COMFORT SYSTEMS USA

Quality People. Building Solutions.

Q2 2019 Earnings Call

July 26, 2019

NYSE: FIX

SAFE HARBOR

Certain statements and information in this presentation may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. 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. 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; 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; retention of key management; seasonal fluctuations in the demand for HVAC 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 cyber security breach; 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.

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Q2 2019 Financial Results Highlights

Q2 Revenue increased $115.3 million to $650.3 million compared to Q2 2018

Gross Profit was 18.5% vs. 20.8% in Q2 2018

SG&A increased $13.3 million to $84.5 million or 13.0% of revenue vs. $71.2 million or 13.3% of revenue in Q2 2018

EPS was $0.65 per diluted share

Q2 2019 Cash Flow from Operations was $25.6 million

Q2 2019 Backlog of $1.50 billion

Key Financial Data – Income Statement

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

	For the Three Months Ended June 30,						Variance	
	2019			2018			$	%
Revenue	$	650,302	100.0%	$	535,043	100.0%	$ 115,259	21.5%
Cost of Services		530,286	81.5%		423,860	79.2%	106,426	25.1%
Gross Profit		120,016	18.5%		111,183	20.8%	8,833	7.9%
Selling, General and Administrative Expenses		84,506	13.0%		71,208	13.3%	13,298	18.7%
Gain on Sale of Assets		(192)	0.0%		(200)	0.0%	8	-4.0%
Operating Income	$	35,702	5.5%	$	40,175	7.5%	$ (4,473)	-11.1%
Net Income	$	24,173	3.7%	$	32,547	6.1%	$ (8,374)	-25.7%
Diluted EPS	$	0.65		$	0.87		$ (0.22)	-25.3%
Adjusted EBITDA [1]	$	49,805	7.7%	$	50,457	9.4%	$ (652)	-1.3%

[1] See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

2019 YTD Financial Results Highlights

2019 YTD Revenue increased $188.8 million to $1.19 billion compared to the same period in 2018

Gross Profit was 19.1% vs. 20.0% for the same period in 2018

SG&A increased $22.2 million to $163.4 million or 13.7% of revenue vs. $141.2 million or 14.1% of revenue for the same period in 2018

EPS was $1.18 per diluted share

2019 YTD Cash Flow from Operations was $26.6 million

Key Financial Data – Income Statement

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

	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 2018		Variance $	Variance %
Revenue	$ 1,188,775	100.0%	$ 999,984	100.0%	$ 188,791	18.9%
Cost of Services	962,094	80.9%	799,748	80.0%	162,346	20.3%
Gross Profit	226,681	19.1%	200,236	20.0%	26,445	13.2%
Selling, General and Administrative Expenses	163,411	13.7%	141,231	14.1%	22,180	15.7%
Gain on Sale of Assets	(411)	0.0%	(411)	0.0%	-	0.0%
Operating Income	$ 63,681	5.4%	$ 59,416	5.9%	$ 4,265	7.2%
Net Income	$ 44,039	3.7%	$ 49,206	4.9%	$ (5,167)	-10.5%
Diluted EPS	$ 1.18		$ 1.31		$ (0.13)	-9.9%
Adjusted EBITDA [1]	$ 88,289	7.4%	$ 78,727	7.9%	$ 9,562	12.1%

[1] See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

Key Financial Data – Balance Sheet

($ Millions)

	6/30/2019	12/31/2018
Cash	$ 36.8	$ 45.6
Working Capital	$ 199.5	$ 142.6
Goodwill	$ 332.6	$ 235.2
Intangible Assets, Net	$ 174.0	$ 95.3
Total Debt	$ 295.0	$ 76.9
Equity	$ 532.1	$ 498.0

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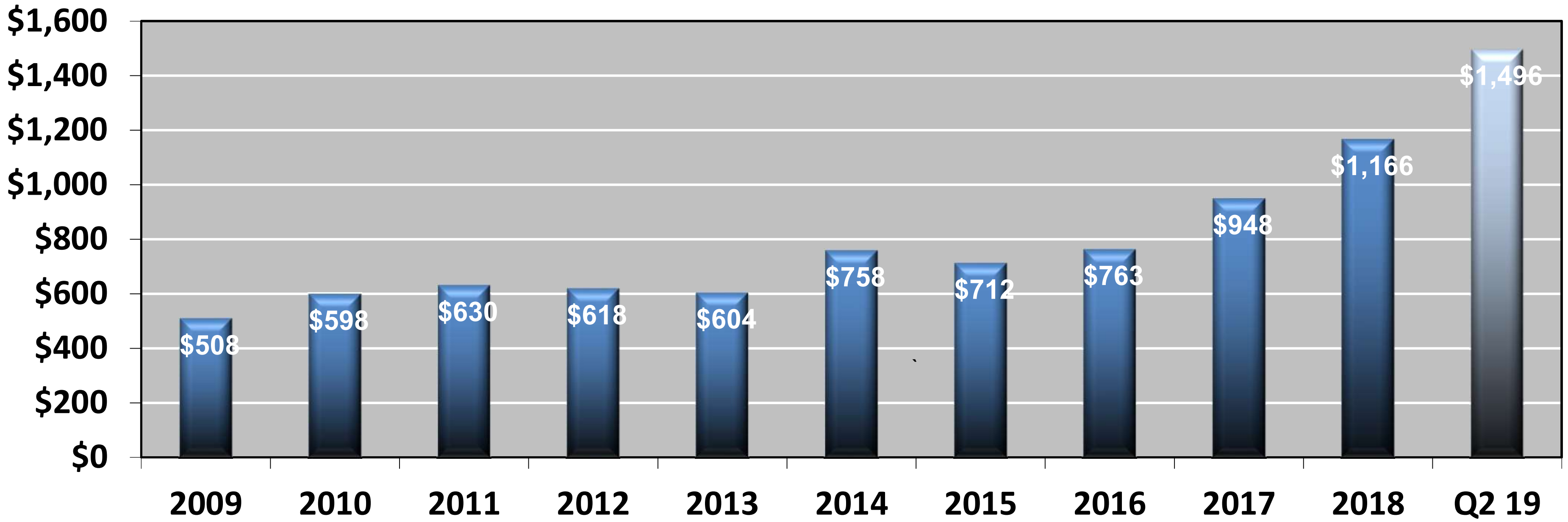
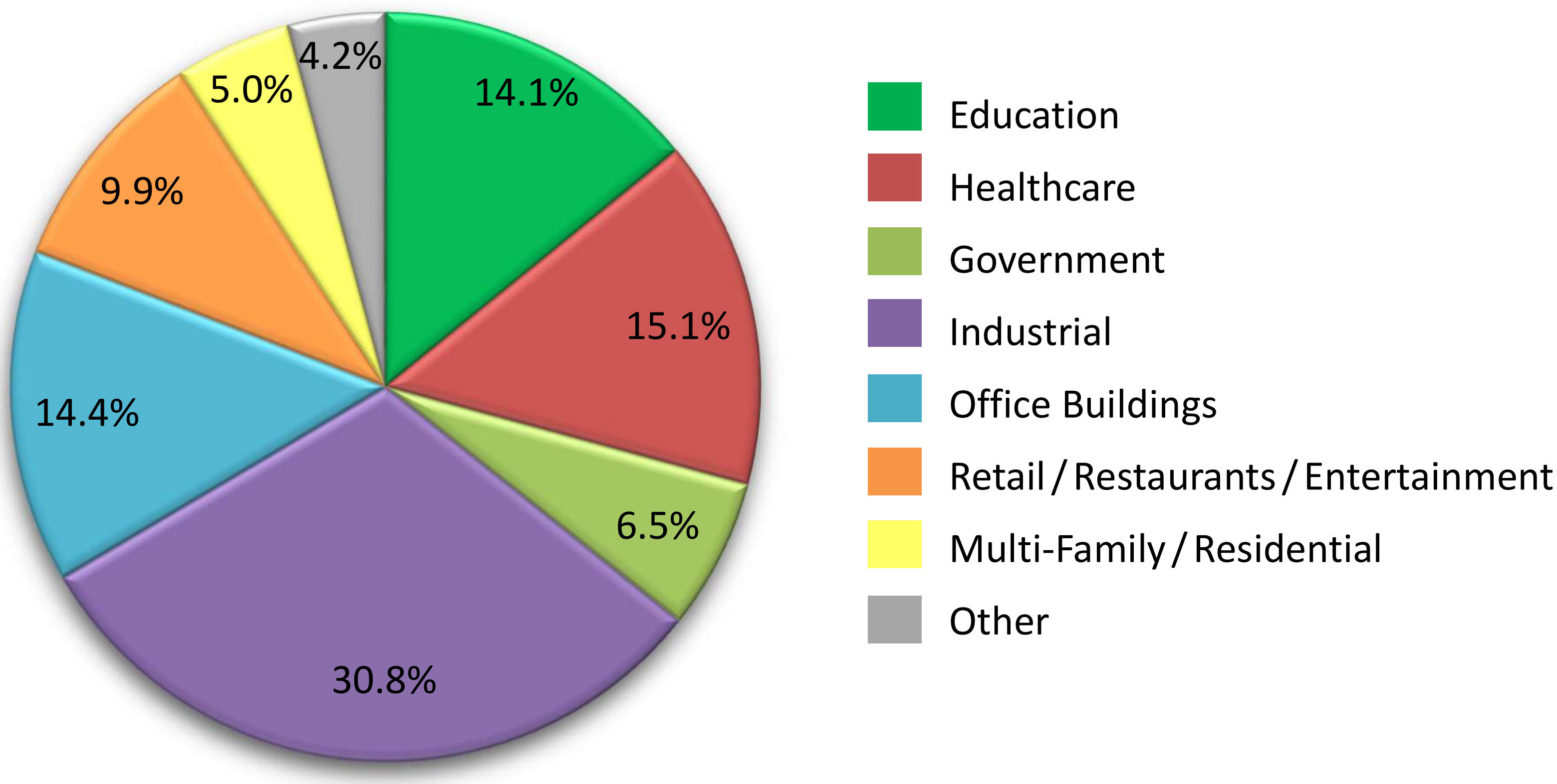
Backlog

($ Millions) (Unaudited)



YTD Revenue by Type of Customer



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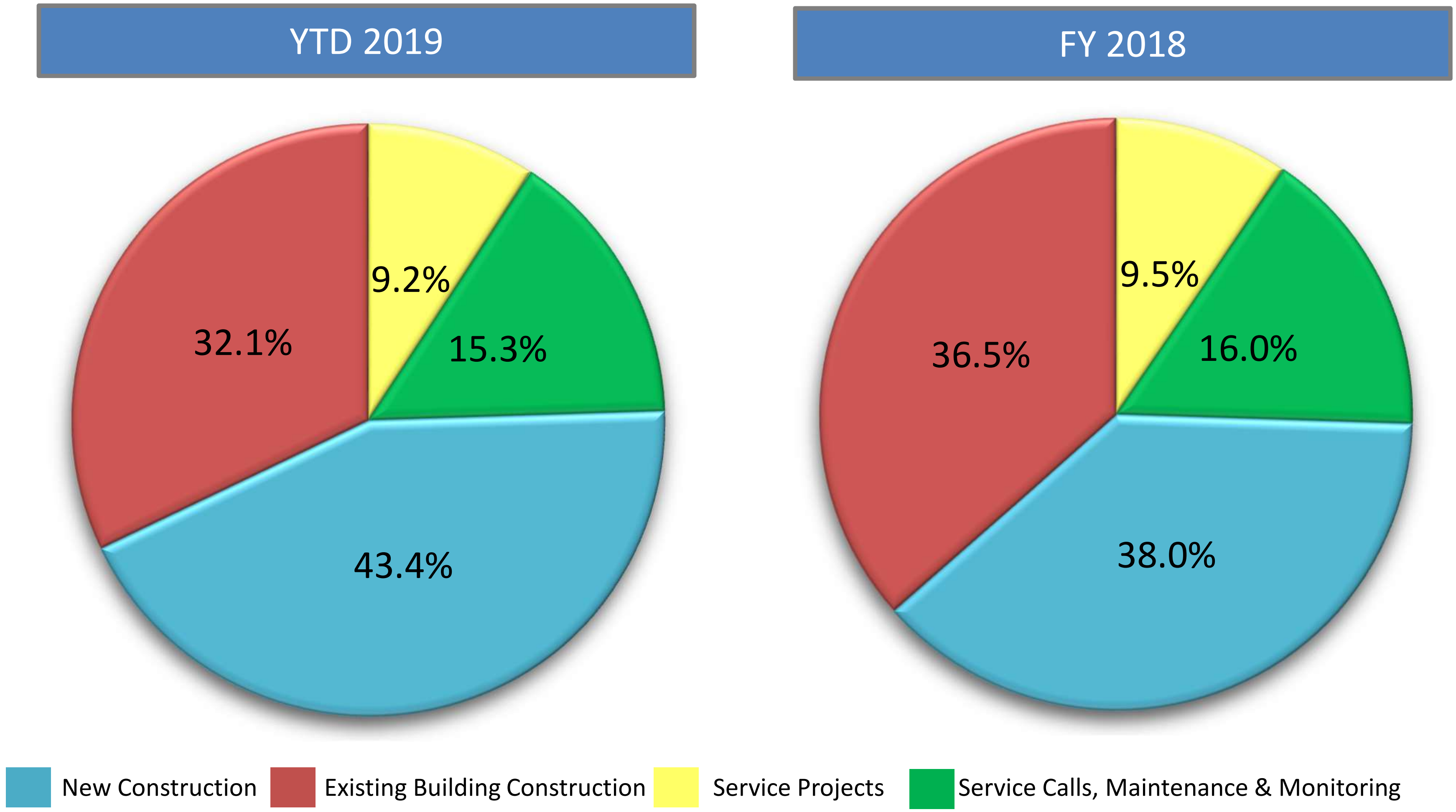
Revenue by Activity Type



APPENDIX

Appendix I – GAAP Reconciliation to Adjusted EBITDA

($ Thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net Income	$ 24,173	$ 32,547	44,039	49,206
Provision for Income Taxes	6,933	10,797	13,866	12,871
Other Expense (Income), net	(149)	(3,985)	(164)	(4,023)
Changes in the Fair Value of Contingent Earn-out Obligations	1,762	94	1,920	(59)
Interest Expense, net	2,983	722	4,020	1,421
Gain on Sale of Assets	(192)	(200)	(411)	(411)
Depreciation and Amortization	14,295	10,482	25,019	19,722
Adjusted EBITDA	$ 49,805	$ 50,457	$ 88,289	$ 78,727

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, 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.

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Appendix II – GAAP Reconciliation to Free Cash Flow

($ Thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash from Operating Activities	$ 25,609	$ 33,667	$ 26,600	$ 37,518
Purchases of Property and Equipment	(6,836)	(8,535)	(15,680)	(14,123)
Proceeds from Sales of Property and Equipment	275	295	632	661
Free Cash Flow	$ 19,048	$ 25,427	$ 11,552	$ 24,056

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.

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