

# COMFORT SYSTEMS USA

Quality People. Building Solutions.

Q3 2022 Earnings Call

NYSE: FIX

October 27, 2022

## 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 vaccine mandates or 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 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; 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 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 2022 Financial Results Highlights

Q3 Revenue was \$1,120.0 million compared to \$833.9 million in Q3 2021

Gross Profit percentage decreased to 18.1% vs. 19.1% in Q3 2021

SG&A increased to \$121.2 million from \$95.3 million in Q3 2021

EPS was \$1.71 per diluted share (\$1.67 per diluted share excluding a \$0.04 benefit related to tax gains) compared to \$1.27 in Q3 2021

Q3 2022 Cash Flow from Operations was \$61.2 million compared to \$42.6 million in Q3 2021

Q3 2022 Backlog was \$3.25 billion compared to \$2.81 billion in Q2 2022 and \$1.94 billion in Q3 2021

# Key Financial Data – Income Statement - QTD

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

	For the Three Months Ended				Variance	
	September 30,					
	2022		2021		\$	%
Revenue	\$ 1,120,012	100.0%	\$ 833,896	100.0%	\$ 286,116	34.3%
Cost of Services	917,788	81.9%	674,684	80.9%	243,104	36.0%
Gross Profit	202,224	18.1%	159,212	19.1%	43,012	27.0%
Selling, General and Administrative Expenses	121,194	10.8%	95,287	11.4%	25,907	27.2%
Gain on Sale of Assets	(406)	—	(180)	—	(226)	125.6%
Operating Income	<u>\$ 81,436</u>	7.3%	<u>\$ 64,105</u>	7.7%	<u>\$ 17,331</u>	<u>27.0%</u>
Net Income	<u>\$ 61,515</u>	5.5%	<u>\$ 46,297</u>	5.6%	<u>\$ 15,218</u>	<u>32.9%</u>
Non-GAAP Net Income As Adjusted <sup>(1)</sup>	<u>\$ 60,003</u>	5.4%	<u>\$ 46,297</u>	5.6%	<u>\$ 13,706</u>	<u>29.6%</u>
Diluted EPS	<u>\$ 1.71</u>		<u>\$ 1.27</u>		<u>\$ 0.44</u>	<u>34.6%</u>
Non-GAAP Diluted EPS As Adjusted <sup>(1)</sup>	<u>\$ 1.67</u>		<u>\$ 1.27</u>		<u>\$ 0.40</u>	<u>31.5%</u>
Adjusted EBITDA <sup>(2)</sup>	<u>\$ 101,032</u>	9.0%	<u>\$ 82,251</u>	9.9%	<u>\$ 18,781</u>	<u>22.8%</u>

(1) See Slide 11 for GAAP Reconciliation to Adjusted Net Income and EPS

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

# Key Financial Data – Balance Sheet

(\$ Millions)

	<u>9/30/2022</u>	<u>12/31/2021</u>
Cash	\$ 71.1	\$ 58.8
Working Capital	\$ 314.1	\$ 190.8
Goodwill	\$ 611.0	\$ 592.1
Intangible Assets, Net	\$ 285.1	\$ 304.8
Total Debt	\$ 380.7	\$ 388.0
Equity	\$ 951.1	\$ 805.7

# 2022 YTD Financial Results Highlights

2022 YTD Revenue was \$3.02 billion compared to \$2.22 billion for the same period in 2021

Gross Profit percentage decreased to 17.5% from 18.4% for the same period in 2021

SG&A increased to \$357.7 million from \$271.1 million for the same period in 2021

EPS was \$5.28 per diluted share (\$3.75 per diluted share excluding a \$1.53 benefit related to tax gains) compared to \$2.90 for the same period in 2021

2022 YTD Cash Flow from Operations was \$169.5 million compared to \$152.7 million for the same period in 2021

# Key Financial Data – Income Statement - YTD

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

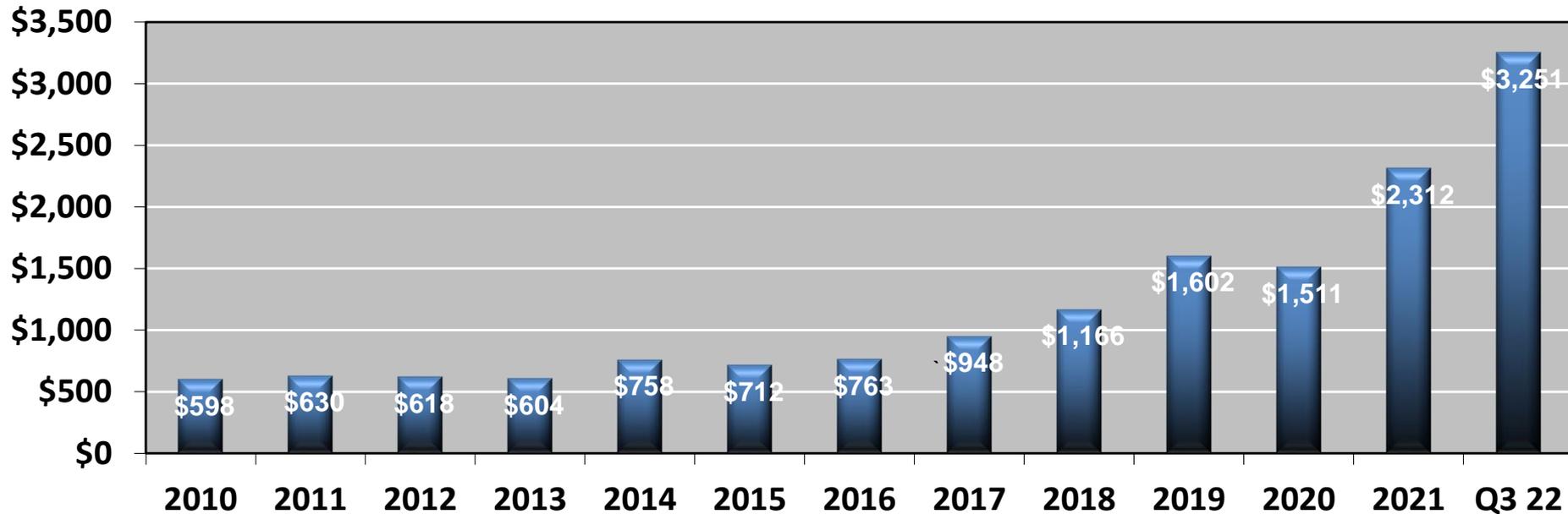
	For the Nine Months Ended				Variance	
	September 30,				\$	%
	2022		2021			
Revenue	\$ 3,023,176	100.0%	\$ 2,217,552	100.0%	\$ 805,624	36.3%
Cost of Services	2,492,816	82.5%	1,808,416	81.6%	684,400	37.8%
Gross Profit	530,360	17.5%	409,136	18.4%	121,224	29.6%
Selling, General and Administrative Expenses	357,694	11.8%	271,050	12.2%	86,644	32.0%
Gain on Sale of Assets	(1,112)	—	(1,021)	—	(91)	8.9%
Operating Income	<u>\$ 173,778</u>	5.7%	<u>\$ 139,107</u>	6.3%	<u>\$ 34,671</u>	<u>24.9%</u>
Net Income	<u>\$ 190,523</u>	6.3%	<u>\$ 105,753</u>	4.8%	<u>\$ 84,770</u>	<u>80.2%</u>
Non-GAAP Net Income As Adjusted <sup>(1)</sup>	<u>\$ 135,275</u>	4.5%	<u>\$ 105,753</u>	4.8%	<u>\$ 29,522</u>	<u>27.9%</u>
Diluted EPS	<u>\$ 5.28</u>		<u>\$ 2.90</u>		<u>\$ 2.38</u>	<u>82.1%</u>
Non-GAAP Diluted EPS As Adjusted <sup>(1)</sup>	<u>\$ 3.75</u>		<u>\$ 2.90</u>		<u>\$ 0.85</u>	<u>29.3%</u>
Adjusted EBITDA <sup>(2)</sup>	<u>\$ 238,576</u>	7.9%	<u>\$ 188,086</u>	8.5%	<u>\$ 50,490</u>	<u>26.8%</u>

(1) See Slide 11 for GAAP Reconciliation to Adjusted Net Income and EPS

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

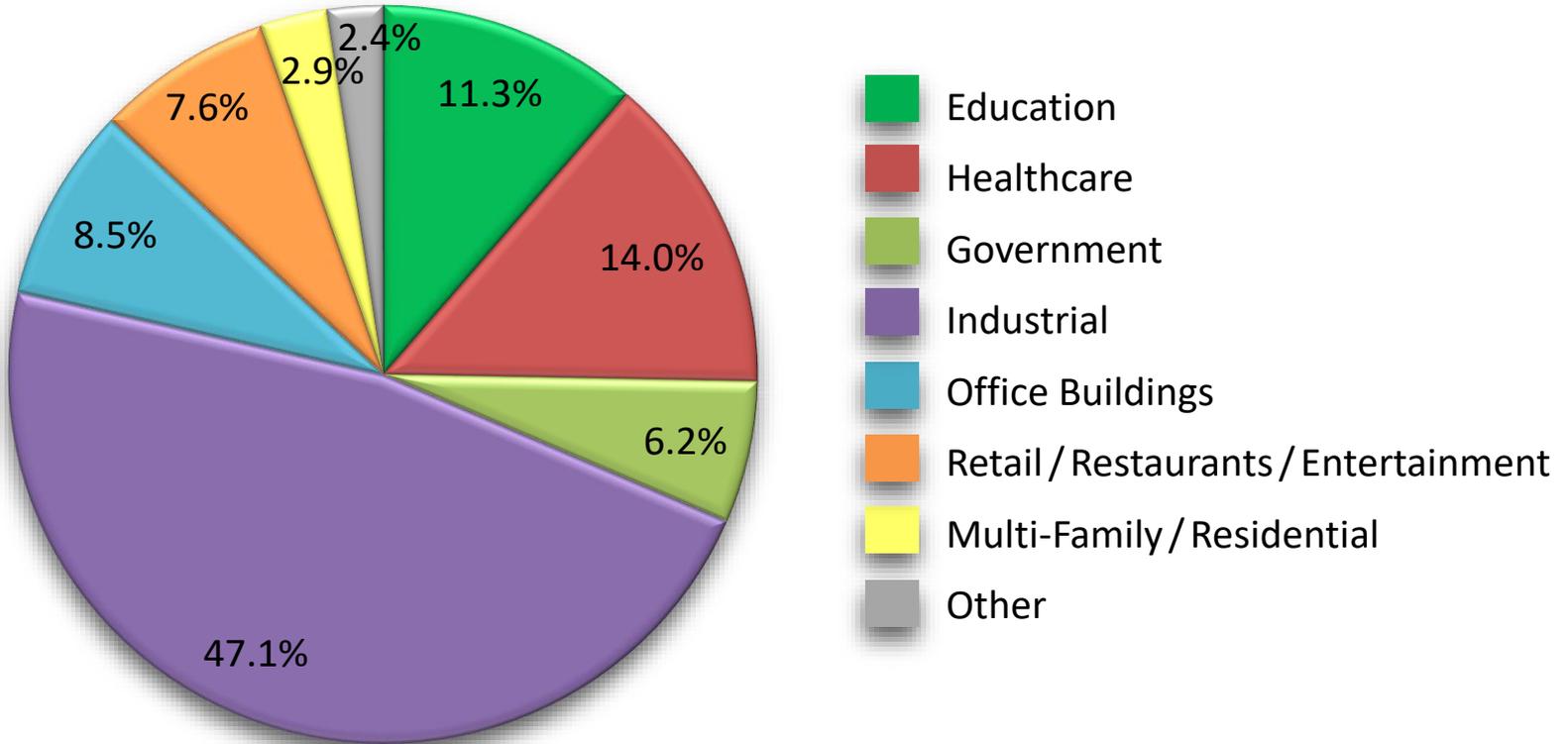
# Backlog

(\$ Millions) (Unaudited)



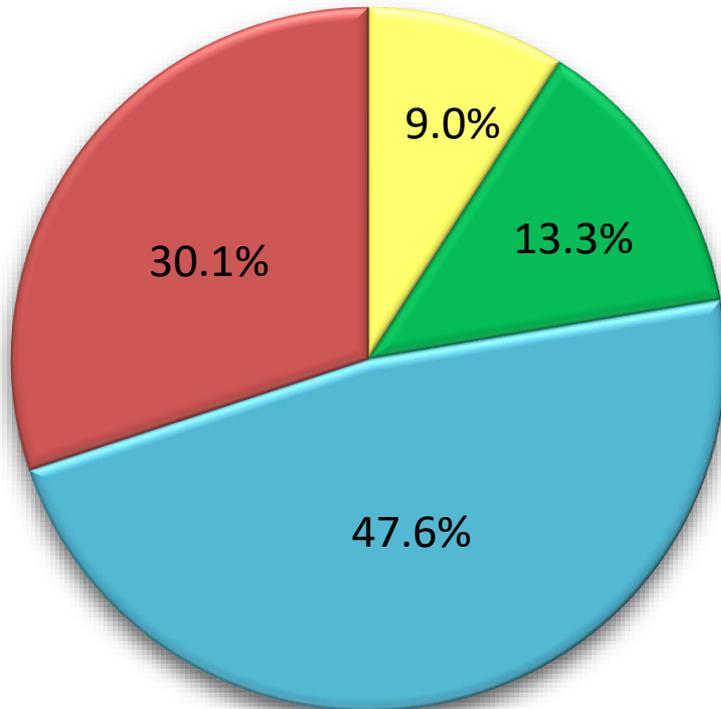
# Revenue by Type of Customer

(YTD)

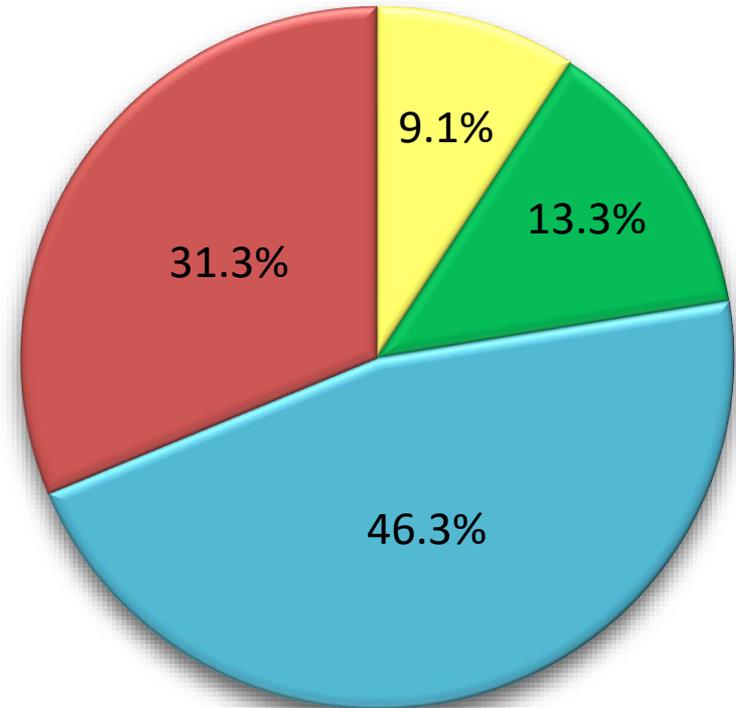


# Revenue by Activity Type

YTD 2022



Annual 2021



 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,	
	2022	2021	2022	2021
Net Income	\$ 61,515	\$ 46,297	\$ 190,523	\$ 105,753
Tax gains	(1,678)	-	(58,933)	-
Tax-related SG&A costs, net of tax	166	-	3,685	-
Net income excluding tax gains	<u>\$ 60,003</u>	<u>\$ 46,297</u>	<u>\$ 135,275</u>	<u>\$ 105,753</u>
Diluted income per share	\$ 1.71	\$ 1.27	\$ 5.28	\$ 2.90
Tax gains	(0.05)	-	(1.64)	-
Tax-related SG&A costs, net of tax	0.01	-	0.11	-
Diluted income per share excluding tax gains	<u>\$ 1.67</u>	<u>\$ 1.27</u>	<u>\$ 3.75</u>	<u>\$ 2.90</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,	
	2022	2021	2022	2021
Net Income	\$ 61,515	\$ 46,297	\$ 190,523	\$ 105,753
Provision (Benefit) for Income Taxes	12,920	14,999	(24,864)	33,553
Other Expense (Income), net	(46)	(20)	(101)	(112)
Changes in the Fair Value of Contingent				
Earn-out Obligations	3,443	1,244	(530)	(4,523)
Interest Expense, net	3,604	1,585	8,750	4,436
Gain on Sale of Assets	(406)	(180)	(1,112)	(1,021)
SG&A Costs associated with R&D Tax Gains	210	-	4,665	-
Amortization	11,444	11,185	36,602	28,934
Depreciation	8,348	7,141	24,643	21,066
Adjusted EBITDA	<u>\$ 101,032</u>	<u>\$ 82,251</u>	<u>\$ 238,576</u>	<u>\$ 188,086</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,	
	2022	2021	2022	2021
Cash from Operating Activities	\$ 61,232	\$ 42,585	\$ 169,524	\$ 152,654
Purchases of Property and Equipment	(14,578)	(5,102)	(34,793)	(15,864)
Proceeds from Sales of Property and Equipment	592	272	2,151	1,802
Free Cash Flow	<u>\$ 47,246</u>	<u>\$ 37,755</u>	<u>\$ 136,882</u>	<u>\$ 138,592</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.