

Comfort Systems USA

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Agenda



Executive Summary

Overview

Ratio Analysis

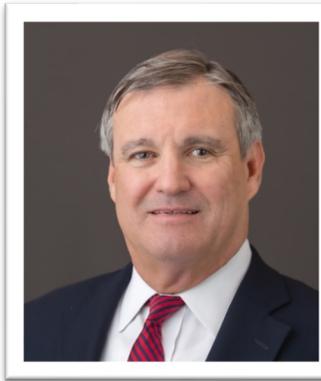
DCF Valuation

Conclusion

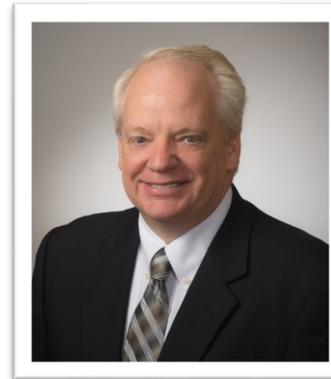
Company Overview



- Comfort Systems USA went public in June 1997, with the intention of becoming a nationwide provider of building systems installation and maintenance.
- Generate their revenue from construction, building service and maintenance, and retrofit activities.
- Comfort Systems USA has made 20 acquisitions with the most targeted sectors being construction (64%) and business services (32%).



Brian E. Lane (CEO, President, Director)
Became CEO and President in December 2011. Has 30 years of experience in the construction and engineering industries. Yearly compensation of \$5.39M (16.2% salary, 83.8% bonuses). Owns 0.61% of the company's shares.



William George (CFO, Vice President)
Helped found the company in 1997. Served on the general counsel until 2005. Has experience in other general counsels as well as being a corporate lawyer. Yearly compensation of \$2.44M (63.6% salary, 36.4% bonuses). Owns 0.12% of the company's shares.

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Executive Summary



- We are recommending to buy shares of Comfort Systems USA (FIX)
- We project Comfort Systems USA to be 24.10% undervalued at \$250.61 per share through our DCF Valuation
- Currently trading at \$187.68 per share as of 11/10/2023 (Update for later today)



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Industry Overview



Heating & Air-Conditioning

- Market Share: 2.7%
- Annual Growth (2019-2023): 9.9%
- Annual growth has outperformed rest of industry
- Produces all four revenue-generating products and services in the industry.

Machinery Maintenance

- Market Share: 0.5%
- Annual Growth (2018-2022): 2.5%
- Annual growth has outperformed the segment and industry
- Produces all six revenue-generating products and services in the industry.

Plumbing Services

- Market Share: 0.4%
- Annual Growth (2018-2022): 7.8%
- Annual growth has outperformed the segment and industry.
- Produces one of three revenue-generating products and services in the industry.

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SWOT Analysis



Strengths

- Strong free cash flow and backlog
- Success in product innovation
- Expertise in entering new markets
- Good returns on capital expenditures

Weaknesses

- Days Inventory is high relative to competition
- Lack of research and development
- High attrition rate
- New entrants present problem in niche categories

Opportunities

- Environmental policies help Comfort Holdings
- Core competencies are applicable in other product fields.
- E-Commerce
- Further acquisitions

Threats

- Intense competition
- Rising pay levels could affect profitability
- Strengthening of local distributors, cuts down profit margins
- Changing consumer buying behavior to more online format

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Ratio Analysis



Liquidity Ratios	FIX	WTS	THRM	Competitor Mean
Current Ratio	1.12	2.51	2.39	2.45
Quick Ratio	1.05	1.44	1.4	1.42
Cash Ratio	0.05	0.82	0.54	0.68
Profitability Ratios	FIX	WTS	THRM	Competitor Mean
Operating Margin	6.13%	15.91%	4.01%	9.96%
Net Profit Margin	5.94%	12.71%	2.03%	7.37%
EBITDA to Sales	7.66%	17.54%	6.60%	12.07%
Valuation Ratios	FIX	WTS	THRM	Competitor Mean
P/E Ratio	17.67	17.69	99.9	58.80
EPS	6.82	9.19	0.75	4.97
Enterprise Value to Operating Income	24.82	13.61	52.4	33.01
Enterprise Value to Sales	1.52	2.17	2.10	2.14

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Leverage Ratios	FIX	WTS	THRM	Competitor Mean
Debt-to-Equity Ratio	0.26	0.11	0.36	0.24
Net Debt-to-Enterprise Value Ratio	0.04	0.03	0.10	0.06
Times Interest Earned	23.76	8.01	18.51	16.76
Efficiency and Working Capital Ratios	FIX	WTS	THRM	Competitor Mean
Inventory Turnover	96.26	2.94	4.27	34.49
Days Sales Inventory (DSI)	3.79	124.04	85.6	71.14
Days Sales Outstanding (DSO)	90.28	43.11	74.9	69.43
Days Payable Outstanding	36.23	44.35	71.4	50.66
Cash Conversion Cycle	57.84	122.8	89	89.88
Operating Returns	FIX	WTS	THRM	Competitor Mean
Return On Equity	27.24%	20.33%	3.69%	17.09%
Return On Assets	10.23%	13.28%	2.25%	8.59%
Debt to Total Assets	9.87%	7.64%	19.55%	12.35%

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Comparable Company Analysis



EV to EBITDA

Comfort Holdings Valuation	
EV/EBITDA Multiple	13.24
EBIT	235,858,000
Add: Depreciation and Amortization	81,347,000
EBITDA	317,205,000
Enterprise Value	9,210,141,357
Less: Total Debt	256,245,000
Equity Value	8,953,896,357
Shares Outstanding	35,714,820
Implied Price Per Share	250.71
Market Price Per Share	120.4
Company Undervalued	108.23%

Price to Cash Flow

Using Watts Water Tech to Value Comfort Holdings	
Cash Flow Watts Water Tech	224,000,000
Shares Outstanding	27,370,000
Cash Flow Per Share	8.18
Share Price	162.57
Price to Cash Flow Multiple	19.86
Comfort Holdings Valuation	
Cash Flow Comfort Holdings	301,531,000
Shares Outstanding	35,714,820
Cash Flow Per Share	8.44
Implied Share Price	167.71
Market Share Price	120.4
Company Undervalued	39.29%

Price Earnings Multiple

Using Watts Water Tech to Value Comfort Holdings	
Watts Water Tech Share Price	162.57
Watts Water Tech Earnings	251,500,000
Shares Outstanding	27,370,000
EPS	9.19
PE Multiple	17.69
Comfort Holdings Valuation	
Comfort Holdings Earnings	245,947,000
Shares Outstanding	35,714,820
EPS	6.89
Implied Share Price	121.83
Market Share Price	120.4
Company Undervalued	1.19%

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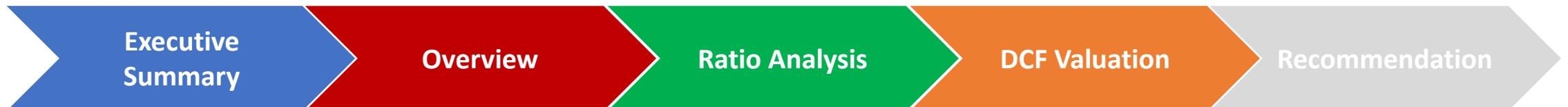
DCF Valuation



- Long-Term Growth Rate: 6.95%
- Weighted Average Cost of Capital: 9.87%
- Tax Rate: 21%
- EBITDA: \$347M
- Calculated beta: 1.07

DCF Valuation	
Numerator	248,625,248.52
Denominator	2.92%
TV	8,515,949,824
PV of TV	5,318,119,180
Enterprise Value	9,206,613,395
Net Debt	256,245,000
Equity Value	8,950,368,395
Shares O/S	35,714,820
Share Price	250.61
Market Price	190.22
Shares Undervalued	-24.10%

Sensitivity Analysis						
		WACC				
		8%	9%	9.87%	11%	12%
LTG Rate	250.61					
	3%	147.27	134.80	109.75	95.39	85.58
	5%	241.00	208.17	152.50	125.49	108.73
	6.95%	676.15	462.01	250.56	183.46	148.94
	7%	943.94	571.36	278.60	197.74	158.06
	8%	1412.57	712.60	307.39	211.50	166.58



Recommendation

- We are recommending to **buy** \$10,000 of FIX shares
- Has been experiencing high levels of growth for the past few years
- Is a leader in the three market segments that they work in.
- Exit Strategy: Sell @150 share price (20% drop)



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Appendix - Assumptions



	2024	2025	2026	2027	2028
Income Statement					
Revenue Growth	7.5%	7.5%	7.5%	7.5%	7.5%
COGS	% of Sales				
Operating Expenses	Variable/Fixed Split				
Interest Rate	4.66%	4.66%	4.66%	4.66%	4.66%
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%
Balance Sheet					
Accounts Receivable	90.28	90.28	90.28	90.28	90.28
Inventory	96.26	96.26	96.26	96.26	96.26
PPE	% of Sales				
Accounts Payable	36.23	36.23	36.23	36.23	36.23
Additional Assumptions					
COMFORT SYSTEMS USA, INC. (XNYS:FIX)	\$ 189.21	Share Price			
COMFORT SYSTEMS USA, INC. (XNYS:FIX)	6,757,601,092	Market Cap			
Net Debt	256,245,000				
Enterprise Value	7,013,846,092				
COMFORT SYSTEMS USA, INC. (XNYS:FIX)	35,714,820	Shares Outstanding			
30 Year Risk Free Rate	4.77%				
Market Risk Premium	5%				
Operating Expenses Fixed/Variable					
Change in Operating Expenses	113,035				
Change in Sales	1,066,728				
Variable %	10.60%				
Variable Operating Expenses	438,730				
Fixed Operating Expenses	50,614				
Total Operating Expenses	489,344				

Appendix - Balance Sheet



CONSOLIDATED BALANCE SHEETS - USD (\$) \$ in Thousands	Dec. 31, 2021	Dec. 31, 2022	2023	2024	2025	2026	2027
CURRENT ASSETS:							
Cash and cash equivalents	\$ 58,776	\$ 57,214	\$ 28,782	\$ 265,399	\$ 523,030	\$ 803,252	\$ 1,107,759
Billed accounts receivable, less allowance for credit losses of \$10,640 and \$8,808, respectively	773,716	1,024,082	1,100,888	1,183,455	1,272,214	1,367,630	1,470,202
Unbilled accounts receivable, less allowance for credit losses of \$1,011 and \$715, respectively	61,881	77,030	77,030	77,030	77,030	77,030	77,030
Other receivables, less allowance for credit losses of \$510 and \$503, respectively	57,491	38,369	38,369	38,369	38,369	38,369	38,369
Inventories	21,853	35,309	37,957	40,804	43,864	47,154	50,691
Prepaid expenses and other	23,704	48,456	48,456	48,456	48,456	48,456	48,456
Costs and estimated earnings in excess of billings, less allowance for credit losses of \$80 and \$84, respectively	29,900	27,211	27,211	27,211	27,211	27,211	27,211
Total current assets	1,027,321	1,307,671	\$ 1,358,693	\$ 1,680,724	\$ 2,030,174	\$ 2,409,102	\$ 2,819,718
PROPERTY AND EQUIPMENT, NET	128,554	143,949	154,745	166,351	178,827	192,239	206,657
LEASE RIGHT-OF-USE ASSET	124,756	130,666	130,666	130,666	130,666	130,666	130,666
GOODWILL	592,114	611,789	611,789	611,789	611,789	611,789	611,789
IDENTIFIABLE INTANGIBLE ASSETS, NET	304,781	273,901	273,901	273,901	273,901	273,901	273,901
DEFERRED TAX ASSETS	22,905	115,665	115,665	115,665	115,665	115,665	115,665
OTHER NONCURRENT ASSETS	8,683	13,837	13,837	13,837	13,837	13,837	13,837
Total assets	2,209,114	2,597,478	2,659,297	2,992,933	3,354,860	3,747,199	4,172,233
CURRENT LIABILITIES:							
Current maturities of long-term debt	2,788	9,000	9,000	9,000	9,000	9,000	9,000
Accounts payable	254,788	337,385	362,689	389,891	419,132	450,567	484,360
Accrued compensation and benefits	129,971	127,765	127,765	127,765	127,765	127,765	127,765
Billings in excess of costs and estimated earnings	307,380	461,781	461,781	461,781	461,781	461,781	461,781
Accrued self-insurance	22,227	27,644	27,644	27,644	27,644	27,644	27,644
Deferred revenue	13,734	86,512	86,512	86,512	86,512	86,512	86,512
Other current liabilities	105,666	120,715	120,715	120,715	120,715	120,715	120,715
Total current liabilities	836,554	1,170,802	1,196,106	1,223,308	1,252,549	1,283,984	1,317,777
LONG-TERM DEBT, NET	385,242	247,245	0	0	0	0	0
LEASE LIABILITIES	107,701	111,744	111,744	111,744	111,744	111,744	111,744
DEFERRED TAX LIABILITIES	1,745	1,745	1,745	1,745	1,745	1,745	1,745
OTHER LONG-TERM LIABILITIES	72,206	67,764	67,764	67,764	67,764	67,764	67,764
Total liabilities	1,403,448	1,597,555	1,377,359	1,404,561	1,433,802	1,465,237	1,499,030
COMMITMENTS AND CONTINGENCIES							
STOCKHOLDERS' EQUITY:							
Preferred stock, \$.01 par, 5,000,000 shares authorized, none issued and outstanding							
Common stock, \$.01 par, 102,969,912 shares authorized, 41,123,365 and 41,123,365 shares issued, respectively	411	411	411	411	411	411	411
Treasury stock, at cost, 5,362,224 and 5,032,311 shares, respectively	(150,580)	(187,212)	(187,212)	(187,212)	(187,212)	(187,212)	(187,212)
Additional paid-in capital	327,061	332,080	332,080	332,080	332,080	332,080	332,080
Retained earnings	628,774	854,644	1,136,659	1,443,093	1,775,778	2,136,683	2,527,925
Total stockholders' equity	805,666	999,923	1,281,938	1,588,372	1,921,057	2,281,962	2,673,204
Total liabilities and stockholders' equity	\$ 2,209,114	\$ 2,597,478	2,659,297	2,992,933	3,354,860	3,747,200	4,172,234

Appendix - Income Statement



CONSOLIDATED STATEMENTS OF OPERATIONS - USD (\$) shares in Thousands, \$ in Thousands	12 Months Ended			Forecast				
	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2022	2023	2024	2025	2026	2027
CONSOLIDATED STATEMENTS OF OPERATIONS								
REVENUE	\$ 2,856,659	\$ 3,073,636	\$ 4,140,364	4,450,891	4,784,708	5,143,561	5,529,328	5,944,028
COST OF SERVICES	2,309,676	2,510,429	3,398,756	3,653,663	3,927,687	4,222,264	4,538,934	4,879,354
Gross profit	546,983	563,207	741,608	797,229	857,021	921,297	990,395	1,064,674
Fixed				50,614	50,614	50,614	50,614	50,614
Variable				471,635	507,008	545,033	585,911	629,854
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	357,777	376,309	489,344	522,249	557,621	595,647	636,525	680,468
GAIN ON SALE OF ASSETS	(1,445)	(1,540)	(1,585)	(1,585)	(1,585)	(1,585)	(1,585)	(1,585)
Operating income	190,651	188,438	253,849	276,565	300,984	327,235	355,455	385,791
OTHER INCOME (EXPENSE):								
Interest income	103	24	46	46	46	46	46	46
Interest expense	(8,385)	(6,196)	(13,352)	-	-	0	0	0
Changes in the fair value of contingent earn-out obligations	9,119	7,820	(4,819)	(4,819)	(4,819)	(4,819)	(4,819)	(4,819)
Other	52	188	134	134	134	134	134	134
Other income (expense)	889	1,836	(17,991)	(17,991)	(17,991)	(17,991)	(17,991)	(17,991)
INCOME BEFORE INCOME TAXES (EBIT)	191,540	190,274	235,858	271,926	296,345	322,596	350,816	381,152
PROVISION (BENEFIT) FOR INCOME TAXES	41,401	46,926	(10,089)	(10,089)	(10,089)	(10,089)	(10,089)	(10,089)
EBITDA	252,169	259,218	317,205	271,926	296,345	322,596	350,816	381,152
NET INCOME	\$ 150,139	\$ 143,348	\$ 245,947	282,015	306,434	332,685	360,905	391,241
INCOME PER SHARE:								
Basic	\$ 4.11	\$ 3.95	\$ 6.84					
Diluted	\$ 4.09	\$ 3.93	\$ 6.82					
SHARES USED IN COMPUTING INCOME PER SHARE:								
Basic	36,542	36,285	35,932					
Diluted	36.738	36.450	36.046					

Appendix - Cash Flow Statement



CONSOLIDATED STATEMENTS OF CASH FLOWS - USD (\$) \$ in Thousands	12 Months Ended			Forecast				
	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2022	2023	2024	2025	2026	2027
CASH FLOWS FROM OPERATING ACTIVITIES:								
Net income	\$ 150,139	\$ 143,348	\$ 245,947	282,015	306,434	332,685	360,905	391,241
Adjustments to reconcile net income to net cash provided by operating activities-								
Amortization of identifiable intangible assets	32,698	40,505	47,795					
Depreciation expense	27,931	28,439	33,552					
Change in right-of-use assets	16,692	17,592	21,557					
Bad debt expense (benefit)	5,253	(1,452)	2,670					
Deferred tax provision (benefit)	(7,953)	6,902	(94,505)					
Amortization of debt financing costs	544	538	786					
Gain on sale of assets	(1,445)	(1,540)	(1,585)					
Changes in the fair value of contingent earn-out obligations	(9,119)	(7,820)	4,819					
Stock-based compensation	6,934	10,593	10,532					
(Increase) decrease in-								
Receivables, net	38,486	(58,046)	(223,178)	(76,806)	(82,567)	(88,759)	(95,416)	(102,572)
Inventories	(1,457)	(5,651)	(13,495)	(2,648)	(2,847)	(3,060)	(3,290)	(3,537)
Prepaid expenses and other current assets	(4,855)	(8,623)	(26,238)					
Costs and estimated earnings in excess of billings and unbilled accounts receivable	2,706	(17,271)	(9,643)					
Other noncurrent assets	(1,373)	(1,174)	(995)					
Increase (decrease) in-								
Accounts payable and accrued liabilities	11,087	4,004	165,888	25,304	27,202	29,242	31,435	33,793
Billings in excess of costs and estimated earnings	19,434	44,620	153,241					
Other long-term liabilities	808	(14,813)	(15,617)					
Net cash provided by operating activities	286,510	180,151	301,531	227,864	248,223	270,108	293,634	318,925
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchases of property and equipment	(24,131)	(22,330)	(48,359)	(10,796)	(11,606)	(12,476)	(13,412)	(14,418)
Proceeds from sales of property and equipment	2,270	3,101	2,858					
Cash paid for acquisitions, net of cash acquired	(185,941)	(227,493)	(49,217)					
Payments for investments			(2,460)					
Net cash used in investing activities	(207,802)	(246,722)	(97,178)	(10,796)	(11,606)	(12,476)	(13,412)	(14,418)
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from revolving credit facility	268,000	275,000	555,000					
Payments on revolving credit facility	(226,000)	(125,000)	(560,000)					
Payments on term loan	(15,000)	(15,000)	(120,000)					
Payments on other debt	(46,534)	(15,696)	(12,256)					
Payments on finance lease liabilities		(3,805)	(899)					
Debt financing costs			(2,297)					
Payments of dividends to stockholders	(15,499)	(17,384)	(20,077)					
Share repurchase	(30,120)	(27,054)	(38,216)					
Shares received in lieu of tax withholding	(1,076)	(2,363)	(3,247)					
Proceeds from exercise of options	2,144	5,634	1,086					
Deferred acquisition payments	(650)	(400)	(50)					
Payments for contingent consideration arrangements	(9,865)	(3,481)	(4,959)					
Net cash provided by (used in) financing activities	(74,600)	70,451	(205,915)					
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,108	3,880	(1,562)	217,068	236,617	257,631	280,222	304,507
CASH AND CASH EQUIVALENTS, beginning of period	50,788	54,896	58,776	28,782	265,399	523,030	803,252	1,107,759
CASH AND CASH EQUIVALENTS, end of period	\$ 54,896	\$ 58,776	\$ 57,214	245,850	502,016	780,661	1,083,474	1,412,266
Net Working Capital	48,116	(59,693)	(70,785)	(54,150)	(58,212)	(62,578)	(67,271)	(72,316)

Appendix - WACC



WACC	
Covariance	0.003121
Variance	0.002924
Beta	1.067518
Yahoo Finance Beta	1.2
30 Year Risk Free Rate	4.77%
Market Risk Premium	5%
Cost of Equity	10.11%
Interest Rate	4.66%
Effective Tax Rate	21%
Cost of Debt	3.68%
Weight of Equity	96.35%
Cost of Equity	10.11%
Weight of Debt	3.65%
Cost of Debt	3.68%
WACC	9.87%

Comfort Holdings		
Date	Close	Return
3/1/2023	8.38	6.48%
2/1/2023	7.87	0.90%
1/1/2023	7.8	11.91%
12/1/2022	6.97	-10.87%
11/1/2022	7.82	3.58%
10/1/2022	7.55	19.09%
9/1/2022	6.34	-41.67%
8/1/2022	10.87	1.87%
7/1/2022	10.67	3.69%
6/1/2022	10.29	-12.43%
5/1/2022	11.75	5.76%
4/1/2022	11.11	

S&P 500		
Date	Close	Return
3/1/2023	3,970.99	0.02%
2/1/2023	3,970.15	-2.61%
1/1/2023	4,076.60	6.18%
12/1/2022	3,839.50	-5.90%
11/1/2022	4,080.11	5.38%
10/1/2022	3,871.98	7.99%
9/1/2022	3,585.62	-9.34%
8/1/2022	3,955.00	-4.24%
7/1/2022	4,130.29	9.11%
6/1/2022	3,785.38	-8.39%
5/1/2022	4,132.15	0.01%
4/1/2022	4,131.93	

Appendix - DCF/FCF



	Free Cash Flow				
	2023	2024	2025	2026	2027
Operating Income	276,564,817	300,984,320	327,235,286	355,455,075	385,791,347
Less Taxes	58,078,612	63,206,707	68,719,410	74,645,566	81,016,183
NOPAT	218,486,205	237,777,613	258,515,876	280,809,509	304,775,164
Add/Less NWC changes	(54,150,450)	(58,211,734)	(62,577,614)	(67,270,935)	(72,316,255)
Less capex and depreciation	(10,796,175)	(11,605,888)	(12,476,330)	(13,412,054)	(14,417,959)
Free Cash Flow	153,539,580	167,959,991	183,461,933	200,126,520	218,040,951
Smooth TY and NPV					
Smooth TY	232,458,910				
NPV Next 5 Years	690,686,127				
WACC	9.87%				
Reinvestment					
NWC Investment	72,316,255				
Capex Dep	14,417,959				
Total Reinvestment	86,734,213				
NOPAT	304,775,164				
Net Reinvestment Rate	28.46%				
Total Invested Capital					
Invested Capital	999,923,000				
Long-Term Debt	247,245,000				
Total Invested Capital	1,247,168,000				
ROIC	24.44%				
LTG	6.95%				

Appendix - Industry Analysis



Industry Analysis			
Company	Comfort Holdings	Watts Water Tech	Gentherm Inc
Price at Last Period End Date	120.59	162.57	74.43
Dividend Yield %	0.53%	0.76%	-
Shares Outstanding	35,714,820	27,370,000	32,800,000
Market Cap	4,306,850,144	4,449,540,900	2,441,304,000
Enterprise Value	9,210,141,357	4,286,340,900.00	2,529,652,000
Price to Book Value	999,923,000	1,300,600,000	672,273,000
Sales	4,140,364,000	\$1,979,500,000	1,204,656,000
EBITDA	317,205,000	347,300,000	79,496,000
EBIT	235,858,000	307,600,000	38,382,000
Net Income	245,947,000	251,500,000	24,441,000
EV to Sales	2.22	2.17	2.10
EV to EBITDA	29.04	12.34	31.82
EV to EBIT	39.05	13.93	65.91