



**COMFORT
SYSTEMS USA**

Quality People. Building Solutions.

Q3 2023 Earnings Call

NYSE: FIX

October 27, 2023

**COMFORT
SYSTEMS USA**

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 presentation. 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 presentation, 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; rising inflation and fluctuations in interest rates; shortages of labor and specialty building materials or material increases to the cost thereof; the Company’s business being negatively affected by health crises or outbreaks of disease, such as epidemics or pandemics (and related impacts, such as supply chain disruptions); 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 cost-to-cost input 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; 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, such as challenges to our ability to integrate those companies into our internal control environment; our ability to manage growth and geographically-dispersed operations; our ability to obtain financing on acceptable terms; extreme weather conditions (such as storms, droughts, extreme heat or cold, wildfires and floods), including as a result of climate change, and any resulting regulations or restrictions related thereto; 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 because 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 2023 FINANCIAL RESULTS HIGHLIGHTS

Q3 2023 Revenue was \$1,378.1 million compared to \$1,120.0 million in Q3 2022

Gross Profit percentage increased to 20.1% vs. 18.1% in Q3 2022

SG&A increased to \$142.9 million from \$121.2 million in Q3 2022

EPS was \$2.93 (\$2.74 per diluted share excluding \$0.19 benefit related to prior year tax gains) per diluted share compared to \$1.71 (\$1.67 per diluted share excluding a \$0.04 benefit related to prior year tax gains) in Q3 2022

Q3 2023 Cash Flow from Operations was \$214.2 million compared to \$61.2 million in Q3 2022

Q3 2023 Backlog was \$4.29 billion compared to \$4.19 billion in Q2 2023 and \$3.25 billion in Q3 2022

KEY FINANCIAL DATA – INCOME STATEMENT - QTD

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

	For the Three Months Ended				Variance	
	September 30,				\$	%
	2023		2022			
Revenue	\$ 1,378,124	100.0%	\$ 1,120,012	100.0%	\$ 258,112	23.0%
Cost of Services	1,100,625	79.9%	917,788	81.9%	182,837	19.9%
Gross Profit	277,499	20.1%	202,224	18.1%	75,275	37.2%
Selling, General and Administrative Expenses	142,935	10.4%	121,194	10.8%	21,741	17.9%
Gain on Sale of Assets	(579)	—	(406)	—	(173)	42.6%
Operating Income	<u>\$ 135,143</u>	9.8%	<u>\$ 81,436</u>	7.3%	<u>\$ 53,707</u>	<u>65.9%</u>
Net Income	<u>\$ 105,125</u>	7.6%	<u>\$ 61,515</u>	5.5%	<u>\$ 43,610</u>	<u>70.9%</u>
Non-GAAP Net Income As Adjusted ⁽¹⁾	<u>\$ 98,462</u>	7.1%	<u>\$ 60,003</u>	5.4%	<u>\$ 38,459</u>	<u>64.1%</u>
Diluted EPS	<u>\$ 2.93</u>		<u>\$ 1.71</u>		<u>\$ 1.22</u>	<u>71.3%</u>
Non-GAAP Diluted EPS As Adjusted ⁽¹⁾	<u>\$ 2.74</u>		<u>\$ 1.67</u>		<u>\$ 1.07</u>	<u>64.1%</u>
Adjusted EBITDA ⁽²⁾	<u>\$ 155,874</u>	11.3%	<u>\$ 101,032</u>	9.0%	<u>\$ 54,842</u>	<u>54.3%</u>

(1) See Slide 12 for GAAP Reconciliation to Adjusted Net Income and EPS

(2) See Slide 13 for GAAP Reconciliation to Adjusted EBITDA

KEY FINANCIAL DATA – BALANCE SHEET

(\$ Millions)

	<u>9/30/2023</u>	<u>12/31/2022</u>
	(Unaudited)	
Cash	\$ 137.6	\$ 57.2
Working Capital	\$ 183.2	\$ 136.9
Goodwill	\$ 637.5	\$ 611.8
Intangible Assets, Net	\$ 274.1	\$ 273.9
Total Debt	\$ 47.3	\$ 256.2
Equity	\$ 1,207.2	\$ 999.9

2023 YTD Financial Results Highlights

2023 YTD Revenue was \$3.85 billion compared to \$3.02 billion for the same period in 2022

Gross Profit percentage increased to 18.5% from 17.5% for the same period in 2022

SG&A increased to \$414.4 million from \$357.7 million for the same period in 2022

EPS was \$6.46 per diluted share (\$6.19 per diluted share excluding an \$0.27 benefit related to prior year tax gains) compared to \$5.28 (\$3.75 per diluted share excluding a \$1.53 benefit related to prior year tax gains) for the same period in 2022

2023 YTD Cash Flow from Operations was \$466.6 million compared to \$169.5 million for the same period in 2022

Key Financial Data – Income Statement - YTD

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

	For the Nine Months Ended				Variance	
	September 30,				\$	%
	2023		2022			
Revenue	\$ 3,849,194	100.0%	\$ 3,023,176	100.0%	\$ 826,018	27.3%
Cost of Services	3,138,370	81.5%	2,492,816	82.5%	645,554	25.9%
Gross Profit	710,824	18.5%	530,360	17.5%	180,464	34.0%
Selling, General and Administrative Expenses	414,397	10.8%	357,694	11.8%	56,703	15.9%
Gain on Sale of Assets	(1,683)	–	(1,112)	–	(571)	51.3%
Operating Income	<u>\$ 298,110</u>	7.7%	<u>\$ 173,778</u>	5.7%	<u>\$ 124,332</u>	<u>71.5%</u>
Net Income	<u>\$ 231,817</u>	6.0%	<u>\$ 190,523</u>	6.3%	<u>\$ 41,294</u>	<u>21.7%</u>
Non-GAAP Net Income As Adjusted ⁽¹⁾	<u>\$ 222,119</u>	5.8%	<u>\$ 135,275</u>	4.5%	<u>\$ 86,844</u>	<u>64.2%</u>
Diluted EPS	<u>\$ 6.46</u>		<u>\$ 5.28</u>		<u>\$ 1.18</u>	<u>22.3%</u>
Non-GAAP Diluted EPS As Adjusted ⁽¹⁾	<u>\$ 6.19</u>		<u>\$ 3.75</u>		<u>\$ 2.44</u>	<u>65.1%</u>
Adjusted EBITDA ⁽²⁾	<u>\$ 357,762</u>	9.3%	<u>\$ 238,576</u>	7.9%	<u>\$ 119,186</u>	<u>50.0%</u>

⁽¹⁾ See Slide 12 for GAAP Reconciliation to Adjusted Net Income and EPS

⁽²⁾ See Slide 13 for GAAP Reconciliation to Adjusted EBITDA

ADVANCE CASH FLOW

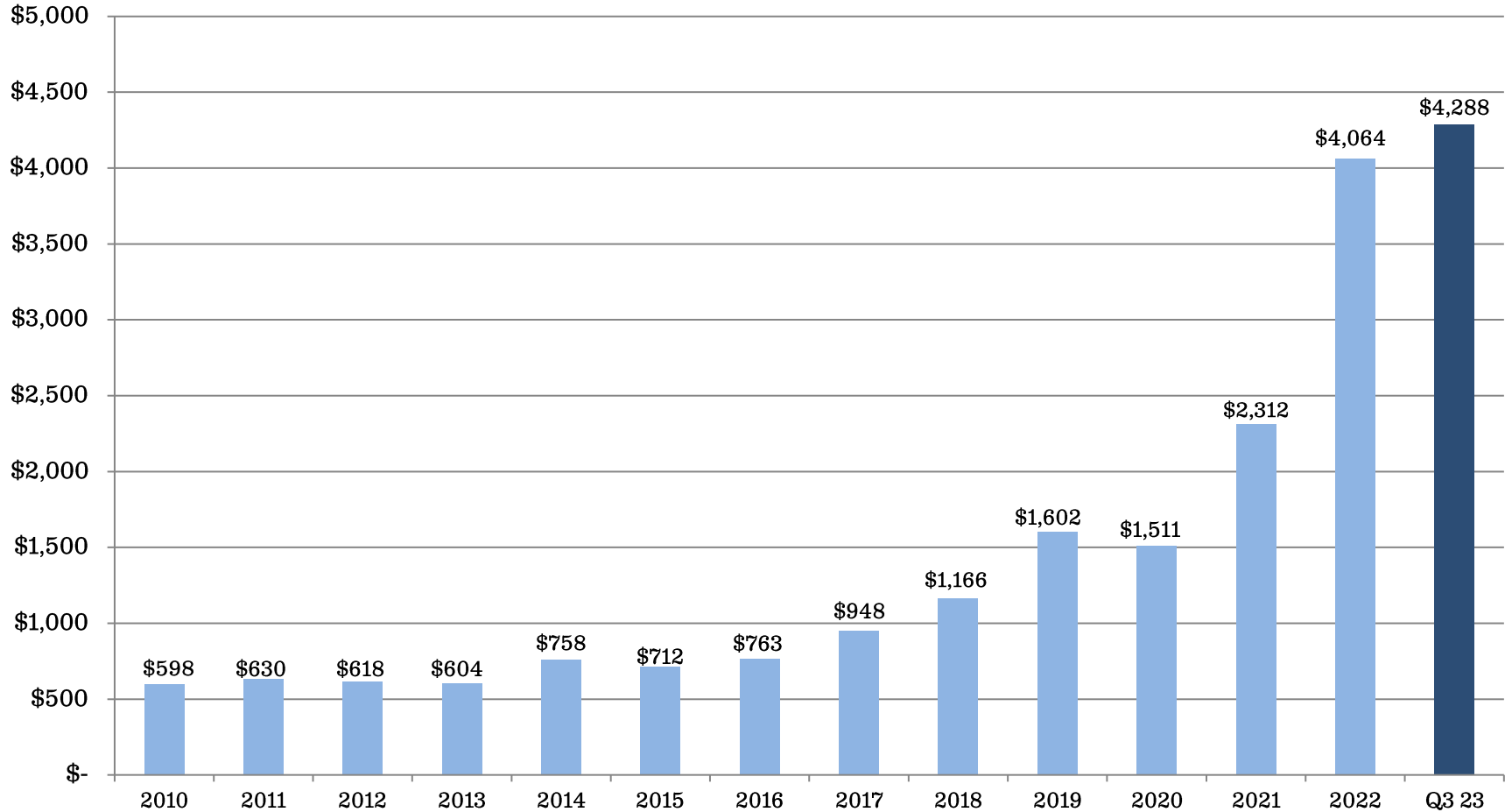
(\$ Millions) (Unaudited)



- TTM operating cash flow far exceeds TTM net income
- At 9/30/23, we have a very substantial amount of unearned customer cash
- Over the coming quarters, we expect pre-bookings and equipment advances will normalize creating cash flow headwind

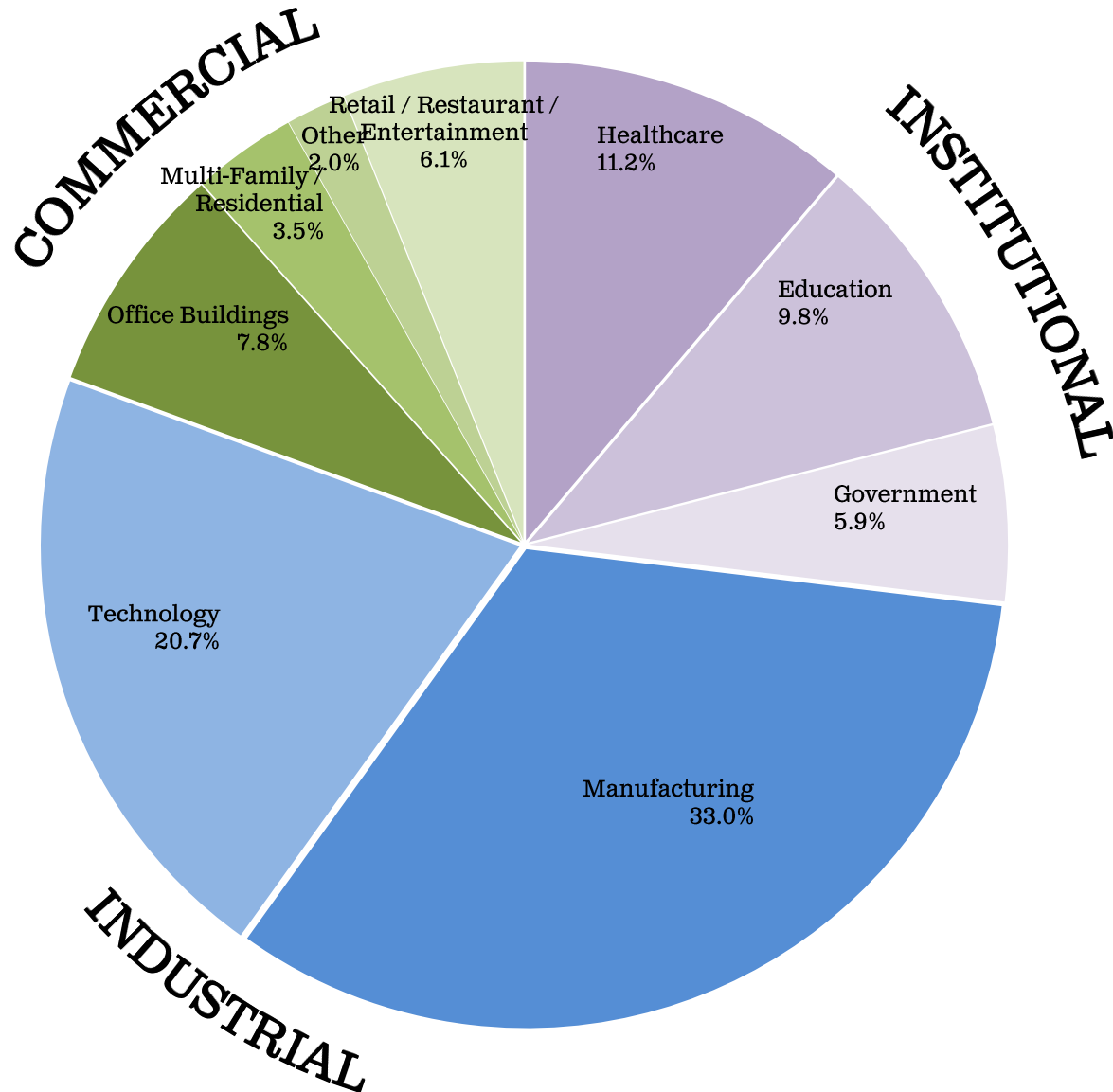
BACKLOG

(\$ Millions) (Unaudited)



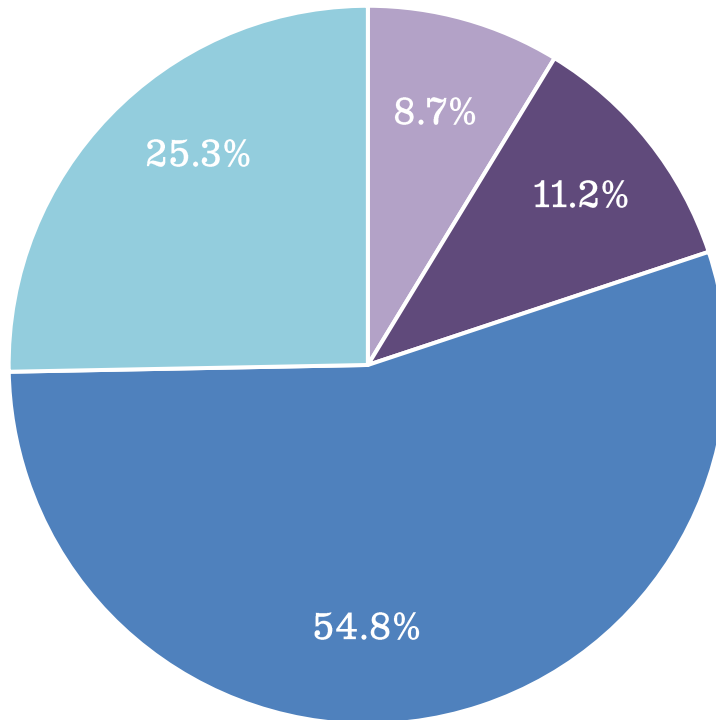
REVENUE BY TYPE OF CUSTOMER

(YTD)

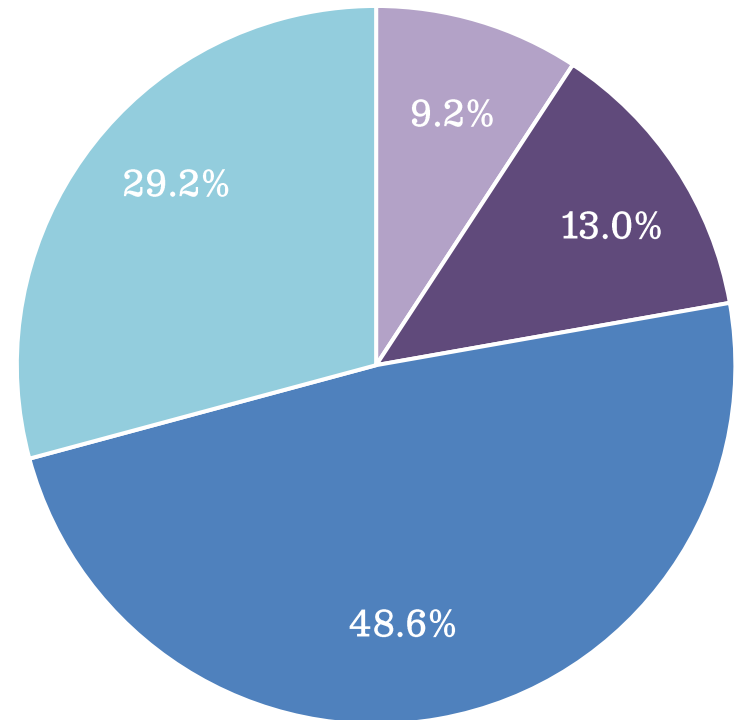


REVENUE BY ACTIVITY TYPE

YTD 2023



Annual 2022



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

APPENDIX

APPENDIX I – GAAP RECONCILIATION TO ADJUSTED NET INCOME AND EPS

(\$ Thousands) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	\$ 105,125	\$ 61,515	\$ 231,817	\$ 190,523
Tax gains related to prior years	(7,393)	(1,678)	(10,761)	(58,933)
Tax-related SG&A costs, net of tax	730	166	1,063	3,685
Net income excluding tax gains	<u>\$ 98,462</u>	<u>\$ 60,003</u>	<u>\$ 222,119</u>	<u>\$ 135,275</u>
Diluted income per share	\$ 2.93	\$ 1.71	\$ 6.46	\$ 5.28
Tax gains related to prior years	(0.21)	(0.05)	(0.30)	(1.64)
Tax-related SG&A costs, net of tax	0.02	0.01	0.03	0.11
Diluted income per share excluding tax gains	<u>\$ 2.74</u>	<u>\$ 1.67</u>	<u>\$ 6.19</u>	<u>\$ 3.75</u>

Note: Net income excluding tax gains and diluted income per share excluding tax gains 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. These amounts, however, are not considered primary measures of an entity's financial results under generally accepted accounting principles, and accordingly, they 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	\$ 105,125	\$ 61,515	\$ 231,817	\$ 190,523
Provision (Benefit) for Income Taxes	20,313	12,920	44,648	(24,864)
Other Expense (Income), net	44	(46)	(1)	(101)
Changes in the Fair Value of Contingent Earn-out Obligations	8,727	3,443	14,207	(530)
Interest Expense, net	934	3,604	7,439	8,750
Gain on Sale of Assets	(579)	(406)	(1,683)	(1,112)
SG&A Costs associated with R&D Tax Gains	924	210	1,345	4,665
Amortization	10,929	11,444	32,273	36,602
Depreciation	9,457	8,348	27,717	24,643
Adjusted EBITDA	<u>\$ 155,874</u>	<u>\$ 101,032</u>	<u>\$ 357,762</u>	<u>\$ 238,576</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, other one-time expenses or gains 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, net income, 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		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Cash from Operating Activities	\$ 214,241	\$ 61,232	\$ 466,560	\$ 169,524
Purchases of Property and Equipment	(28,444)	(14,578)	(69,574)	(34,793)
Proceeds from Sales of Property and Equipment	3,007	592	5,093	2,151
Free Cash Flow	<u>\$ 188,804</u>	<u>\$ 47,246</u>	<u>\$ 402,079</u>	<u>\$ 136,882</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.