

# Q4 2018 Earnings Call

(NYSE: FIX)

February 22, 2019

**Comfort Systems USA**  
Quality People. Building Solutions.



# Q4 2018 Financial Results Highlights

Q4 Revenue increased \$127.3 million to \$588.4 million (same store increase of \$88.6 million) compared to Q4 2017

Gross Profit was 20.1% vs. 20.3% in Q4 2017

SG&A increased \$10.4 million to \$80.5 million or 13.7% of revenue vs. \$70.0 million or 15.2% of revenue in Q4 2017

EPS was \$0.67 per diluted share

Q4 2018 Cash Flow from Operations was \$79.2 million

Q4 2018 Backlog of \$1.17 billion

# Key Financial Data – Income Statement

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

	For the Three Months Ended December 31,				Variance	
	2018		2017		\$	%
Revenue	\$ 588,359	100.0%	\$ 461,072	100.0%	\$ 127,287	27.6%
Cost of Services	470,184	79.9%	367,341	79.7%	102,843	28.0%
Gross Profit	118,175	20.1%	93,731	20.3%	24,444	26.1%
Selling, General and Administrative Expenses	80,458	13.7%	70,033	15.2%	10,425	14.9%
Goodwill Impairment	-	0.0%	-	0.0%	-	0.0%
Gain on Sale of Assets	(315)	-0.1%	(206)	0.0%	(109)	52.9%
Operating Income	<u>\$ 38,032</u>	6.5%	<u>\$ 23,904</u>	5.2%	<u>\$ 14,128</u>	59.1%
Net Income	<u>\$ 25,156</u>	4.3%	<u>\$ 7,539</u>	1.6%	<u>\$ 17,617</u>	233.7%
Non-GAAP Net Income As Adjusted <sup>(1)</sup>	<u>\$ 25,156</u>	4.3%	<u>\$ 17,017</u>	3.7%	<u>\$ 8,139</u>	47.8%
Diluted EPS	<u>\$ 0.67</u>		<u>\$ 0.20</u>		<u>\$ 0.47</u>	235.0%
Non-GAAP Diluted EPS As Adjusted <sup>(1)</sup>	<u>\$ 0.67</u>		<u>\$ 0.45</u>		<u>\$ 0.22</u>	48.9%
Adjusted EBITDA <sup>(2)</sup>	<u>\$ 49,674</u>	8.4%	<u>\$ 33,818</u>	7.3%	<u>\$ 15,856</u>	46.9%

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted Net Income and EPS

<sup>(2)</sup> See Slide 12 for GAAP Reconciliation to Adjusted EBITDA

# 2018 Financial Results Highlights

2018 Revenue increased \$395.0 million to \$2.18 billion (same-store increased \$303.5 million)

Gross Profit was 20.4% vs. 20.5% for the same period in 2017

SG&A increased \$30.4 million to \$297.0 million or 13.6% of revenue vs. \$266.6 million or 14.9% of revenue for the same period in 2017

EPS of \$3.00 per diluted share

2018 Cash Flow from Operations was \$147.2 million

# Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data)

	For the Twelve Months Ended				Variance	
	December 31,				\$	%
	2018		2017			
Revenue	\$ 2,182,879	100.0%	\$ 1,787,922	100.0%	\$ 394,957	22.1%
Cost of Services	1,736,600	79.6%	1,421,641	79.5%	314,959	22.2%
Gross Profit	446,279	20.4%	366,281	20.5%	79,998	21.8%
Selling, General and Administrative Expenses	296,986	13.6%	266,586	14.9%	30,400	11.4%
Goodwill Impairment	-	0.0%	1,105	0.1%	(1,105)	100.0%
Gain on Sale of Assets	(945)	0.0%	(670)	0.0%	(275)	41.0%
Operating Income	<u>\$ 150,238</u>	6.9%	<u>\$ 99,260</u>	5.6%	<u>\$ 50,978</u>	51.4%
Net Income	<u>\$ 112,903</u>	5.2%	<u>\$ 55,272</u>	3.1%	<u>\$ 57,631</u>	104.3%
Non-GAAP Net Income As Adjusted <sup>(1)</sup>	<u>\$ 110,137</u>	5.0%	<u>\$ 65,458</u>	3.7%	<u>\$ 44,679</u>	68.3%
Diluted EPS	<u>\$ 3.00</u>		<u>\$ 1.47</u>		<u>\$ 1.53</u>	104.1%
Non-GAAP Diluted EPS As Adjusted <sup>(1)</sup>	<u>\$ 2.93</u>		<u>\$ 1.74</u>		<u>\$ 1.19</u>	68.4%
Adjusted EBITDA <sup>(2)</sup>	<u>\$ 191,982</u>	8.8%	<u>\$ 137,151</u>	7.7%	<u>\$ 54,831</u>	40.0%

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted Net Income and EPS

<sup>(2)</sup> See Slide 12 for GAAP Reconciliation to Adjusted EBITDA

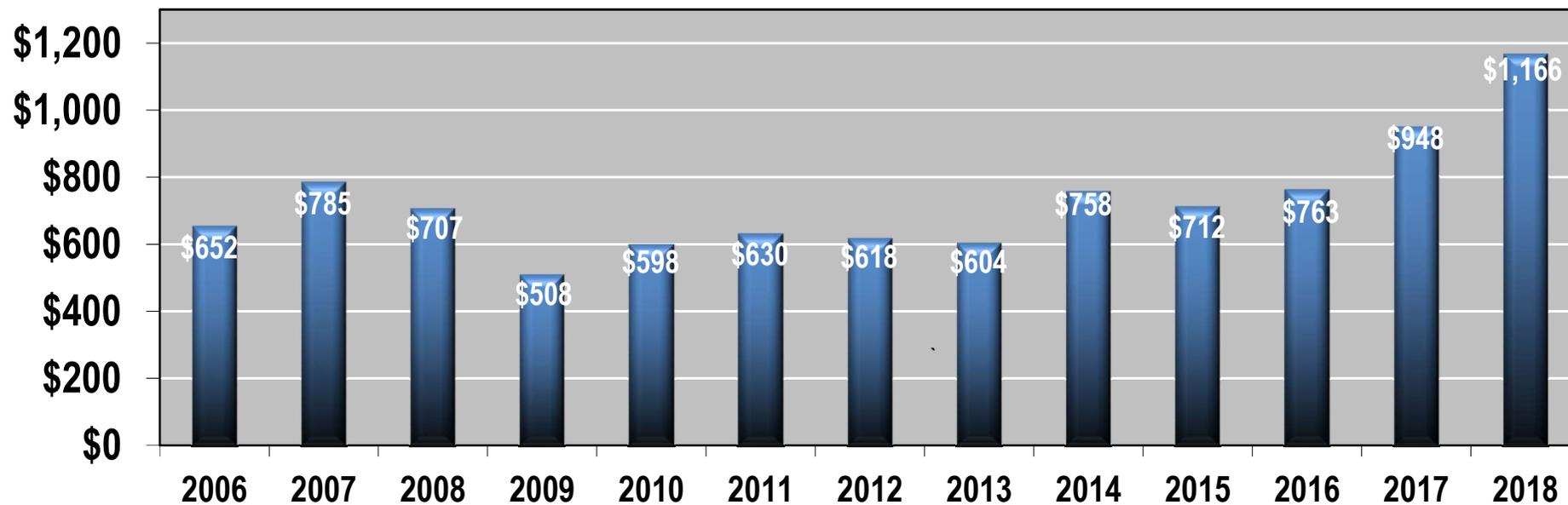
# Key Financial Data – Balance Sheet

(\$ Millions)

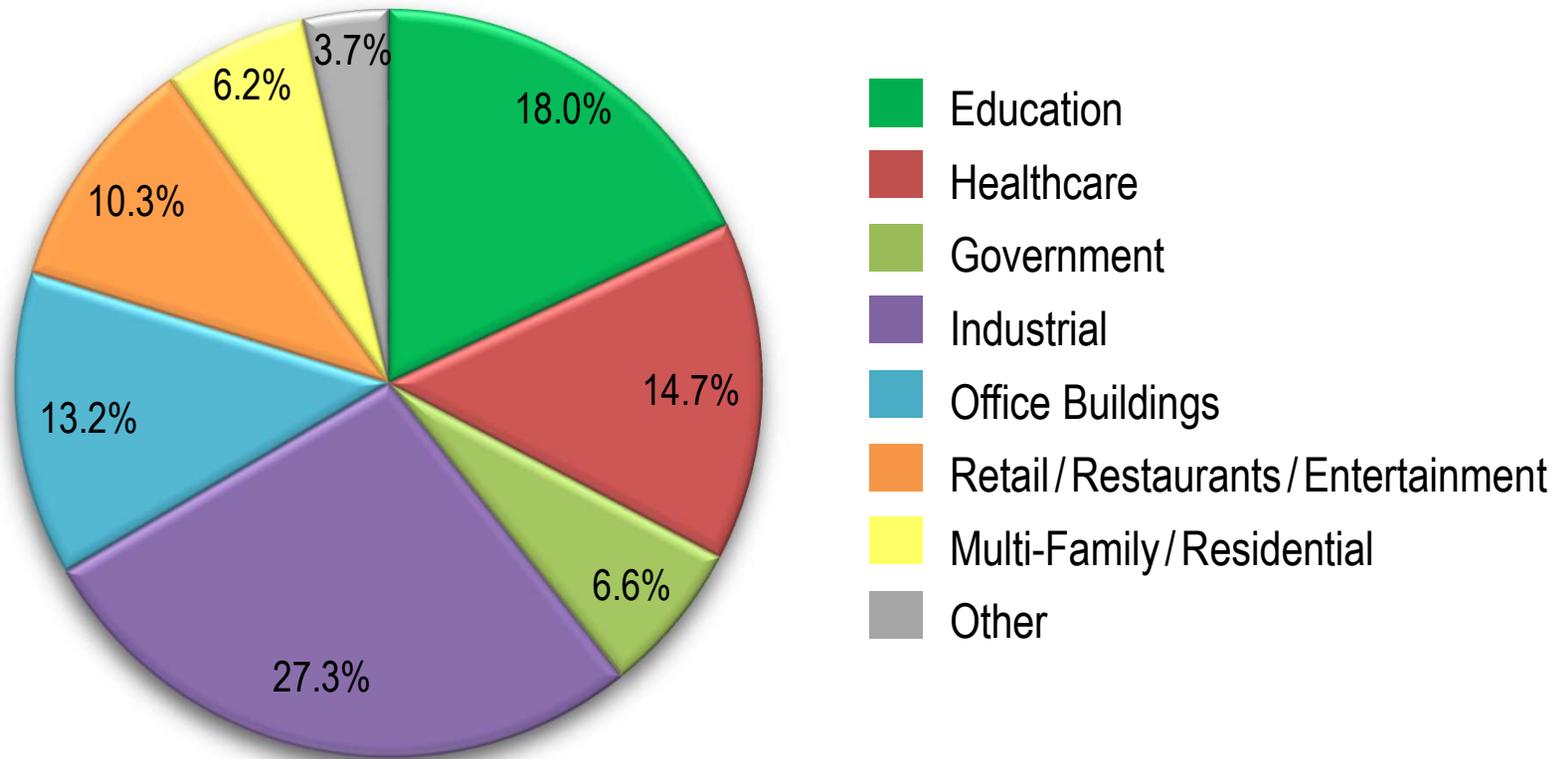
	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash	\$ 45.6	\$ 36.5
Working Capital	\$ 142.6	\$ 115.6
Goodwill	\$ 235.2	\$ 200.6
Intangible Assets, Net	\$ 95.3	\$ 76.0
Total Debt	\$ 76.9	\$ 60.5
Equity	\$ 498.0	\$ 417.9

# Backlog

(\$ Millions) (Unaudited)

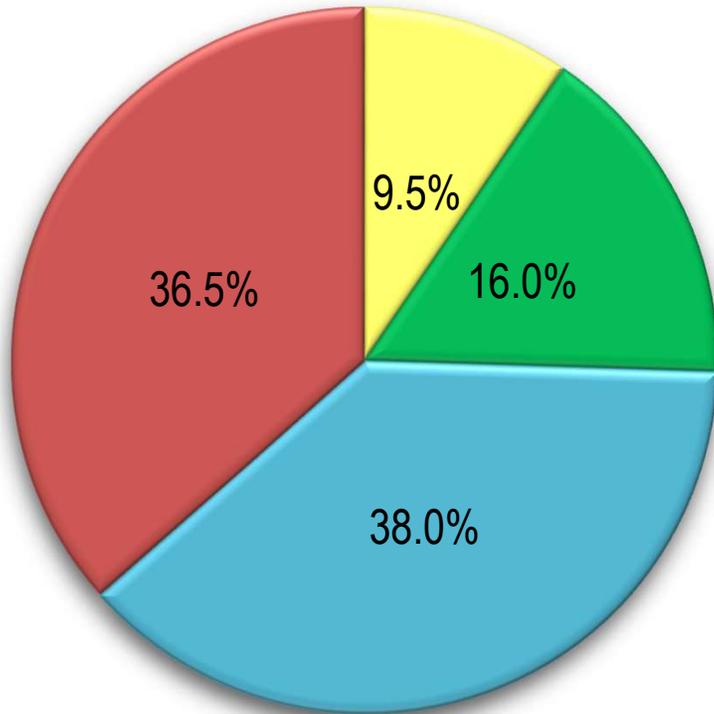


# Revenue by Type of Customer

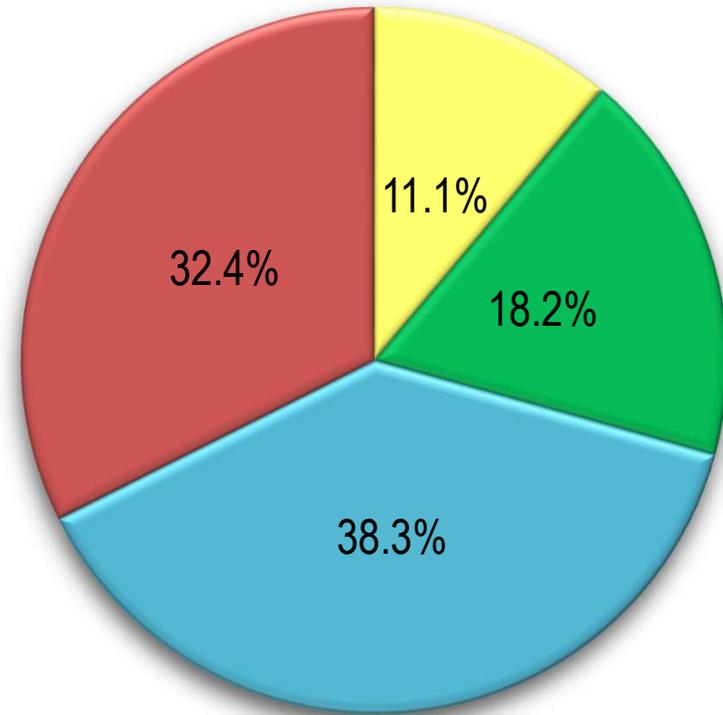


# Revenue by Activity Type

FY 2018



FY 2017



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

# APPENDIX

# Appendix I – GAAP Reconciliation to Adjusted Net Income and EPS

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Net Income	\$ 25,156	\$ 7,539	\$ 112,903	\$ 55,272
Goodwill impairment, net of income tax benefit of \$-, \$-, \$- and \$(397)	-	-	-	708
Tax expense (benefit) for the corporate tax rate reduction and tax accounting method change	-	9,478	(2,766)	9,478
Net income excluding goodwill impairment and tax expense (benefit) for the corporate tax rate reduction and tax accounting method change	<u>\$ 25,156</u>	<u>\$ 17,017</u>	<u>\$ 110,137</u>	<u>\$ 65,458</u>
Diluted income per share	\$ 0.67	\$ 0.20	\$ 3.00	\$ 1.47
Goodwill impairment	-	-	-	0.02
Tax expense (benefit) for the corporate tax rate reduction and tax accounting method change	-	0.25	(0.07)	0.25
Diluted income per share excluding goodwill impairment and tax expense (benefit) for the corporate tax rate reduction and tax accounting method change	<u>\$ 0.67</u>	<u>\$ 0.45</u>	<u>\$ 2.93</u>	<u>\$ 1.74</u>

Note: Diluted income per share and net income, excluding goodwill impairment and tax expense (benefit) for the corporate tax rate reduction and tax accounting method change, 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. However, these measures are not considered a primary measure of an entity's financial results under generally accepted accounting principles, and accordingly, these amounts 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		Twelve Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net Income	\$ 25,156	\$ 7,539	112,903	55,272
Income Tax Expense	9,307	18,478	35,773	45,666
Other Expense (Income), net	(79)	(992)	(4,141)	(1,049)
Changes in the Fair Value of Contingent				
Earn-out Obligations	2,559	(1,870)	2,066	(3,715)
Interest Expense, net	1,089	749	3,637	3,086
Gain on Sale of Assets	(315)	(206)	(945)	(670)
Goodwill Impairment	-	-	-	1,105
Depreciation and Amortization	11,957	10,120	42,689	37,456
Adjusted EBITDA	<u>\$ 49,674</u>	<u>\$ 33,818</u>	<u>\$ 191,982</u>	<u>\$ 137,151</u>

Note: The Company defines adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) as net income including noncontrolling interests, 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, 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 III – GAAP Reconciliation to Free Cash Flow

(\$ Thousands) (Unaudited)

	Three Months Ended December		Twelve Months Ended December	
	2018	2017	2018	2017
Cash from Operating Activities	\$ 79,188	\$ 48,398	\$ 147,190	\$ 114,090
Purchases of Property and Equipment	(5,209)	(18,637)	(27,268)	(35,467)
Proceeds from Sales of Property and Equipment	621	575	1,698	1,359
Free Cash Flow	<u>\$ 74,600</u>	<u>\$ 30,336</u>	<u>\$ 121,620</u>	<u>\$ 79,982</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.