

# 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, 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 contractorrelated costs
  - Record low home inventory impacting real estate channel

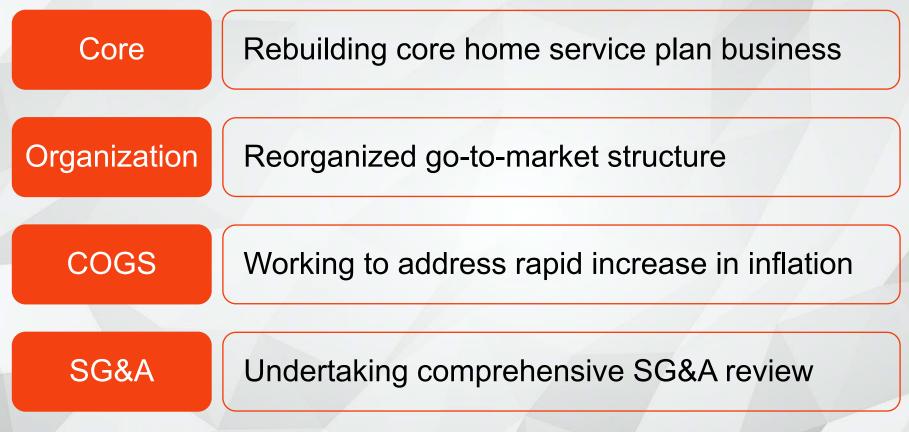
#### Long-Term Opportunities

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

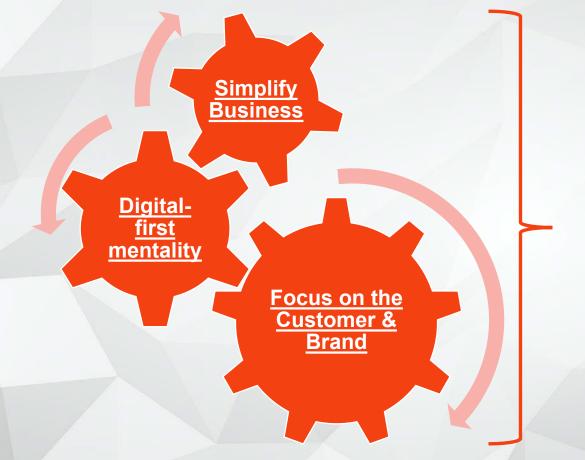
#### **Frontdoor Goal**

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

## **Moving Quickly to Improve Execution**

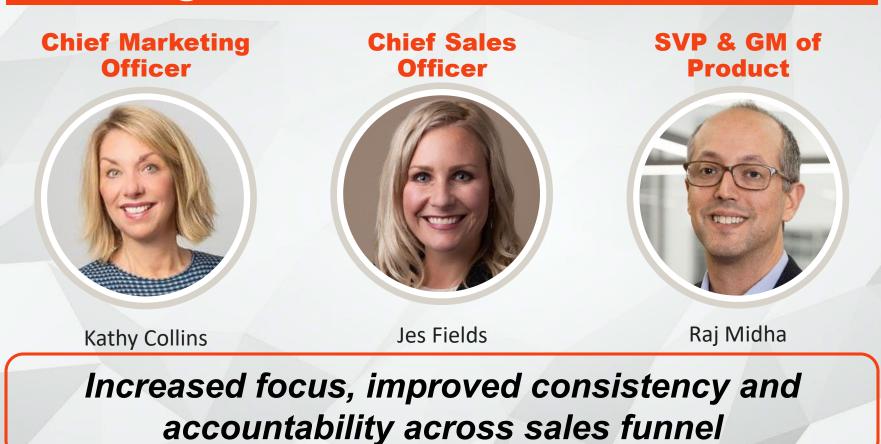


## **Comprehensive Operating Review**



Reinventing how we interact with customers, contractors and partners

## **Reorganized Go-to-Market Structure**





## Q2 2022 Financial Summary

# Net<br/>RevenueAdjusted<br/>EBITDA(1)\$487M\$33M\$77M

<sup>(1)</sup> 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<sup>(1)</sup> Bridge

In millions	
Three Months Ended June 30, 2021	\$114
Impact of change in revenue <sup>(2)</sup>	23
Contract claims costs <sup>(3)</sup>	(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.

<sup>(1)</sup> 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) Contracts 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.

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## Q2 2022 Cash Flow

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

#### Free Cash Flow<sup>(1)</sup>

**\$75M** 

#### Available Liquidity<sup>(2)</sup>

\$357M

Amount of Shares Repurchased <sup>(3)</sup>

\$59M

<sup>(1)</sup> See the Appendix accompanying this presentation for a reconciliation of Free Cash Flow, a non-GAAP measures, 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.

<sup>3)</sup> The amount of share repurchases is for the first six months of 2022

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## Q3 2022 and FY 2022 Outlook

#### Q3 2022 Outlook

	Q3 2021 Results	Low	High		
Revenue (\$ millions)	471	470	480		
Adjusted EBITDA (\$ millions) <sup>(1)(2)</sup>	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) <sup>(1)(2)</sup>	300	170	190		
Capital Expenditures (\$ millions)	31	35	45		
Annual Effective Tax Rate (%)	23	~23			

<sup>(1)</sup> 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

For more information please visit our website: **frontdoorhome.com** 



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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.

	Thre	e Months I	Ended	
		June 30,		
 2022		2021	Be	tter / (Worse)
\$ 487	\$	462	\$	25
				5%
211		242		(31)
43.3%		52.3%		(8.9) pts
140		136		(5)
28.8%		29.3%		0.5 pts
8		9		1
12		1		(12)
7		12		5
_		30		30
43		54		(11)
10		14		4
\$ 33	\$	40	\$	(7)
\$ 4	\$	_	\$	4
\$ 37	\$	41	\$	(3)
\$ 0.40	\$	0.47	\$	(0.07)
\$ 0.40	\$	0.47	\$	(0.07)
82.1		85.5		(3.4)
82.2		86.0		(3.8)
\$ 77	\$	114	\$	(37)
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#### 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.

<i>\$ millions, except per share amounts</i>		Six	Months Er June 30,	nded			
	2022			2021	Better / (Wors		
Revenue	\$	838	\$	791	\$	47	
YoY Growth						6%	
Gross Profit		355		390		(35)	
% of revenue		42.3%		49.2%		(6.9) pts	
Selling and administrative expenses		266		254		(12)	
% of revenue		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**

millions Three Months Ended June 30,				Six Months Ended June 30,				
	20	2022		2021		2022		021
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 Mor Septen	Year Ended December 31,			
	20	21	2021		
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.