frontdoor™

Frontdoor Announces Second-Quarter 2019 Revenue Increase of 9 Percent to $388 Million; Gross Profit Margin Improved 800 Basis Points to 53 Percent

MEMPHIS, TENN. — August 7, 2019 — Frontdoor, Inc. (NASDAQ: FTDR), the nation's leading provider of home service plans, today announced second-quarter 2019 results.

Financial Results

	Three Months Ended June 30,		
$ millions (except as noted)	**2019**	**2018**	**Change**
Revenue	$ 388	$ 355	9 %
Gross Profit	205	159	29 %
Net Income	60	45	34 %
Diluted Earnings per Share	0.71	0.53	34 %
Adjusted Net Income(1)	62	53	18 %
Adjusted Diluted Earnings per Share(1)	0.73	0.62	17 %
Adjusted EBITDA(1)	105	73	44 %
Home Service Plans (number in millions)	2.1	2.0	4 %

Second-Quarter 2019 Summary

- **Revenue increased nine percent to $388 million on higher number of home service plans and improved price realization**
- **Record second quarter gross profit margin of 53 percent was 800 basis points higher than the prior year period due to accelerating business process improvements and seasonally mild weather**
- **Net income increased 34 percent to $60 million as a result of higher gross profit contribution that more than offset greater investment in the business and higher interest expense**
- **Adjusted EBITDA increased 44 percent over the prior year period to $105 million; Adjusted EBITDA Margin(1) of 27 percent was 660 basis points higher than the prior year period**
- **Net Cash Provided from Operating Activities for the first half of 2019 was $140 million; Free Cash Flow(1) improved 24 percent to $130 million for the same period**
- **Advanced 2019 strategic objectives by increasing velocity of business process improvements, opening Denver technology center and expanding customer product offerings**

Full-Year 2019 Outlook

- **Affirming 2019 revenue outlook to $1.36 billion to $1.38 billion; increasing 2019 Adjusted EBITDA(2) outlook to $290 million to $300 million**

"Our record-setting second quarter financial performance reflects greater than anticipated favorability from our business process improvements and the benefit of seasonally mild weather," said Chief Executive Officer Rex Tibbens. "We continue to deliver on our promise to improve the business by increasing the velocity of change and focusing on running the business on data and technology, which is leading to improved financial results. While the team has done an exceptional job of advancing our strategic priorities, we are still in the early stages of improving the customer experience, building out our technology platform and developing our on-demand playbook as we launch current and future pilots this year. We still have work to do; however, this foundational effort will allow us to deliver a higher growth trajectory and superior customer service over time."

"Based on our strong first-half 2019 financial performance and the anticipation of continued progress from our business process improvements, we are raising our full-year Adjusted EBITDA outlook," said Chief Financial Officer Brian Turcotte. "In addition, we are affirming the full-year revenue outlook range despite the impact of lower unit growth in the first-year real estate channel."

Second-Quarter 2019 Results

Revenue by Major Customer Acquisition Channel

$ millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change
Renewals	$ 263	$ 235	12 %
Real estate (First-Year)	75	74	1 %
Direct-to-consumer (First-Year)	48	44	8 %
Other	2	1	*
Total	$ 388	$ 355	9 %

* not meaningful

Second-quarter 2019 revenue increased nine percent over the prior year period. Renewal revenue increased 12 percent primarily driven by growth in the number of home service plans and improved price realization. First-year real estate revenue increased one percent, primarily driven by improved price realization that was partly offset by a decline in new sales. First-year direct-to-consumer revenue increased eight percent due to growth in new sales, primarily driven by increased investments in marketing.

Second-quarter 2019 net income was $60 million, or diluted earnings per share of $0.71, versus $45 million in second-quarter 2018, or diluted earnings per share of $0.53. Second-quarter 2019 net income included a $23 million favorable impact from higher revenue conversion(3), a $24 million decrease in contract claims cost, and lower Spin-off charges versus prior year. These benefits were partially offset by a $17 million increase in selling and administrative expenses, primarily relating to investments in sales and marketing. Additionally, net income was impacted by $15 million in interest expense related to the debt offering completed in conjunction with the Spin-off and a $5 million increase in income taxes.

Period-over-Period Adjusted EBITDA Bridge

$ millions	
Three Months Ended June 30, 2018	$ 73
Impact of change in revenue(3)	23
Contract claims	24
Sales and marketing costs	(7)
Customer service costs	1
Spin-off dis-synergies	(1)
Other	(7)
Three Months Ended June 30, 2019	$ 105

Second-quarter 2019 Adjusted EBITDA of $105 million was 44 percent higher than the prior year period, primarily due to the following items:

- $23 million of higher revenue conversion(3), including the net contribution from new customers and higher pricing;
- $24 million of lower contract claims costs, consisting of:
  - $13 million in process improvements and cost reduction initiatives,
  - $12 million in net favorable impact of adjustments related to contract claims cost development,
  - $10 million in seasonally mild weather, and
  - $11 million in higher inflation and tariff costs;
- $7 million of increased sales and marketing costs to drive home service plan growth, primarily in the direct-to-consumer channel;
- $1 million of lower customer service costs;
- $1 million in higher Spin-off dis-synergies, primarily related to the separation of information technology systems; and
- $7 million of other costs, primarily related to insurance costs, incentive compensation, professional fees and bad debt expense.

Cash Flow

$ millions	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net cash provided from (used for):		
Operating Activities	$ 140	$ 122
Investing Activities	(12)	(16)
Financing Activities	(4)	(74)
Cash increase during the period	$ 124	$ 32

For the six months ended June 30, 2019, net cash provided from operating activities was $140 million, an increase of $18 million from the six months ended June 30, 2018. Working capital was a $47 million source of cash for the six months ended June 30, 2019 compared to $41 million for the prior year period.

Net cash used for investing activities was $12 million for the six months ended June 30, 2019 compared to $16 million for the prior year period. The change in investing activities was primarily due to a decline in capital expenditures related to the Spin-off as compared to the first half of 2018.

Net cash used for financing activities was $4 million for the six months ended June 30, 2019 and was primarily related to debt payments. This compares to $74 million for the six months ended June 30, 2018, which was related to net cash transfers to ServiceMaster that occurred prior to the Spin-off.

Free Cash Flow(1) was $130 million for the six months ended June 30, 2019 compared to $105 million for the prior year period. The increase of $25 million includes higher Adjusted EBITDA and positive working capital contributions that were partially offset by higher cash payments for interest expense.

Cash and marketable securities totaled $425 million as of June 30, 2019, a $120 million increase from December 31, 2018.

Total restricted net assets increased to $203 million at June 30, 2019 from $197 million at March 31, 2019.

Updated Full-Year 2019 Outlook

- Revenue is anticipated to remain within the range of $1.36 billion to $1.38 billion;
- Gross profit margin is now anticipated to be approximately 49 percent;
- Adjusted EBITDA(2) is now anticipated to range from $290 million to $300 million;
- Capital expenditures is anticipated to remain within the range of $30 million to $40 million; and
- Annual Effective Tax Rate is anticipated to remain at approximately 25 percent.

Additionally, third-quarter 2019 Adjusted EBITDA(2) is anticipated to range from $95 million to $100 million.

Second-Quarter 2019 Earnings Conference Call

Frontdoor has scheduled a conference call today, August 7, 2019, at 3:30 p.m. Central time (4:30 p.m. Eastern time). During the call, Rex Tibbens, Chief Executive Officer, and Brian Turcotte, Chief Financial Officer, will discuss second-quarter 2019 financial and operating results. To participate on the conference call, interested parties should call 877-407-8291 (or international participants, 201-689-8345). Additionally, the conference call will be available via webcast which will include a slide presentation highlighting the company's results. To participate via webcast and view the slide presentation, visit Frontdoor's investor relations home page. The call will be available for replay for approximately 90 days. To access the replay of this call, please call 877-660-6853 and enter conference ID 13692383 (international participants: 201-612-7415, conference ID 13692383).

About Frontdoor

Frontdoor is a company that's obsessed with taking the hassle out of owning a home. With services powered by people and enabled by technology, it is the parent company of four home service plan brands: American Home Shield, HSA, Landmark and OneGuard. Frontdoor serves more than two million customers across the U.S. through a network of more than 16,000 pre-qualified contractor firms that employ over 45,000 technicians. The company's customizable home service plans help customers protect and maintain their homes from costly and unexpected breakdowns of essential home systems and appliances. With more than 45 years of experience, the company responds to over four million service requests annually (or one request every eight seconds). For details, visit frontdoorhome.com.

References in this news release to "ServiceMaster" refer to ServiceMaster Global Holdings, Inc. and its consolidated subsidiaries. References to the "Spin-off" refer to the spin-off by ServiceMaster of the ownership and operations of its businesses operated under the American Home Shield, HSA, OneGuard and Landmark brand names into Frontdoor, which was completed on October 1, 2018 and resulted in Frontdoor operating as an independent, publicly traded company trading on Nasdaq under the symbol "FTDR".

Forward-Looking Statements

This news release 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: weather conditions and seasonality; weakening general economic conditions; lawsuits, enforcement actions and other claims by third parties or governmental authorities; the effects of our substantial indebtedness; the success of our business strategies; and failure to achieve some or all of the expected benefits of the Spin-off. 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 news release. 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 as well as the disclosure contained in Item 1A. Risk Factors in our 2018 Annual Report on Form 10-K filed 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 news release 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.

Spin-off Impact to Financials

The accompanying condensed consolidated and combined financial statements for periods prior to the Spin-off include all revenues, costs, assets and liabilities directly attributable to us. ServiceMaster's debt and corresponding interest expense have not been allocated to us for periods prior to the Spin-off since we were not the legal obligor of the debt. The accompanying condensed consolidated and combined financial statements include expense allocations for certain corporate functions historically provided by ServiceMaster. These allocations may not be indicative of the level of expense which would have been incurred had the company operated as a separate entity prior to the Spin-off, nor are these costs necessarily indicative of costs we may incur in the future.

Non-GAAP Financial Measures

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

We define "Adjusted EBITDA" as net income before: provision for income taxes; interest expense; interest income from affiliate; depreciation and amortization expense; non-cash stock-based compensation expense; restructuring charges; Spin-off charges; secondary offering costs; affiliate royalty expense; (gain) loss on insured home service plan claims; and other non-operating expenses. We believe Adjusted EBITDA is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, Spin-off charges, arrangements with affiliates and equity-based, long-term incentive plans.

We define "Adjusted EBITDA Margin" as Adjusted EBITDA divided by revenue. We believe Adjusted EBITDA Margin is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, Spin-off charges, arrangements with affiliates and equity-based, long-term incentive plans.

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 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 GAAP. Free Cash Flow is useful as a supplemental measure of our liquidity. Management uses Free Cash Flow to facilitate company-to-company cash flow comparisons, which may vary from company to company for reasons unrelated to operating performance.

We define "Adjusted Net Income" as net income before: amortization expense; restructuring charges; Spin-off charges; secondary offering costs; affiliate royalty expense; interest income from affiliate; (gain) loss on insured home service plan claims; and the tax impact of the aforementioned adjustments. We believe Adjusted Net Income is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by items listed in this definition.

We define "Adjusted Diluted Earnings per Share" as Adjusted Net Income divided by the weighted-average diluted common shares outstanding.

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 GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

For further information, contact:

Investor Relations:
Matt Davis
901.701.5199
ir@frontdoorhome.com

Media:
Nicole Ritchie
901.701.5198
nicole.ritchie@frontdoorhome.com

---

(1) See "Reconciliations of Non-GAAP Financial Measures" accompanying this release for a reconciliation of Adjusted Net Income, Adjusted Diluted Earnings per Share, Adjusted EBITDA, Adjusted EBITDA Margin, and Free Cash Flow, each a non-GAAP measure, to the nearest GAAP measure. See "Non-GAAP Financial Measures" included in this release for descriptions of calculations of these measures.

(2) A reconciliation of the forward-looking third-quarter and full-year 2019 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.

(3) Revenue conversion is calculated using the estimated gross margin impact of new home service plan revenue along with the impact of price changes.

frontdoor, inc.

Condensed Consolidated and Combined Statements of Operations and Comprehensive Income (Unaudited)

($ millions, except per share data)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue	$ 388	$ 355	$ 658	$ 602
Cost of services rendered	183	195	326	330
Gross Profit	205	159	333	272
Selling and administrative expenses	104	87	193	169
Depreciation and amortization expense	6	5	12	9
Restructuring charges	—	—	—	3
Spin-off charges	—	8	1	15
Affiliate royalty expense	—	—	—	1
Interest expense	16	—	31	—
Interest income from affiliate	—	(1)	—	(1)
Interest and net investment income	(2)	(1)	(3)	(1)
Income before Income Taxes	81	60	98	78
Provision for income taxes	20	15	25	20
Net Income	$ 60	$ 45	$ 73	$ 58
Other Comprehensive Income (Loss), Net of Income Taxes:				
Net unrealized loss on derivative instruments	(7)	—	(12)	—
Total Comprehensive Income	$ 53	$ 45	$ 61	$ 58
Earnings per Share:				
Basic	$ 0.71	$ 0.53	$ 0.87	$ 0.69
Diluted	$ 0.71	$ 0.53	$ 0.87	$ 0.69
Weighted-average Common Shares Outstanding:				
Basic	84.6	84.5	84.6	84.5
Diluted	84.8	84.5	84.7	84.5

frontdoor, inc.

Condensed Consolidated Statements of Financial Position (Unaudited)

($ millions, except share data)

	As of	
	June 30, 2019	December 31, 2018
Assets:		
Current Assets:		
Cash and cash equivalents	$ 420	$ 296
Marketable securities	5	9
Receivables, less allowance of $2 in each period	9	12
Prepaid expenses and other assets	14	13
Total Current Assets	448	330
Other Assets:		
Property and equipment, net	49	47
Goodwill	477	476
Intangible assets, net	156	158
Operating lease right-of-use assets	18	—
Deferred customer acquisition costs	19	21
Other assets	12	10
Total Assets	$ 1,179	$ 1,041
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	$ 58	$ 41
Accrued liabilities:		
Payroll and related expenses	12	10
Home service plan claims	84	67
Interest payable	9	9
Other	43	26
Deferred revenue	183	185
Current portion of long-term debt	7	7
Total Current Liabilities	396	345
Long-Term Debt	975	977
Other Long-Term Liabilities:		
Deferred taxes	36	39
Operating lease liabilities	21	—
Other long-term obligations	29	24
Total Other Long-Term Liabilities	86	63
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, $0.01 par value; 2,000,000,000 shares authorized; 84,644,923 shares issued and outstanding at June 30, 2019 and 84,545,152 shares issued and outstanding at December 31, 2018	1	1
Additional paid-in capital	6	1
Accumulated deficit	(263)	(336)
Accumulated other comprehensive loss	(21)	(9)
Total Deficit	(278)	(344)
Total Liabilities and Shareholders' Equity	$ 1,179	1,041

frontdoor, inc.

Condensed Consolidated and Combined Statements of Cash Flows (Unaudited)

($ millions)

	Six Months Ended June 30,	
	2019	2018
Cash and Cash Equivalents at Beginning of Period	$ 296	$ 282
Cash Flows from Operating Activities:		
Net Income	73	58
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization expense	12	9
Deferred income tax provision	1	4
Stock-based compensation expense	4	2
Restructuring charges	—	3
Payments for restructuring charges	—	(4)
Spin-off charges	1	15
Payments for spin-off charges	(1)	(7)
Other	2	—
Change in working capital, net of acquisitions:		
Receivables	3	(2)
Prepaid expenses and other current assets	1	(1)
Accounts payable	17	12
Deferred revenue	(1)	5
Accrued liabilities	16	26
Current income taxes	11	—
Net Cash Provided from Operating Activities	140	122
Cash Flows from Investing Activities:		
Purchases of property and equipment	(10)	(17)
Business acquisitions, net of cash received	(3)	—
Purchases of available-for-sale securities	—	(10)
Sales and maturities of available-for-sale securities	4	10
Other investing activities	(3)	—
Net Cash Used for Investing Activities	(12)	(16)
Cash Flows from Financing Activities:		
Payments of debt and finance lease obligations	(4)	(6)
Net transfers to Parent	—	(67)
Net Cash Used for Financing Activities	(4)	(74)
Cash Increase During the Period	124	32
Cash and Cash Equivalents at End of Period	$ 420	$ 314

Reconciliations of Non-GAAP Financial Measures

The following table presents reconciliations of net income to Adjusted Net Income.

($ millions, except per share amounts)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net Income	$ 60	$ 45	$ 73	$ 58
Amortization expense	1	2	3	4
Restructuring charges	—	—	—	3
Spin-off charges	—	8	1	15
Affiliate royalty expense	—	—	—	1
Interest income from affiliate	—	(1)	—	(1)
Gain on insured home service plan claims	—	—	—	(1)
Secondary offering costs	—	—	2	—
Tax impact of adjustments	—	(2)	(1)	(4)
Adjusted Net Income	$ 62	$ 53	$ 78	$ 74
Adjusted Earnings per Share:				
Basic	$ 0.73	$ 0.62	$ 0.93	$ 0.88
Diluted	$ 0.73	$ 0.62	$ 0.92	$ 0.88
Weighted-average common shares outstanding[(1)]:				
Basic	84.6	84.5	84.6	84.5
Diluted	84.8	84.5	84.7	84.5

[(1)] For the three and six months ended June 30, 2018, earnings per share was calculated based on the 84,515,619 shares of Frontdoor stock that were outstanding at the date of the Spin-off.

The following table presents reconciliations of net cash provided from operating activities to Free Cash Flow.

(In millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net Cash Provided from Operating Activities	$ 88	$ 72	$ 140	$ 122
Property Additions	(6)	(12)	(10)	(17)
Free Cash Flow	$ 82	$ 61	$ 130	$ 105

The following table presents reconciliations of net income to Adjusted EBITDA.

(In millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net Income	$ 60	$ 45	$ 73	$ 58
Depreciation and amortization expense	6	5	12	9
Restructuring charges	—	—	—	3
Spin-off charges	—	8	1	15
Provision for income taxes	20	15	25	20
Non-cash stock-based compensation expense	3	1	4	2
Affiliate royalty expense	—	—	—	1
Interest expense	16	—	31	—
Secondary offering costs	—	—	2	—
Interest income from affiliate	—	(1)	—	(1)
Gain on insured home service plan claims	—	—	—	(1)
Adjusted EBITDA	$ 105	$ 73	$ 149	$ 105
Revenue	$ 388	$ 355	$ 658	$ 602
Net Income Margin	16%	13%	11%	10%
Adjusted EBITDA Margin	27%	21%	23%	18%

Key Business Metrics

	As of June 30, 2019	As of June 30, 2018
Growth in number of home service plans	4 %	6 %
Customer retention rate[1]	75 %	75 %

[1] Customer retention rate is presented on a rolling 12-month basis in order to avoid seasonal anomalies.

Certain amounts presented in the tables in this release are subject to rounding and, as a result, the totals in such tables may not sum.