Frontdoor Announces Third-Quarter 2022 Revenue Increased 3% to $484 Million; Broadened Cost Reduction Initiatives and Reduced Annual SG&A Spend; Improving Execution and Advancing Business Transformation Initiatives; Raising Full-Year 2022 Revenue and Adjusted EBITDA Guidance

MEMPHIS, TENN. — November 3, 2022 — Frontdoor, Inc. (NASDAQ: FTDR), the nation's leading provider of home service plans, today announced third-quarter 2022 results.

Financial Results

	Three Months Ended September 30,		
$ millions (except as noted)	**2022**	**2021**	**Change**
Revenue	$ 484	$ 471	3 %
Gross Profit	210	254	(17)%
Net Income	28	76	(63)%
Diluted Earnings per Share	0.34	0.89	(61)%
Adjusted Net Income[(1)]	46	78	(41)%
Adjusted Diluted Earnings per Share[(1)]	0.56	0.91	(38)%
Adjusted EBITDA[(1)]	79	122	(35)%
Home Service Plans (number in millions)	2.16	2.23	(3)%

Third-Quarter 2022 Summary

- **Revenue increased 3% to $484 million, consisting of a 5% increase from price and changes in customer product mix, partly offset by a 3% decline in volume**
- **Gross profit margin of 43% reflects an increase in the cost per service request as a result of contractor-related inflation and higher parts and equipment costs. The Company continues to expand cost reduction initiatives in response to elevated levels of inflation**
- **Net income of $28 million includes a non-cash impairment charge of $14 million related to Streem, as well as a $5 million restructuring charge**
- **Adjusted EBITDA of $79 million**
- **Completed strategic review of SG&A expense footprint designed to right-size the business and reduce operating costs to respond to the current macroeconomic headwinds; reduced workforce by 7%**

Raising Full-Year 2022 Outlook

- **Revenue range increased to $1.65 billion to $1.66 billion**
- **Gross profit margin updated to approximately 41%**
- **Adjusted EBITDA[(2)] range increased to $185 million to $195 million**

"Over the last several months, Frontdoor has taken aggressive action to address one of the most challenging macroeconomic periods in our company's history," said Chairman and Chief Executive Officer Bill Cobb. "In September, we made the difficult decision to reduce our workforce by seven percent and expanded efforts to fight persistently high cost inflation. On the revenue side, our pricing actions will benefit us heading into 2023 and our new leaders continue to strengthen our Direct-to-Consumer and Real Estate channels. In short, we are improving execution and advancing business transformation initiatives that will benefit all of our stakeholders for years to come."

Third-Quarter 2022 Results

Revenue by Major Customer Channel

$ millions	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Change
Renewals	$ 356	$ 328	8 %
Real estate (First-Year)	51	73	(30)%
Direct-to-consumer (First-Year)	64	59	8 %
Other	13	11	22 %
Total	$ 484	$ 471	3 %

Third-quarter 2022 revenue increased three percent over the prior year period to $484 million. Renewal revenue increased eight percent due to improved price realization and growth in the number of renewed home service plans. First-year real estate revenue decreased 30 percent, reflecting a continued decline in the number of home service plans as a result of the historically challenging real estate market environment, driven, in part, by extremely low home inventory levels. First-year direct-to-consumer revenue increased eight percent due to improved price realization and a mix shift to higher priced products that was partly offset by a decline in the number of home service plans. The increase in other revenue was primarily driven by the ProConnect on-demand home services business.

Third-quarter 2022 net income was $28 million, or diluted earnings per share of $0.34, which includes a non-cash impairment charge of $14 million related to Streem's goodwill and intangible assets as well as a $5 million restructuring charge.

Period-over-Period Adjusted EBITDA[(1)] Bridge

$ millions	
Three Months Ended September 30, 2021	$ 122
Impact of change in revenue[(3)]	14
Contract claims costs[(4)]	(58)
Sales and marketing costs	2
Customer service costs	2
General and administrative costs	(3)
Three Months Ended September 30, 2022	$ 79

Third-Quarter 2022 Adjusted EBITDA of $79 million was $42 million lower than the prior year period primarily as a result of the following factors:

- $14 million benefit from higher revenue conversion[(3)]; and
- $58 million of higher contract claims costs[(4)], excluding the impact of claims costs related to the change in revenue. The increase over the prior year period was driven by inflationary cost pressures, including higher contractor-related expenses and greater parts and equipment costs.

Cash Flow

$ millions	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net cash provided from (used for):		
Operating Activities	$ 80	$ 142
Investing Activities	(25)	(23)
Financing Activities	(74)	(407)
Cash (decrease) increase during the period	$ (19)	$ (289)

Net cash provided from operating activities was $80 million for the nine months ended September 30, 2022 and was comprised of $121 million in earnings adjusted for non-cash charges and $41 million of cash used for working capital.

Net cash used for investing activities was $25 million for the nine months ended September 30, 2022 and primarily comprised capital expenditures related to investments in technology.

Net cash used for financing activities was $74 million for the nine months ended September 30, 2022 and was driven mainly by $59 million of share repurchases.

Free Cash Flow was $50 million for the nine months ended September 30, 2022.

Cash at September 30, 2022 was $244 million and was comprised of $157 million of restricted net assets and $87 Million of Unrestricted Cash.

Fourth-Quarter 2022 Outlook

- Revenue of $326 million to $336 million, reflecting a mid-single digit increase in renewal revenue versus the prior year period that is partly offset by an approximately 30 percent revenue decline in the real estate channel and a low-single digit revenue decline in the direct-to-consumer channel.
- Adjusted EBITDA[(2)] of $4 million to $14 million, a decline from the prior year period as a result of the inflationary cost trends and the impact of lower real estate channel revenue.

Updated Full-Year 2022 Outlook

- Revenue range updated to $1.65 billion to $1.66 billion, or slightly higher than the prior year at the mid-point. Some of the key revenue assumptions include:
  - Upper single-digit revenue growth in the renewal and direct-to-consumer channels and a nearly 30 percent decline in real estate channel revenue; and
  - The consolidated revenue growth for the home service plan business is anticipated to be in the low single digits. Revenue growth is mostly driven by higher price and product mix while customer growth is expected to decline approximately 5 percent.
- Gross profit margin updated to approximately 41 percent, driven primarily by the continuation of high cost inflation that is partly offset by higher pricing and process improvement efforts.
- SG&A range updated to $515 million to $520 million, an approximately $45 million reduction from the original 2022 outlook.
- Adjusted EBITDA[(2)] range increased to $185 million to $195 million.
- While Frontdoor's capital allocation strategy continues to prioritize share repurchases, the amount of share repurchases, if any, will depend on the available level of cash, the macroeconomic environment and business performance expectations.
- Capital expenditures of $40 million to $45 million, primarily consisting of technology investments.
- Annual effective tax rate of approximately 27 percent.

Third-Quarter 2022 Earnings Conference Call
Frontdoor has scheduled a conference call today, November 3, 2022, at 7:30 a.m. Central time (8:30 a.m. Eastern time). During the call, Bill Cobb, Chairman and Chief Executive Officer, and Brian Turcotte, Chief Financial Officer, will discuss the company's operational performance and financial results for third-quarter 2022 and respond to questions from the investment community. To participate on the conference call, interested parties should call 1-844-200-6205 (or international participants, 1-929-526-1599) and enter conference ID 108939. 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 60 days. To access the replay of this call, please call 1-866-813-9403 and enter conference ID 209670 (international participants: +44-204-525-0658, conference ID 209670).

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, as well as ProConnect, an on-demand membership service for home repairs and maintenance, and Streem, a technology company that enables businesses to serve customers through an enhanced augmented reality, computer vision and machine learning platform. Frontdoor serves 2.2 million customers across the U.S. through a network of approximately 17,000 pre-qualified contractor firms that employ an estimated 60,000 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 50 years of home services experience, the company responds to over four million service requests annually. For details, visit frontdoorhome.com.

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: 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 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, 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 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.

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, Adjusted Net Income, Adjusted Diluted Earnings per Share, 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; restructuring charges; loss on extinguishment of debt; and other non-operating expenses, such as goodwill and intangible impairment. 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 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 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. 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; loss on extinguishment of debt; other non-operating expenses; 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.

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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(1) See "Reconciliations of Non-GAAP Financial Measures" accompanying this release for a reconciliation of Adjusted EBITDA, Free Cash Flow, Adjusted Net Income and Adjusted Diluted Earnings per Share, 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. Amounts presented in the reconciliations and other tables presented herein may not sum due to rounding.

(2) A reconciliation of the forward-looking fourth-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.

(3) 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.

(4) 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.

Frontdoor, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	$ 484	$ 471	$ 1,322	$ 1,263
Cost of services rendered	274	217	757	619
Gross Profit	210	254	565	644
Selling and administrative expenses	137	138	403	392
Depreciation and amortization expense	8	8	25	27
Goodwill and intangibles impairment	14	—	14	—
Restructuring charges	5	—	18	2
Interest expense	8	7	22	32
Interest and net investment income	(1)	—	(1)	(1)
Loss on extinguishment of debt	—	—	—	31
Income before Income Taxes	39	101	85	161
Provision for income taxes	11	25	23	39
Net Income	$ 28	$ 76	$ 63	$ 122
Other Comprehensive Income, Net of Income Taxes:				
Net unrealized gain on derivative instruments	9	2	26	10
Total Comprehensive Income	$ 37	$ 79	$ 89	$ 131
Earnings per Share:				
Basic	$ 0.34	$ 0.89	$ 0.77	$ 1.42
Diluted	$ 0.34	$ 0.89	$ 0.77	$ 1.42
Weighted-average Common Shares Outstanding:				
Basic	81.5	85.5	82.0	85.5
Diluted	81.6	85.9	82.1	85.9

Frontdoor, Inc.

Condensed Consolidated Statements of Financial Position (Unaudited)

(In millions, except share data)

	As of	
	September 30, 2022	**December 31, 2021**
Assets:		
Current Assets:		
Cash and cash equivalents	$ 244	$ 262
Receivables, less allowance of $4 and $2, respectively	4	7
Contract asset	65	—
Prepaid expenses and other assets	29	25
Total Current Assets	343	295
Other Assets:		
Property and equipment, net	64	66
Goodwill	503	512
Intangible assets, net	149	159
Operating lease right-of-use assets	9	17
Deferred customer acquisition costs	17	16
Other assets	10	5
Total Assets	$ 1,095	$ 1,069
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	$ 89	$ 66
Accrued liabilities:		
Payroll and related expenses	23	24
Home service plan claims	123	88
Other	27	28
Deferred revenue	113	155
Current portion of long-term debt	17	17
Total Current Liabilities	391	378
Long-Term Debt	596	608
Other Long-Term Liabilities:		
Deferred taxes	37	41
Operating lease liabilities	16	19
Other long-term obligations	8	21
Total Other Long-Term Liabilities	60	81
Commitments and Contingencies (Note 8)		
Shareholders' Equity:		
Common stock, $0.01 par value; 2,000,000,000 shares authorized; 86,053,212 shares issued and 81,490,682 shares outstanding at September 30, 2022 and 85,798,765 shares issued and 83,232,481 shares outstanding as of December 31, 2021	1	1
Additional paid-in capital	85	70
Retained earnings	116	53
Accumulated other comprehensive income (loss)	8	(18)
Less common stock held in treasury, at cost; 4,562,530 shares at September 30, 2022 and 2,566,284 shares as of December 31, 2021	(162)	(103)
Total Equity	47	2
Total Liabilities and Shareholders' Equity	$ 1,095	$ 1,069

Frontdoor, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2022	**2021**
Cash and Cash Equivalents at Beginning of Period	$ 262	$ 597
Cash Flows from Operating Activities:		
Net Income	63	122
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization expense	25	27
Deferred income tax (benefit) provision	(12)	2
Stock-based compensation expense	17	19
Goodwill and intangibles impairment	14	—
Restructuring charges	18	2
Payments for restructuring charges	(2)	(1)
Loss on extinguishment of debt	—	31
Other	(1)	5
Change in working capital:		
Receivables	3	—
Prepaid expenses and other current assets	(68)	(49)
Accounts payable	23	20
Deferred revenue	(42)	(41)
Accrued liabilities	29	6
Accrued interest payable	—	(9)
Current income taxes	15	7
Net Cash Provided from Operating Activities	80	142
Cash Flows from Investing Activities:		
Purchases of property and equipment	(30)	(23)
Other investing activities	5	—
Net Cash Used for Investing Activities	(25)	(23)
Cash Flows from Financing Activities:		
Borrowings of debt, net of discount	—	638
Payments of debt and finance lease obligations	(13)	(990)
Debt issuance cost paid	—	(8)
Call premium paid on retired debt	—	(21)
Repurchase of common stock	(59)	(25)
Other financing activities	(2)	(2)
Net Cash Used for Financing Activities	(74)	(407)
Cash Decrease During the Period	(19)	(289)
Cash and Cash Equivalents at End of Period	$ 244	$ 309

Reconciliations of Non-GAAP Financial Measures

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

(In millions, except per share amounts)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Income	$ 28	$ 76	$ 63	$ 122
Amortization expense	2	2	6	8
Goodwill and intangibles impairment	14	—	14	—
Restructuring charges	5	0	18	2
Loss on extinguishment of debt	—	—	—	31
Tax impact of adjustments	(3)	(1)	(7)	(11)
Adjusted Net Income	$ 46	$ 78	$ 93	$ 152
Adjusted Earnings per Share:				
Basic	$ 0.57	$ 0.92	$ 1.14	$ 1.78
Diluted	$ 0.56	$ 0.91	$ 1.13	$ 1.78
Weighted-average common shares outstanding:				
Basic	81.5	85.5	82.0	85.4
Diluted	81.6	85.9	82.1	85.9

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

(In millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Cash Provided from Operating Activities	$ (14)	$ 23	$ 80	$ 142
Property Additions	(10)	(8)	(30)	(23)
Free Cash Flow	$ (24)	$ 14	$ 50	$ 119

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

(In millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Income	$ 28	$ 76	$ 63	$ 122
Depreciation and amortization expense	8	8	25	27
Goodwill and intangible impairment	14	—	14	—
Restructuring charges	5	0	18	2
Provision for income taxes	11	25	23	39
Non-cash stock-based compensation expense	5	5	17	19
Interest expense	8	7	22	32
Loss on extinguishment of debt	—	—	—	31
Adjusted EBITDA	$ 79	$ 122	$ 181	$ 272

Key Business Metrics

	As of September 30,	
	2022	**2021**
Number of home service plans (in millions)	2.16	2.23
Renewals	1.55	1.50
First-Year Direct-To-Consumer	0.33	0.33
First-Year Real Estate	0.28	0.40
(Reduction) growth in number of home service plans	(3)%	— %
Customer retention rate[1]	75.3 %	74.4 %

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

Source: Frontdoor, Inc.
FTDR-Financial