



# COMFORT SYSTEMS USA

Quality People. Building Solutions.

Q2 2020 Earnings Call

NYSE: FIX

July 28, 2020

## 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; 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; 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.



## Q2 2020 Financial Results Highlights

Q2 Revenue increased \$93.2 million to \$743.5 million compared to Q2 2019

Gross Profit was 19.6% vs. 18.5% in Q2 2019

SG&A increased \$0.5 million to \$85.0 million or 11.4% of revenue vs. \$84.5 million or 13.0% of revenue in Q2 2019

EPS was \$1.08 per diluted share

Q2 2020 Cash Flow from Operations was \$141.9 million

Q2 2020 Backlog of \$1.53 billion

# Key Financial Data – Income Statement - QTD

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

|  | For the Three Months Ended |        |                  |        | Variance         |              |
|--|----------------------------|--------|------------------|--------|------------------|--------------|
|  | June 30                    |        |                  |        | \$               | %            |
|  | 2020                       |        | 2019             |        |                  |              |
| Revenue                                      | \$ 743,468                 | 100.0% | \$ 650,302       | 100.0% | \$ 93,166        | 14.3%        |
| Cost of Services                             | 597,773                    | 80.4%  | 530,286          | 81.5%  | 67,487           | 12.7%        |
| Gross Profit                                 | 145,695                    | 19.6%  | 120,016          | 18.5%  | 25,679           | 21.4%        |
| Selling, General and Administrative Expenses | 85,045                     | 11.4%  | 84,506           | 13.0%  | 539              | 0.6%         |
| Gain on Sale of Assets                       | (312)                      | 0.0%   | (192)            | 0.0%   | (120)            | 62.5%        |
| Operating Income                             | <u>\$ 60,962</u>           | 8.2%   | <u>\$ 35,702</u> | 5.5%   | <u>\$ 25,260</u> | <u>70.8%</u> |
| Net Income                                   | <u>\$ 39,495</u>           | 5.3%   | <u>\$ 24,173</u> | 3.7%   | <u>\$ 15,322</u> | <u>63.4%</u> |
| Diluted EPS                                  | <u>\$ 1.08</u>             |        | <u>\$ 0.65</u>   |        | <u>\$ 0.43</u>   | <u>66.2%</u> |
| Adjusted EBITDA <sup>(1)</sup>               | <u>\$ 78,733</u>           | 10.6%  | <u>\$ 49,805</u> | 7.7%   | <u>\$ 28,928</u> | <u>58.1%</u> |

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

## 2020 YTD Financial Results Highlights

2020 YTD Revenue increased \$254.8 million to \$1.44 billion compared to the same period in 2019

Gross Profit was 18.2% vs. 19.1% in the same period in 2019

SG&A increased \$14.6 million to \$178.0 million or 12.3% of revenue vs. \$163.4 million or 13.7% of revenue in the same period in 2019

EPS was \$1.55 per diluted share

2020 YTD Cash Flow from Operations was \$163.8 million

# Key Financial Data – Income Statement - YTD

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

|  | For the Six Months Ended |        |                  |        | Variance         |              |
|--|--------------------------|--------|------------------|--------|------------------|--------------|
|  | June 30                  |        |                  |        | \$               | %            |
|  | 2020                     |        | 2019             |        |                  |              |
| Revenue                                      | \$ 1,443,599             | 100.0% | \$ 1,188,775     | 100.0% | \$ 254,824       | 21.4%        |
| Cost of Services                             | 1,180,811                | 81.8%  | 962,094          | 80.9%  | 218,717          | 22.7%        |
| Gross Profit                                 | 262,788                  | 18.2%  | 226,681          | 19.1%  | 36,107           | 15.9%        |
| Selling, General and Administrative Expenses | 177,969                  | 12.3%  | 163,411          | 13.7%  | 14,558           | 8.9%         |
| Gain on Sale of Assets                       | (866)                    | -0.1%  | (411)            | 0.0%   | (455)            | 110.7%       |
| Operating Income                             | <u>\$ 85,685</u>         | 5.9%   | <u>\$ 63,681</u> | 5.4%   | <u>\$ 22,004</u> | <u>34.6%</u> |
| Net Income                                   | <u>\$ 57,211</u>         | 4.0%   | <u>\$ 44,039</u> | 3.7%   | <u>\$ 13,172</u> | <u>29.9%</u> |
| Diluted EPS                                  | <u>\$ 1.55</u>           |        | <u>\$ 1.18</u>   |        | <u>\$ 0.37</u>   | <u>31.4%</u> |
| Adjusted EBITDA <sup>(1)</sup>               | <u>\$ 115,593</u>        | 8.0%   | <u>\$ 88,289</u> | 7.4%   | <u>\$ 27,304</u> | <u>30.9%</u> |

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

# Key Financial Data – Balance Sheet

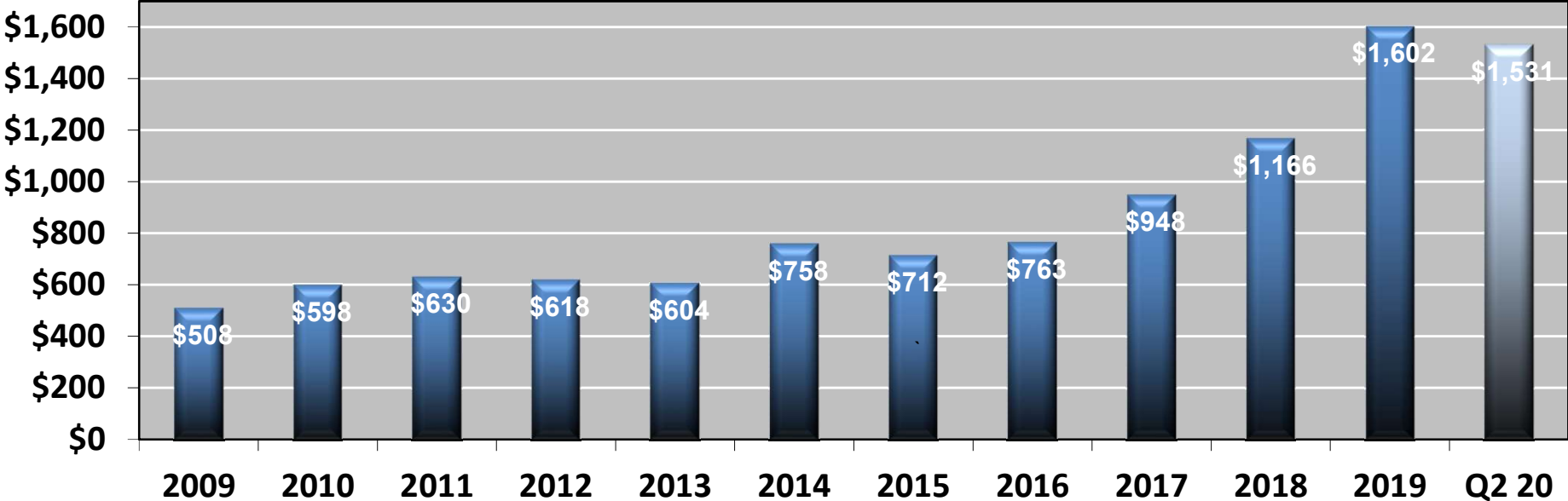
(\$ Millions)

|                        | <u>6/30/2020</u><br>(Unaudited) | <u>12/31/2019</u> |
|------------------------|---------------------------------|-------------------|
| Cash                   | \$ 53.3                         | \$ 50.8           |
| Working Capital        | \$ 111.0                        | \$ 182.2          |
| Goodwill               | \$ 420.8                        | \$ 332.4          |
| Intangible Assets, Net | \$ 210.2                        | \$ 160.0          |
| Total Debt             | \$ 231.5                        | \$ 226.1          |
| Equity                 | \$ 628.4                        | \$ 585.3          |



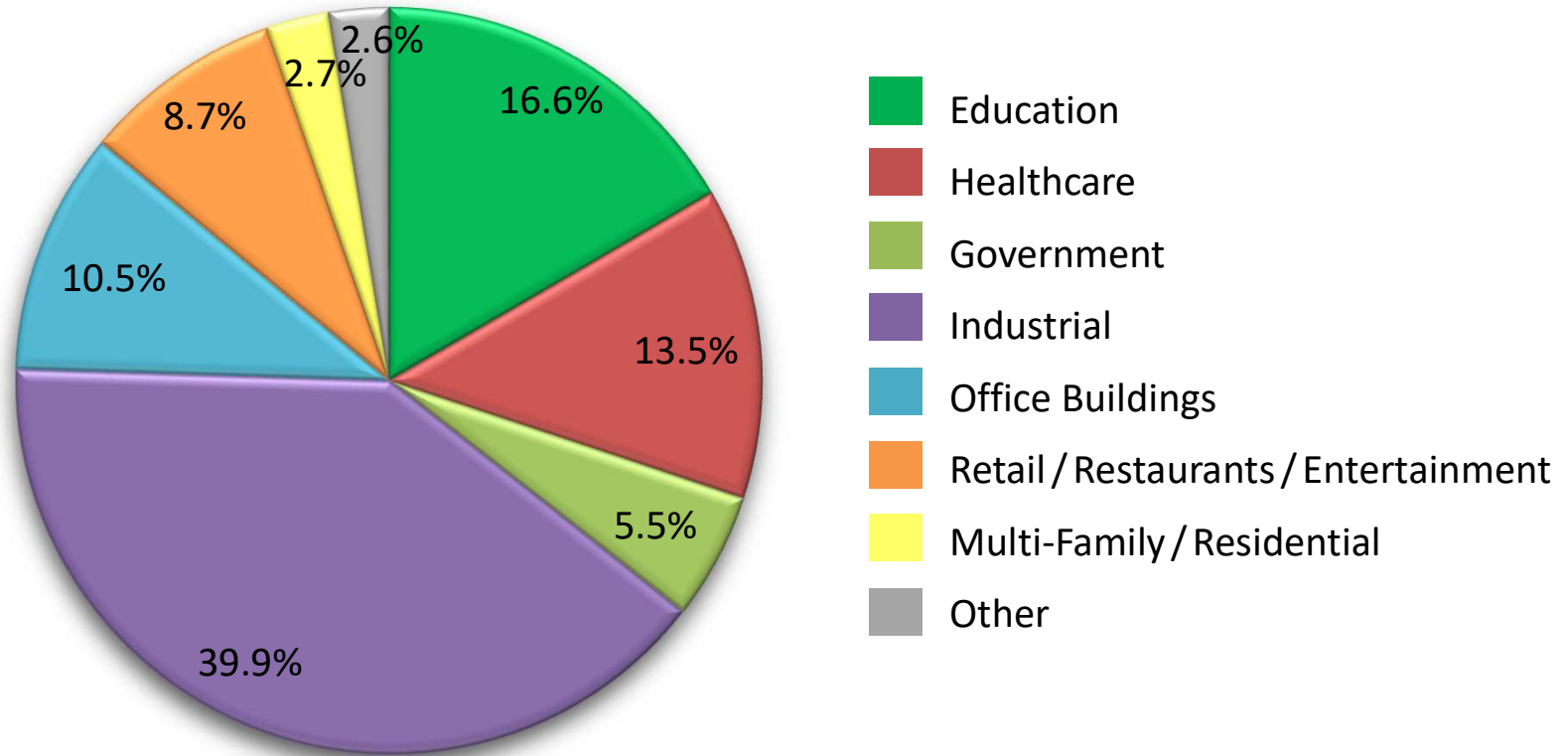
# Backlog

(\$ Millions) (Unaudited)



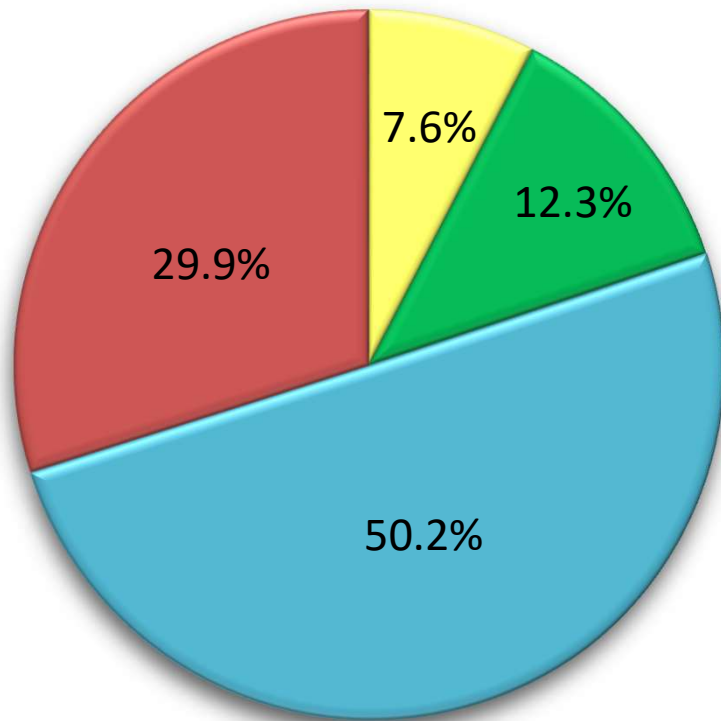


# YTD Revenue by Type of Customer

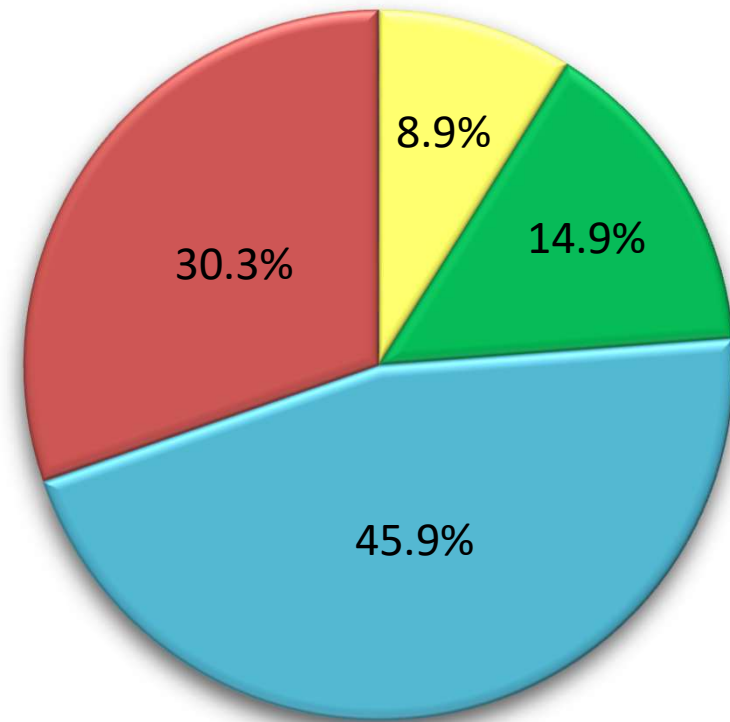


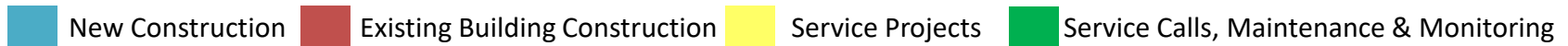
# Revenue by Activity Type

YTD 2020



FY 2019



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

# APPENDIX

# Appendix I – GAAP Reconciliation to Adjusted EBITDA

(\$ Thousands) (Unaudited)

|   | Three Months Ended |                  | Six Months Ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 30,           |                  | June 30,          |                  |
|   | 2020               | 2019             | 2020              | 2019             |
| Net Income                              | \$ 39,495          | \$ 24,173        | \$ 57,211         | \$ 44,039        |
| Provision for Income Taxes              | 15,070             | 6,933            | 21,821            | 13,866           |
| Other Income, net                       | -                  | (149)            | (25)              | (164)            |
| Changes in the Fair Value of Contingent |                    |                  |                   |                  |
| Earn-out Obligations                    | 3,871              | 1,762            | 1,599             | 1,920            |
| Interest Expense, net                   | 2,526              | 2,983            | 5,079             | 4,020            |
| Gain on Sale of Assets                  | (312)              | (192)            | (866)             | (411)            |
| Depreciation and Amortization           | 18,083             | 14,295           | 30,774            | 25,019           |
| Adjusted EBITDA                         | <u>\$ 78,733</u>   | <u>\$ 49,805</u> | <u>\$ 115,593</u> | <u>\$ 88,289</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 |                  | Six Months Ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 30,           |                  | June 30,          |                  |
|   | 2020               | 2019             | 2020              | 2019             |
| Cash from Operating Activities                | \$ 141,866         | \$ 25,609        | \$ 163,786        | \$ 26,600        |
| Purchases of Property and Equipment           | (7,042)            | (6,836)          | (14,539)          | (15,680)         |
| Proceeds from Sales of Property and Equipment | 688                | 275              | 1,378             | 632              |
| Free Cash Flow                                | <u>\$ 135,512</u>  | <u>\$ 19,048</u> | <u>\$ 150,625</u> | <u>\$ 11,552</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.