



frontdoor®

**Second-Quarter 2022
Earnings Webcast**

August 4, 2022

Today's Speakers



Bill Cobb
Chairman &
Chief Executive Officer



Brian Turcotte
Senior Vice President &
Chief Financial Officer



Matt Davis
Vice President
Investor Relations & Treasurer

Forward Looking Statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, in particular, projected future performance and any statements about Frontdoor's plans, strategies and prospects. Forward-looking statements can be identified by the use of forward-looking terms such as "believe," "expect," "estimate," "could," "should," "intend," "may," "plan," "seek," "anticipate," "project," "will," "shall," "would," "aim," or other comparable terms. These forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. Such risks and uncertainties include, but are not limited to: changes in macroeconomic conditions, including inflation, global supply chain challenges and the persistence of the COVID-19 pandemic, especially as they may affect existing home sales, interest rates, consumer confidence or labor availability; changes in the source and intensity of competition in our market; the success of our business strategies; our ability to attract, retain and maintain positive relations with third-party contractors and vendors; increases in parts, appliance and home system prices, and other operating costs; weakening general economic conditions; weather conditions and seasonality, which may be exacerbated by the physical impacts of climate change; our marketing efforts to increase sales may not be successful or cost-effective; our dependence on our real estate customer acquisition channel for a significant percentage of our sales; our ability to attract and retain key employees; lawsuits, enforcement actions and other claims by third parties or governmental authorities; increases in tariffs or changes to import/export regulations; cybersecurity breaches, disruptions or failures in our technology systems and our failure to protect the security of personal information about our customers; our dependence on labor availability, third-party vendors, including business process outsourcers, and third-party component suppliers; our ability to protect our intellectual property and other material proprietary rights; special risks applicable to operations outside the United States by us or our business process outsource providers; and the effects of our significant indebtedness. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes, including, without limitation, our actual results of operations, financial condition and liquidity, and the development of new markets or market segments in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. For a discussion of other important factors that could cause Frontdoor's results to differ materially from those expressed in, or implied by, the forward-looking statements included in this document, you should refer to the risks and uncertainties detailed from time to time in Frontdoor's periodic reports filed with the SEC, including the disclosure contained in Item 1A. Risk Factors in our 2021 Annual Report on Form 10-K filed with the SEC as such factors may be further updated from time to time in Frontdoor's periodic filings with the SEC. Except as required by law, Frontdoor does not undertake any obligation to update or revise these forward-looking statements to reflect new information or events or circumstances that occur after the date of this presentation or to reflect the occurrence of unanticipated events or otherwise. Readers are advised to review Frontdoor's filings with the Securities and Exchange Commission, which are available from the SEC's EDGAR database at [sec.gov](https://www.sec.gov), and via Frontdoor's website at frontdoorhome.com.

Non-GAAP Financial Measures

To supplement Frontdoor's results presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), Frontdoor has disclosed the non-GAAP financial measures of Adjusted EBITDA, Free Cash Flow, and Unrestricted Cash.

We define "Adjusted EBITDA" as net income before: provision for income taxes; interest expense; depreciation and amortization expense; non-cash stock-based compensation expense; loss on extinguishment of debt; restructuring charges; and other non-operating expenses.

We define "Free Cash Flow" as net cash provided from operating activities less property additions. Free Cash Flow is not a measurement of our financial performance or liquidity under U.S. GAAP and does not purport to be an alternative to net cash provided from operating activities or any other performance or liquidity measures derived in accordance with U.S. GAAP.

We define "Unrestricted Cash" as cash not subject to third-party restrictions. For additional information related to our third-party restrictions, see "Liquidity and Capital Resources — Liquidity" under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Annual Report on Form 10-K filed with the SEC.

See the schedules attached hereto for additional information and reconciliations of such non-GAAP financial measures. Management believes these non-GAAP financial measures provide useful supplemental information for its and investors' evaluation of Frontdoor's business performance and are useful for period-over-period comparisons of the performance of Frontdoor's business. While we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

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Short-Term Challenges

- Historically challenging macroeconomic environment
 - Rapid increase in contractor-related costs
 - Record low home inventory impacting real estate channel

Long-Term Opportunities

- Demand for home services continues to grow
- Industry in early stages of digital transformation
- Leader in home service plan category

Frontdoor Goal

Expand market opportunities for both our recurring revenue home service plan business and on-demand offering

Moving Quickly to Improve Execution

Core

Rebuilding core home service plan business

Organization

Reorganized go-to-market structure

COGS

Working to address rapid increase in inflation

SG&A

Undertaking comprehensive SG&A review

Comprehensive Operating Review



*Reinventing
how we interact
with customers,
contractors and
partners*

Reorganized Go-to-Market Structure

**Chief Marketing
Officer**



Kathy Collins

**Chief Sales
Officer**



Jes Fields

**SVP & GM of
Product**



Raj Midha

***Increased focus, improved consistency and
accountability across sales funnel***



Q2 2022 Financial Summary

	Net	Adjusted
Revenue	Income	EBITDA ⁽¹⁾
\$487M	\$33M	\$77M

⁽¹⁾ See the Appendix accompanying this presentation for a reconciliation of Adjusted EBITDA, a non-GAAP measure, to the nearest U.S. GAAP measure. See "Reconciliations of Non-GAAP Financial Measures" included in this presentation for a description of the calculation for this measure.

Q2 2022 Adjusted EBITDA⁽¹⁾ Bridge

In millions

Three Months Ended June 30, 2021	\$114
Impact of change in revenue ⁽²⁾	23
Contract claims costs ⁽³⁾	(53)
Sales and marketing costs	(6)
General and administrative costs	(1)
Three Months Ended June 30, 2022	\$77



Note: Revenue and expense items are year-over-year increases/(decreases); amounts presented in table may not sum due to rounding.

⁽¹⁾ See the Appendix accompanying this presentation for a reconciliation of Adjusted EBITDA, a non-GAAP measure, to the nearest GAAP measure. See "Reconciliations of Non-GAAP Financial Measures" included in this presentation for descriptions of calculations of these measures.

⁽²⁾ Revenue conversion includes the impact of the change in the number of home service plans as well as the impact of year-over-year price changes. The impact of the change in the number of home service plans considers the associated revenue on those plans less an estimate of contract claims costs based on margin experience in the prior year period.

⁽³⁾ Contract claims costs includes the impact of changes in service request incidence, inflation and other drivers associated with the number of home service plans in the prior year period. The impact on contract claims costs resulting from year-over-year changes in the number of home service plans is included in revenue conversion above.

Q2 2022 Cash Flow

In millions

	Six Months Ended June 30,	
	2022	2021
Net cash provided from (used for):		
Operating Activities	\$94	\$119
Investing Activities	(19)	(15)
Financing Activities	(69)	(378)
Cash increase (decrease) during the period	\$6	\$(274)

**Free Cash
Flow⁽¹⁾**

\$75M

**Available
Liquidity⁽²⁾**

\$357M

**Amount of Shares
Repurchased⁽³⁾**

\$59M

⁽¹⁾ See the Appendix accompanying this presentation for a reconciliation of Free Cash Flow, a non-GAAP measure, to the nearest U.S. GAAP measure. See "Reconciliations of Non-GAAP Financial Measures" included in this presentation for a description of the calculation for this measure.

⁽²⁾ Consists of \$109 million of Unrestricted Cash and an undrawn revolving credit facility of \$248 million.

⁽³⁾ The amount of share repurchases is for the first six months of 2022

Q3 2022 and FY 2022 Outlook

	Q3 2021 Results	Q3 2022 Outlook	
		Low	High
Revenue (\$ millions)	471	470	480
Adjusted EBITDA (\$ millions) ⁽¹⁾⁽²⁾	122	65	75

	FY 2021 Results	FY 2022 Outlook	
Revenue (\$ billions)	1.602	1.63	1.65
Gross Profit Margin (%)	49	41	42
SG&A (\$ millions)	511	525	535
Adjusted EBITDA (\$ millions) ⁽¹⁾⁽²⁾	300	170	190
Capital Expenditures (\$ millions)	31	35	45
Annual Effective Tax Rate (%)	23	~23	

⁽¹⁾ See the Appendix accompanying this presentation for a reconciliation of Adjusted EBITDA, a non-GAAP measure, to the nearest GAAP measure. See "Reconciliations of Non-GAAP Financial Measures" included in this presentation for descriptions of calculations of these measures.

⁽²⁾ A reconciliation of the forward-looking third-quarter and full-year 2022 Adjusted EBITDA outlook to net income cannot be provided without unreasonable effort because of the inherent difficulty of accurately forecasting the occurrence and financial impact of the various adjusting items necessary for such reconciliation that have not yet occurred, are out of our control, or cannot be reasonably predicted. For the same reasons, the company is unable to assess the probable significance of the unavailable information, which could have a material impact on its future GAAP financial results.



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Q&A

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APPENDIX

Q2 2022 Consolidated Results

Note: See elsewhere in this Appendix for a reconciliation of Adjusted EBITDA, a non-GAAP measure, to the nearest U.S. GAAP measure; amounts presented in table may not sum due to rounding.

\$ millions, except per share amounts

	Three Months Ended		
	June 30,		
	2022	2021	Better / (Worse)
Revenue	\$ 487	\$ 462	\$ 25
<i>YoY Growth</i>			5%
Gross Profit	211	242	(31)
<i>% of revenue</i>	43.3%	52.3%	(8.9) pts
Selling and administrative expenses	140	136	(5)
<i>% of revenue</i>	28.8%	29.3%	0.5 pts
Depreciation and amortization expense	8	9	1
Restructuring charges	12	1	(12)
Interest expense	7	12	5
Loss on extinguishment of debt	—	30	30
Income before Income Taxes	43	54	(11)
Provision for income taxes	10	14	4
Net Income	\$ 33	\$ 40	\$ (7)
Other Comprehensive Income, Net of Income Taxes:			
Net unrealized gain on derivative instruments	\$ 4	\$ —	\$ 4
Total Comprehensive Income	\$ 37	\$ 41	\$ (3)
Earnings per Share:			
Basic	\$ 0.40	\$ 0.47	\$ (0.07)
Diluted	\$ 0.40	\$ 0.47	\$ (0.07)
Weighted-average common shares outstanding:			
Basic	82.1	85.5	(3.4)
Diluted	82.2	86.0	(3.8)
Adjusted EBITDA	\$ 77	\$ 114	\$ (37)

YTD 2022 Consolidated Results

Note: See elsewhere in this Appendix for a reconciliation of Adjusted EBITDA, a non-GAAP measure, to the nearest U.S. GAAP measure; amounts presented in table may not sum due to rounding.

\$ millions, except per share amounts

	Six Months Ended		
	June 30,		
	2022	2021	Better / (Worse)
Revenue	\$ 838	\$ 791	\$ 47
<i>YoY Growth</i>			6%
Gross Profit	355	390	(35)
<i>% of revenue</i>	42.3%	49.2%	(6.9) pts
Selling and administrative expenses	266	254	(12)
<i>% of revenue</i>	31.7%	32.1%	0.4 pts
Depreciation and amortization expense	17	19	2
Restructuring charges	12	2	(11)
Interest expense	14	25	11
Interest and net investment (income) loss	—	(1)	—
Loss on extinguishment of debt	—	31	31
Income before Income Taxes	46	60	(14)
Provision for income taxes	12	15	3
Net Income	\$ 35	\$ 45	\$ (10)
Other Comprehensive Income, Net of Income Taxes:			
Net unrealized gain on derivative instruments	\$ 17	\$ 7	\$ 10
Total Comprehensive Income	\$ 52	\$ 53	\$ (1)
Earnings per Share:			
Basic	\$ 0.42	\$ 0.53	\$ (0.11)
Diluted	\$ 0.42	\$ 0.53	\$ (0.11)
Weighted-average common shares outstanding:			
Basic	82.2	85.5	(3.2)
Diluted	82.4	86.0	(3.6)
Adjusted EBITDA	\$ 102	\$ 150	\$ (48)

Net Income to Adjusted EBITDA Reconciliations

In millions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net Income	\$ 33	\$ 40	\$ 35	\$ 45
Depreciation and amortization expense	8	9	17	19
Restructuring charges	12	1	12	2
Provision for income taxes	10	14	12	15
Non-cash stock-based compensation expense	6	8	12	13
Interest expense	7	12	14	25
Loss on extinguishment of debt	—	30	—	31
Adjusted EBITDA	\$ 77	\$ 114	102	\$ 150

Amounts presented in the above tables may not sum due to rounding.

Net Income to Adjusted EBITDA Reconciliations (Cont.)

In millions

	Three Months Ended September 30, <u>2021</u>	Year Ended December 31, <u>2021</u>
Net Income	\$ 76	\$ 128
Depreciation and amortization expense	8	35
Restructuring charges	—	3
Provision for income taxes	25	39
Non-cash stock-based compensation expense	5	25
Interest expense	7	39
Loss on extinguishment of debt	—	31
Adjusted EBITDA	\$ 122	\$ 300

Amounts presented in the above tables may not sum due to rounding.

Net Cash Provided from Operating Activities to Free Cash Flow Reconciliations

\$ millions

	Three Months Ended June, 30		Six Months Ended June, 30	
	2022	2021	2022	2021
Net Cash Provided from Operating Activities	\$ 47	\$ 67	\$ 94	\$ 119
Property Additions	(11)	(8)	(19)	(15)
Free Cash Flow	\$ 36	\$ 59	\$ 75	\$ 104

Amounts presented in the above tables may not sum due to rounding.