



Comfort Systems USA Reports First Quarter 2017 Results

April 26, 2017

HOUSTON--(BUSINESS WIRE)--Apr. 26, 2017-- **Comfort Systems USA, Inc. (NYSE: FIX)**, a leading provider of mechanical services including heating, ventilation, air conditioning, plumbing, piping and controls, today announced net income of \$7.5 million or \$0.20 per diluted share, for the quarter ended March 31, 2017, as compared to \$9.8 million or \$0.26 per diluted share, for the quarter ended March 31, 2016.

Brian Lane, Comfort Systems USA's President and Chief Executive Officer, said, "We are pleased to report good first quarter results, especially given that first quarters are traditionally our seasonally lowest and most variable quarter. Our first quarter results were reduced approximately \$0.02 by an impairment of goodwill at one of our operating locations, and an additional \$0.02 from acquisition costs and compensation costs associated with leadership changes. Despite these expenses, and despite an increase in overhead from investments in sales and technology, we were able to achieve strong results although somewhat lower than the record first quarter results we achieved in 2016."

The Company reported revenue of \$380.6 million in the current quarter, as compared to \$385.9 million in 2016. The Company reported free cash flow of \$5.3 million in the current quarter, as compared to \$9.6 million in 2016. Backlog as of March 31, 2017 was \$863.0 million as compared to \$763.4 million as of December 31, 2016 and \$776.9 million as of March 31, 2016.

Mr. Lane continued, "We are encouraged by our cash flow as we are always pleased when we achieve positive cash flow in the first quarter. We are especially encouraged by the sharp increase in backlog during the quarter. Our backlog is a new record for Comfort Systems USA."

Mr. Lane concluded, "After many years of diminished new construction markets, key markets have begun to show signs of improvement in new project bookings and prospects. We are encouraged by underlying trends and we believe that we are well positioned for another very good year of earnings and cash flow in 2017."

As previously announced, the Company will host a webcast and conference call to discuss its financial results and position in more depth on Thursday, April 27, 2017 at 10:30 a.m. Central Time. The call-in number for this conference call is 1-888-713-4218 and enter 38015495 as the passcode. Participants may pre-register for the call at <https://www.theconferencingservice.com/prereg/key.process?key=PNMQFCV3R>. The Company anticipates that an accompanying slide presentation will also be available under the Investor tab. Pre-registrants will be issued a pin number to use when dialing in to the live call, which will provide quick access to the conference by bypassing the operator upon connection. The call can also be accessed on the Company's website at www.comfortsystemsusa.com under the Investor tab. A replay of the entire call will be available until 3:30 p.m. Central Time, Thursday, May 4, 2017 by calling 1-888-286-8010 with the conference passcode of 79029748, and will also be available on our website on the next business day following the call.

Comfort Systems USA® is a premier provider of business solutions addressing workplace comfort, with 102 locations in 95 cities around the nation. For more information, visit the Company's website at www.comfortsystemsusa.com.

Certain statements and information in this press release may constitute forward-looking statements regarding our future business expectations, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 mechanical 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; an information technology failure or cyber security breach; and other risks detailed in our reports filed with the Securities and Exchange Commission.

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.

— Financial tables follow —

Comfort Systems USA, Inc.

Consolidated Statements of Operations

(In Thousands, Except per Share Amounts)

	Three Months Ended			
	March 31,			
	(Unaudited)			
	2017	%	2016	%
Revenue	\$ 380,588	100.0 %	\$ 385,942	100.0 %
Cost of services	304,634	80.0 %	312,440	81.0 %
Gross profit	75,954	20.0 %	73,502	19.0 %
SG&A	63,247	16.6 %	58,190	15.1 %
Goodwill impairment	1,105	0.3 %	—	—
Gain on sale of assets	(154)	—	(145)	—
Operating income	11,756	3.1 %	15,457	4.0 %
Interest expense, net	(379)	(0.1) %	(700)	(0.2) %
Changes in the fair value of contingent earn-out obligations	(26)	—	—	—
Other income (expense)	18	—	486	0.1 %
Income before income taxes	11,369	3.0 %	15,243	3.9 %
Income tax expense	3,892		5,402	
Net income	\$ 7,477	2.0 %	\$ 9,841	2.5 %
Income per share:				
Basic	\$ 0.20		\$ 0.26	
Diluted	\$ 0.20		\$ 0.26	
Shares used in computing income per share:				
Basic	37,225		37,344	
Diluted	37,724		37,830	

Supplemental Non-GAAP Information — Adjusted Earnings Before Interests, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) — (Unaudited) (In Thousands)

	Three Months Ended			
	March 31,			
	2017	%	2016	%
Net income	\$ 7,477		\$ 9,841	
Income taxes	3,892		5,402	
Other expense (income), net	(18)		(486)	
Changes in the fair value of contingent earn-out obligations	26		—	
Interest expense, net	379		700	
Gain on sale of assets	(154)		(145)	
Goodwill impairment	1,105		—	
Depreciation and amortization	6,139		6,258	
Adjusted EBITDA	\$ 18,846	5.0 %	\$ 21,570	5.6 %

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, net income, or cash flows as determined under generally accepted accounting principles and as reported by the Company.

Comfort Systems USA, Inc.

Condensed Consolidated Balance Sheets

(In Thousands)

	March 31, 2017 (Unaudited)	December 31, 2016
Cash and cash equivalents	\$ 31,444	\$ 32,074
Accounts receivable, net	297,079	318,837
Costs and estimated earnings in excess of billings	35,974	29,369
Other current assets	31,956	35,677
Total current assets	396,453	415,957
Property and equipment, net	68,593	68,195
Goodwill	148,103	149,208
Identifiable intangible assets, net	40,873	42,435
Other noncurrent assets	33,590	33,108
Total assets	\$ 687,612	\$ 708,903
Current maturities of long-term debt	\$ 1,112	\$ 600
Current maturities of long-term capital lease obligations	131	163
Accounts payable	98,132	103,440
Billings in excess of costs and estimated earnings	76,834	83,985
Other current liabilities	116,834	129,493
Total current liabilities	293,043	317,681
Long-term debt	693	1,955
Long-term capital lease obligations	68	93
Other long-term liabilities	11,852	12,541
Total liabilities	305,656	332,270
Total stockholders' equity	381,956	376,633
Total liabilities and stockholders' equity	\$ 687,612	\$ 708,903

Selected Cash Flow Data (Unaudited) (In Thousands):

	Three Months Ended	
	March 31, 2017	2016
Cash provided by (used in):		
Operating activities	\$ 10,053	\$ 13,117
Investing activities	\$ (5,098)	\$ (60,616)
Financing activities	\$ (5,585)	\$ 34,575
Free cash flow:		
Cash from operating activities	\$ 10,053	\$ 13,117
Purchases of property and equipment	(5,077)	(3,765)
Proceeds from sales of property and equipment	292	220
Free cash flow	\$ 5,268	\$ 9,572

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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