligations	1,244	(3,423)	(4,523)	(1,824)
Interest Expense, net	1,585	1,726	4,436	6,805
Gain on Sale of Assets	(180)	(377)	(1,021)	(1,243)
Depreciation and Amortization	18,326	15,350	50,000	46,124
Adjusted EBITDA	<u>\$ 82,251</u>	<u>\$ 71,658</u>	<u>\$ 188,086</u>	<u>\$ 187,251</u>

Note: The Company defines adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) as net income, provision for income taxes, other income, net, changes in the fair value of contingent earn-out obligations, interest expense, net, gain on sale of assets, 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 II – GAAP Reconciliation to Free Cash Flow

(\$ Thousands) (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Cash from Operating Activities	\$ 42,585	\$ 52,614	\$ 152,654	\$ 216,400
Purchases of Property and Equipment	(5,102)	(4,920)	(15,864)	(19,459)
Proceeds from Sales of Property and Equipment	272	512	1,802	1,890
Free Cash Flow	<u>\$ 37,755</u>	<u>\$ 48,206</u>	<u>\$ 138,592</u>	<u>\$ 198,831</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.