



Third-Quarter 2023 Earnings Webcast

November 1, 2023



Today's Speakers



Bill Cobb
Chairman &
Chief Executive Officer



Jessica Ross
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 and global supply chain challenges, especially as they may affect existing home sales, interest rates, consumer confidence or labor availability; increases in parts, appliance and home system prices, and other operating costs; changes in the source and intensity of competition in our market; the success of our business strategies; the ability of our marketing efforts to be successful or cost-effective; our ability to attract, retain and maintain positive relations with third-party contractors and vendors; our dependence on our real estate and direct-to-consumer customer acquisition channels and our renewals channel; our ability to attract and retain qualified key employees and labor availability in our customer service operations; our dependence on third-party vendors, including business process outsourcing, and third-party component suppliers; cybersecurity breaches, disruptions or failures in our technology systems; our ability to protect the security of personal information about our customers; evolving corporate governance and disclosure regulations and expectations related to environmental, social and governance matters; risks related to the COVID-19 pandemic; risks related to geopolitical instability; lawsuits, enforcement actions and other claims by third parties or governmental authorities; increases in tariffs or changes to import/export regulations; physical effects of climate change, adverse weather conditions and Acts of God, along with the increased focus on sustainability; our ability to protect our intellectual property and other material proprietary rights; negative reputational and financial impacts resulting from acquisitions or strategic transactions; requirement to recognize impairment charges; third-party use of our trademarks as search engine keywords to direct our potential customers to their own websites; inappropriate use of social media by us or other parties to harm our reputation; special risks applicable to operations outside the United States by us or our business process outsourcing providers; a return on investment in our common stock is dependent on appreciation in the price; restrictions in our certificate of incorporation related to an acquisition of us or to our lawsuits against us or our directors or officers; the effects of our significant indebtedness; increases in interest rates increasing the cost of servicing our indebtedness; and increased borrowing costs due to lowering or withdrawal of the credit ratings, outlook or watch assigned to us, our debt securities or our Credit Facilities; and our ability to generate significant cash needed to fund our operations and service our debt. 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, 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 2022 Annual Report on Form 10-K filed with the SEC, as such factors may be 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 the 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 SEC, 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: depreciation and amortization expense; goodwill and intangibles impairment; restructuring charges; provision for income taxes; non-cash stock-based compensation expense; interest expense; loss on extinguishment of debt; 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 2022 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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Strong Third Quarter 2023 Results

- Revenue increased 8% to \$524M
- Gross profit margin increased 760bps to 51%
- Adjusted EBITDA⁽¹⁾ increased \$48M to \$128M
- Raising full-year Revenue, Adjusted EBITDA and Share Repurchase outlook

Revitalizing Brand Strategy to Unlock Growth



Home Warranties

Brand Update:

- Relaunching brand early next year to drive consumer awareness

Home Warranty Value Proposition:

- 12-month contract
- Financial protection and peace of mind
- Access to qualified contractor network

On-Demand Home Services

Brand Update:

- Engagement through video chat with an expert, maintenance, repairs and upgrades

On-Demand Value Proposition:

- Pay as you go
- Member discounts
- Access to qualified contractor network

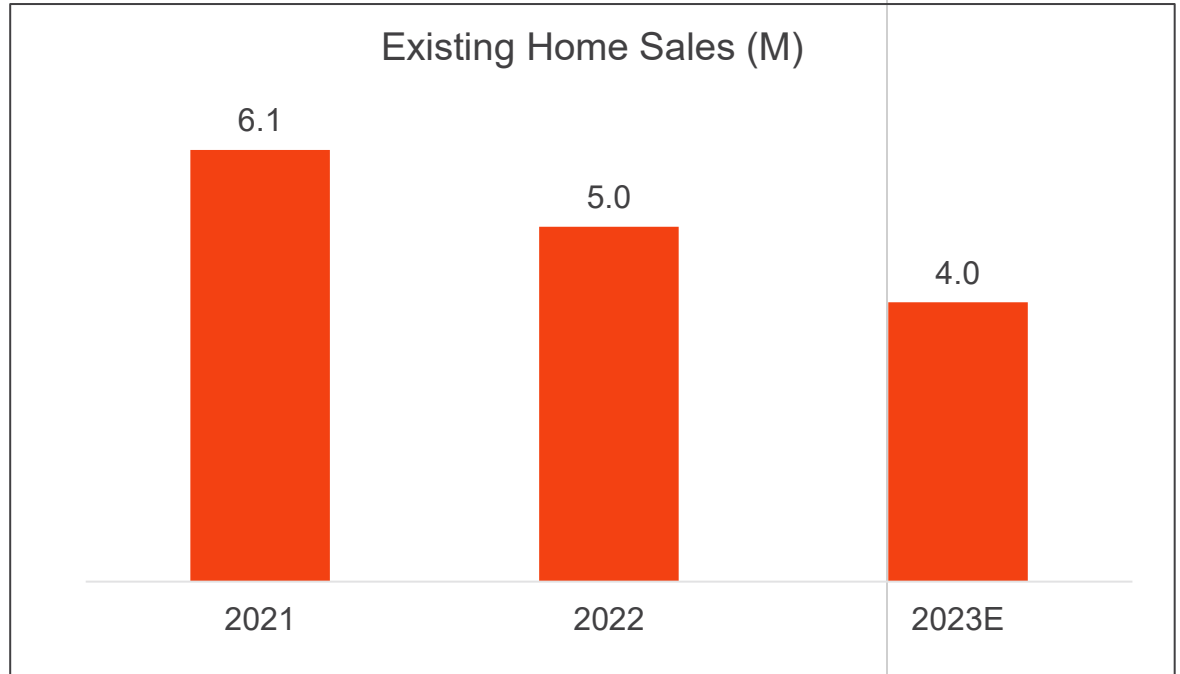


Growing DTC Demand Remains Top Priority

- Macroeconomic conditions impacting demand for home warranties
- 2023 Actions:
 - Increased marketing spend to drive brand awareness
 - Evolving discounting strategy to maximize conversion
- 2024 Strategy:
 - Relaunching AHS brand early next year
 - Supported with new marketing approach

Challenging Real Estate Market Impacting Sales

- Existing home sales continue to decline
- Home inventory remains tight
- Real Estate Channel sales continues trending in line with home sales



Source: September 2023 Monthly National Association of Realtors (NAR) Existing Home Sales



Renewal Channel Remains Strong

- Customer retention rate increased 90 basis points to 76.2% in the third quarter
- Renewal customer count remained flat at 1.55M despite higher price
- Improving onboarding and increasing engagement

Frontdoor Brand Monetization Strategy



Frontdoor Brand Has Two Key Components

On-demand access to experts, repairs, maintenance services and systems and appliance upgrades

An app that offers video chats with an expert, how-to content and member discounts

Three Categories of Paid Services

Repairs

On-Demand Repair
Requests

Maintenance Services

On-Demand Home
Maintenance Services

Upgrade Programs

Replacing Home Systems
and Appliances

Third Quarter 2023 Revenue

\$524M

Q3 Revenue

- Increased 8% compared to prior year period results
 - ~10% increase from price
 - ~2% decline from lower volume

Third Quarter 2023 Revenue Mix

- **Renewal** revenue increased 14% due to improved price realization
- **Real estate** revenue decreased 23% due to lower volume
- **Direct-to-Consumer** revenue decreased 16% due to lower volume
- **Other** revenue increased \$11M due to an increase in on-demand home services

Third Quarter 2023 Gross Profit

\$268M

Gross Profit

- Gross profit margin increased 760 basis points to 51%
 - Higher realized price
 - Process improvement initiatives
 - Favorable cost development
 - Transition to higher service fees
 - Lower number of service requests per customer

Third
Quarter
2023 Net
Income &
Adjusted
EBITDA

\$71M

Net Income

- Increased \$43M over prior year period

\$128M

Adjusted EBITDA⁽¹⁾

- Increased \$48M over prior year period

Third Quarter 2023 Adjusted EBITDA⁽¹⁾ Bridge

Three Months Ended September 30, 2022	\$79
Impact of change in revenue ⁽²⁾	37
Contract claims costs ⁽³⁾	22
Sales and marketing costs	(10)
Customer service costs	1
General and administrative costs	(4)
Interest and net investment income	4
Other	(2)
Three Months Ended September 30, 2023	\$128

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⁾ 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.

Q3 2023 Cash Flow

	Nine Months Ended September 30,	
Net cash provided from (used for):	2023	2022
Operating Activities	139	80
Investing Activities	(23)	(25)
Financing Activities	(88)	(74)
Cash increase/(decrease) during the period	28	(19)

Free Cash Flow and Cash Position

\$116M

Free Cash Flow⁽¹⁾

- \$75 million of share repurchases YTD through September

\$320M

Total Cash

- Restricted net assets of \$152M
- Unrestricted cash of \$167M

⁽¹⁾ See the Appendix accompanying this presentation for a reconciliation of Free Cash Flow, a non-GAAP measure, to the nearest GAAP measure. See "Reconciliations of Non-GAAP Financial Measures" included in this presentation for a description of calculations of these measures. A reconciliation of the forward-looking full-year 2023 Free Cash Flow to net cash provided from operating activities, 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.

Consistent Capital Allocation Framework

#1: Growth

Organic Investments to improve business / drive growth

M&A to accelerate growth through acquisition

#2: Maintain A
Strong Financial
Profile

Maintain appropriate liquidity and net leverage

#3: Return Cash
to Shareholders

Use excess cash to buy back shares

Q4 2023 and FY 2023 Outlook

	Q4 2022 Results	Q4 2023 Outlook	
		Low	High
Revenue (\$ millions)	339	350	360
Adjusted EBITDA (\$ millions) ⁽¹⁾⁽²⁾	33	20	30

	FY 2022 Results	FY 2023 Outlook	
Revenue (\$ billions)	1.66	1.765	1.775
Gross Profit Margin (%)	43	48.0	49.5
SG&A (\$ millions)	521	580	590
Adjusted EBITDA (\$ millions) ⁽¹⁾⁽²⁾	214	320	330
Capital Expenditures (\$ millions)	40	35	
Annual Effective Tax Rate (%)	24	25	

⁽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 fourth-quarter and full-year 2023 Adjusted EBITDA outlook to net income, and of full-year 2023 Free Cash Flow to net cash provided from operating activities, 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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Appendix



Q3 2023 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.

	Three Months Ended September 30,		
	2023	2022	Better / (Worse)
<i>\$ millions, except per share amounts</i>			
Revenue	\$ 524	\$ 484	\$ 40
<i>YOY Growth</i>			8%
Gross Profit	268	210	57
<i>% of revenue</i>	51.1%	43.5%	764 pts
Selling and administrative expenses	152	137	(16)
<i>% of revenue</i>	29.1%	28.3%	(80) pts
Depreciation and amortization expense	9	8	(1)
Restructuring charges	5	5	0
Interest expense	10	8	(2)
Interest and net investment income	(4)	(1)	4
Income before Income Taxes	96	39	57
Provision for income taxes	24	11	(13)
Net Income	<u>\$ 71</u>	<u>\$ 28</u>	<u>\$ 43</u>
Other comprehensive income, net of tax	0	9	(9)
Total Comprehensive Income	<u>\$ 72</u>	<u>\$ 37</u>	<u>\$ 35</u>
Earnings Per Share:			
Basic	\$ 0.89	\$ 0.34	\$ 0.55
Diluted	\$ 0.89	\$ 0.34	\$ 0.54
Weighted average common shares outstanding:			
Basic	80.1	81.5	(1.3)
Diluted	80.6	81.6	(1.0)
Adjusted EBITDA	<u>\$ 128</u>	<u>\$ 79</u>	<u>\$ 48</u>

YTD 2023 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.

	Nine Months Ended September 30,		
	2023	2022	Better /(Worse)
<i>\$ millions, except per share amounts</i>			
Revenue	\$ 1,414	\$ 1,322	\$ 91
YOY Growth			7%
Gross Profit	708	565	143
% of revenue	50.1%	42.7%	734 bps
Selling and administrative expenses	439	403	(37)
% of revenue	31.1%	30.4%	(63) pts
Depreciation and amortization expense	28	25	(3)
Restructuring charges	6	18	12
Interest expense	30	22	(7)
Interest and net investment income	(12)	(1)	11
Income before Income Taxes	217	85	132
Provision for income taxes	54	23	(32)
Net Income	\$ 163	\$ 63	\$ 100
Other comprehensive income, net of tax	2	26	(25)
Total Comprehensive Income	\$ 164	\$ 89	\$ 75
Earnings Per Share:			
Basic	\$ 2.01	\$ 0.77	\$ 1.24
Diluted	\$ 2.00	\$ 0.77	\$ 1.24
Weighted average common shares outstanding:			
Basic	81.0	82.0	(0.9)
Diluted	81.3	82.1	(0.8)
Adjusted EBITDA	\$ 302	\$ 181	\$ 120

Net Income to Adjusted EBITDA Reconciliations

(\$ millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net Income	\$ 71	\$ 28	\$ 163	\$ 63
Depreciation and amortization expense	9	8	28	25
Goodwill and intangibles impairment	—	14	—	14
Restructuring charges	5	5	6	18
Provision for income taxes	24	11	54	23
Non-cash stock-based compensation	8	5	21	17
Interest expense	10	8	30	22
Adjusted EBITDA	\$ 128	\$ 79	\$ 302	\$ 181

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

Net Income to Adjusted EBITDA Reconciliations (Cont.)

(\$ millions)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Net Income	\$ 8	\$ 7	\$ 71	\$ 128
Depreciation and amortization expense	9	8	34	35
Goodwill and intangibles impairment	—	—	14	—
Restructuring charges	2	1	20	3
Provision for income taxes	—	—	22	39
Non-cash stock-based compensation	5	6	22	25
Interest expense	9	7	31	39
Loss on extinguishment of debt	—	—	—	31
Adjusted EBITDA	\$ 33	\$ 28	\$ 214	\$ 300

Note: 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Cash Provided from Operating Activities	\$ 28	\$ (14)	\$ 139	\$ 80
Property additions	(8)	(10)	(23)	(30)
Free Cash Flow	\$ 20	\$ (24)	\$ 116	\$ 50

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