

Q4 2016 Earnings Call

(NYSE: FIX)

February 24, 2017

Comfort Systems USA
Quality People. Building Solutions.



Q4 2016 Financial Results Highlights

Q4 Revenue increased \$8.3 million to \$392.1 million

Gross Profit was 22.5% vs. 21.9% in Q4 2015

SG&A increased \$3.0 million to \$63.0 million or 16.1% of revenue vs. \$60.0 million or 15.6% of revenue in Q4 2015

EPS of \$0.45 per diluted share

Q4 2016 Cash Flow from Operations was \$41.4 million

Q4 2016 Backlog of \$763.4 million

Key Financial Data – Income Statement

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

	For the Three Months Ended				Variance	
	December 31,		December 31,		\$	%
	2016		2015			
Revenue	\$ 392,100	100.0%	\$ 383,840	100.0%	\$ 8,260	2.2%
Cost of Services	303,835	77.5%	299,913	78.1%	3,922	1.3%
Gross Profit	88,265	22.5%	83,927	21.9%	4,338	5.2%
Selling, General and Administrative Expenses	62,956	16.1%	59,998	15.6%	2,958	4.9%
Gain on Sale of Assets	(238)	-0.1%	(255)	-0.1%	17	6.7%
Operating Income	<u>\$ 25,547</u>	6.5%	<u>\$ 24,184</u>	6.3%	<u>\$ 1,363</u>	<u>5.6%</u>
Net Income Attributable to Comfort Systems	<u>\$ 16,867</u>	4.3%	<u>\$ 13,221</u>	3.4%	<u>\$ 3,646</u>	<u>27.6%</u>
Diluted EPS	<u>\$ 0.45</u>		<u>\$ 0.35</u>		<u>\$ 0.10</u>	<u>28.6%</u>
Adjusted EBITDA ⁽¹⁾	<u>\$ 31,804</u>	8.1%	<u>\$ 29,959</u>	7.8%	<u>\$ 1,845</u>	<u>6.2%</u>

⁽¹⁾ See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

2016 Financial Results Highlights

2016 Revenue increased \$53.8 million to \$1,634.3 million

Gross Profit was 21.0% vs. 20.1% in 2015

SG&A increased \$14.2 million to \$243.2 million or 14.9% of revenue vs. \$229.0 million or 14.5% of revenue in 2015

EPS of \$1.72 per diluted share

2016 Cash Flow from Operations was \$91.2 million

Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data)

	For the Twelve Months Ended				Variance	
	December 31,				\$	%
	2016		2015			
Revenue	\$ 1,634,340	100.0%	\$ 1,580,519	100.0%	\$ 53,821	3.4%
Cost of Services	1,290,331	79.0%	1,262,390	79.9%	27,941	2.2%
Gross Profit	344,009	21.0%	318,129	20.1%	25,880	8.1%
Selling, General and Administrative Expenses	243,201	14.9%	228,965	14.5%	14,236	6.2%
Gain on Sale of Assets	(761)	-	(880)	-0.1%	119	13.5%
Operating Income	<u>\$ 101,569</u>	6.2%	<u>\$ 90,044</u>	5.7%	<u>\$ 11,525</u>	<u>12.8%</u>
Net Income Attributable to Comfort Systems	<u>\$ 64,896</u>	4.0%	<u>\$ 49,364</u>	3.1%	<u>\$ 15,532</u>	<u>31.5%</u>
Diluted EPS	<u>\$ 1.72</u>		<u>\$ 1.30</u>		<u>\$ 0.42</u>	<u>32.3%</u>
Adjusted EBITDA ⁽¹⁾	<u>\$ 126,974</u>	7.8%	<u>\$ 112,580</u>	7.1%	<u>\$ 14,394</u>	<u>12.8%</u>

⁽¹⁾ See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

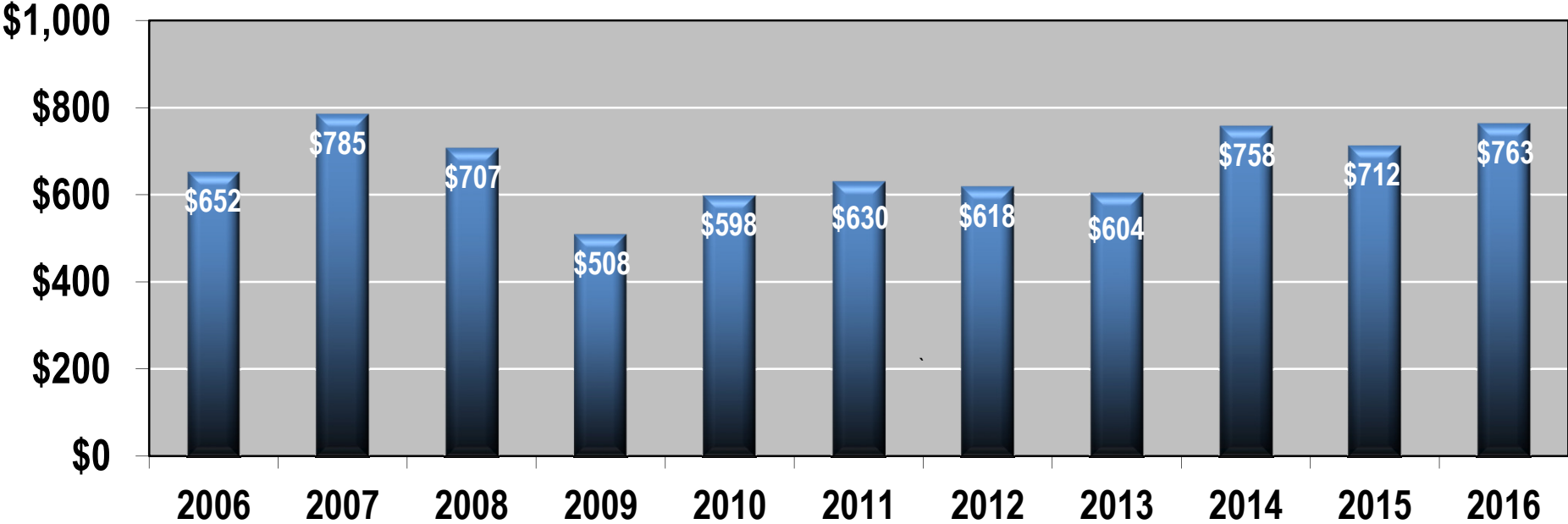
Key Financial Data – Balance Sheet

(\$ Millions)

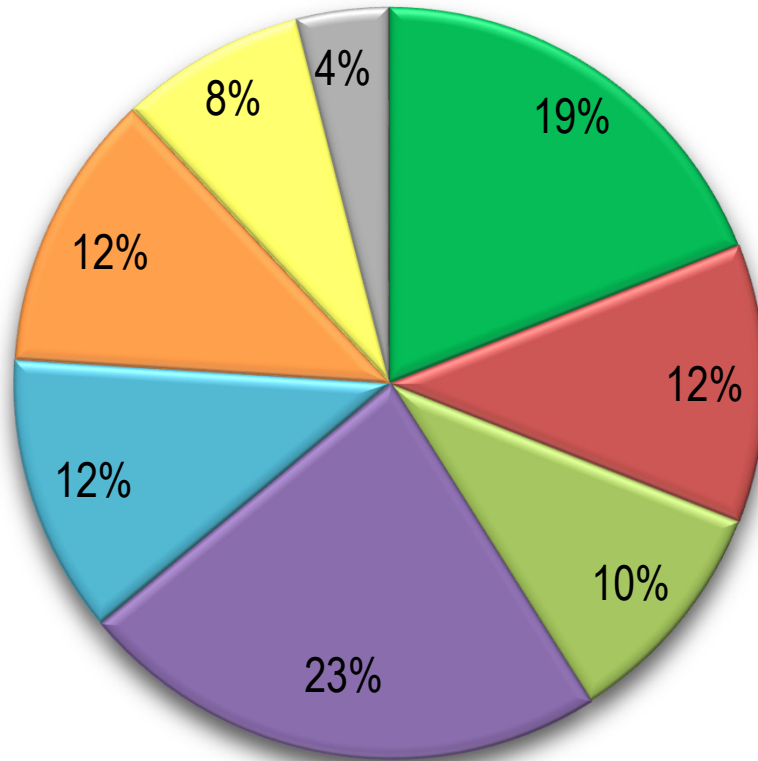
	12/31/2016	12/31/2015
Cash	\$ 32.1	\$ 56.5
Working Capital	\$ 98.3	\$ 118.9
Goodwill	\$ 149.2	\$ 143.9
Intangible Assets, Net	\$ 42.4	\$ 41.1
Total Debt	\$ 2.8	\$ 11.5
Equity	\$ 376.6	\$ 365.0

Backlog

(\$ Millions) (Unaudited)



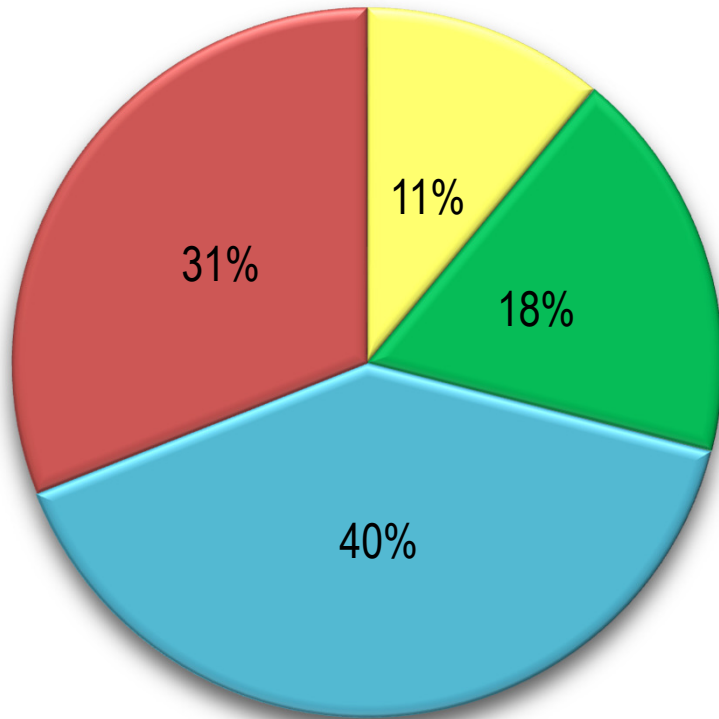
2016 Revenue by Sector



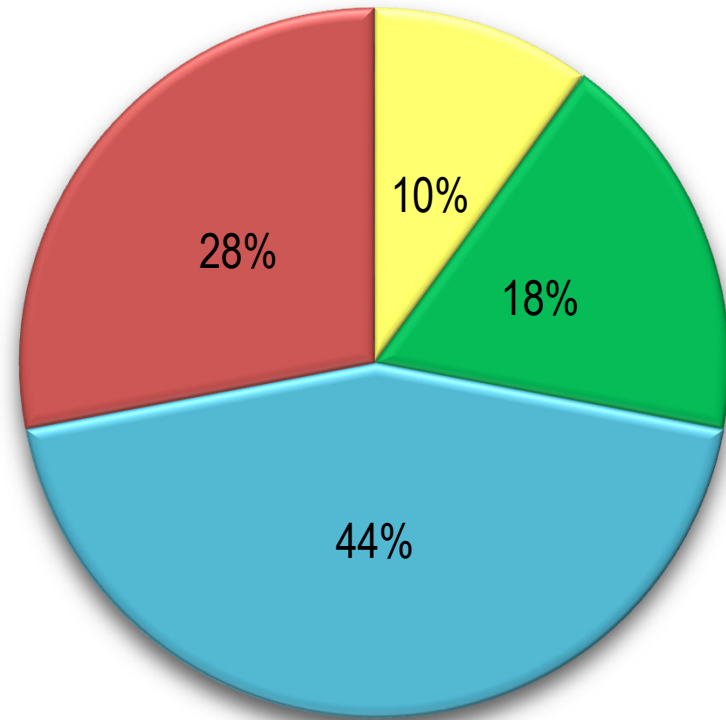
- Education
- Healthcare
- Government
- Industrial/Distribution
- Office Buildings
- Retail/Restaurants/Entertainment
- Multi-Family/Residential
- Other

Revenue by Activity

2016



2015



 New Construction  Existing Building Construction  Service Projects  Service & Maintenance

APPENDIX

Appendix I – GAAP Reconciliation to Adjusted EBITDA (Unaudited) (\$ Thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Net Income Including Noncontrolling Interests	\$ 16,867	\$ 14,883	\$ 64,896	\$ 57,440
Income Tax Expense	9,113	9,022	36,165	31,224
Other Expense (Income), net	(642)	(12)	(1,097)	(76)
Changes in the Fair Value of Contingent Earn-out Obligations	(263)	(100)	(731)	(225)
Interest Expense, net	472	391	2,336	1,681
Gain on Sale of Assets	(238)	(255)	(761)	(880)
Depreciation and Amortization	6,495	6,030	26,166	23,416
Adjusted EBITDA	<u>\$ 31,804</u>	<u>\$ 29,959</u>	<u>\$ 126,974</u>	<u>\$ 112,580</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 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)

	Three Months Ended December 31, (Unaudited)		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Cash from Operating Activities	\$ 41,434	23,284	91,188	97,867
Purchases of Property and Equipment	(5,960)	(5,592)	(23,217)	(20,808)
Proceeds from Sales of Property and Equipment	215	447	1,062	1,338
Free Cash Flow	<u>\$ 35,689</u>	<u>\$ 18,139</u>	<u>\$ 69,033</u>	<u>\$ 78,397</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.