



# ComfortSystemsUSA

## \$FIXing the Future with a Comfortable Compounder

Since Jan. 22nd \$FIX has pulled back 30% from all-time highs of \$553.08 due to fears of waning data center demand. The company's Q1 results, highlighted by 19% revenue growth, 54% operating income growth and a \$6.9 billion backlog, reveal strong positioning within megatrends like AI and manufacturing reshoring, signaling a clear path for sustained growth. We believe this recent decline presents an attractive entry point to a disciplined compounding machine that happens to also be an AI-derivative winner. **Initiate with a BUY rating and a one-year PT of \$500.**

**Thesis 1** FIX is strategically positioned to outperform in the infrastructure boom through its decade-long investment in modular construction (Acquisitions of EAS and TAS) and continued scaling of this division, most recently with the purchase of Summit Industrial Construction. Through this prefabrication of complex electrical and plumbing systems off-site in controlled environments, project timelines are slashed by 40%, and skilled labor shortages, which is a common headwind across the MEP sector, are mitigated. This high-growth modular division, backed by over 2.5 million square feet of fabrication capacity, already accounts for 17% of total revenue and saw 50%+ year-over-year growth in 2024. This surge is overwhelmingly driven by the data center sector, which consumes 80-90% of modular capacity. We believe that as demand for data centers and advanced manufacturing soars, **FIX's modular expertise and infrastructure positions it to capture an outsized share of the market.**

**Thesis 2** FIX operates in a massive \$550B+ market that underpins virtually every commercial building in America. This space is highly fragmented and labor-intensive, creating a substantial runway for consolidation where FIX commands just over 2% market share. With 75% of free cash flow going towards acquisitions and the remaining being split evenly between dividends and share buybacks, the company may appear at first glance to follow a roll-up model, but its approach is fundamentally different. The company pursues a **disciplined, cash-funded acquisition strategy**, targeting profitable, culturally aligned regional MEP contractors that fit its decentralized structure, often stemming from longstanding relationships extending over 25 years, such as Amteck. Management is in no rush to acquire, emphasizing strategic fit and maintaining a patient approach that allows them to time acquisitions opportunistically and negotiate favorable terms. **Acquisitions are not required to sustain growth but have served as an additive and very effective lever to enhance long-term value creation.** FIX's **decentralized operating model** strengthens local execution while its selective, cash-funded acquisition strategy drives further accretive growth, with strong organic same-store sales growth of 15% YoY proving the health of the core business. Through FIX's scale advantage, it can compete for contracts that the majority of its peers cannot. This is a huge advantage that's only accelerating the M&A flywheel. For these reasons, we label the company a disciplined compounding machine, defined by its nearly 30% average ROIC over the last decade, patient management team, and a significant runway for future growth.

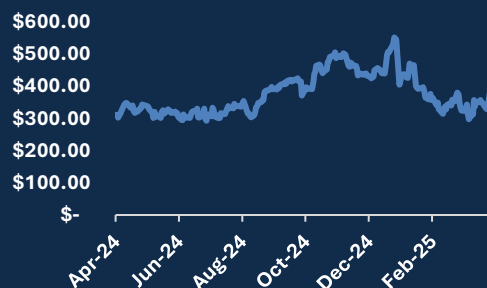
**Thesis 3** FIX is primed to deliver resilient, long-term growth by capitalizing on the non-discretionary "golden age of retrofitting." The urgency of this trend is clear: **the average U.S. commercial building is now over 50 years old** and rising energy standards are mandating nationwide upgrades. FIX's substantial retrofit and service business, which accounts for 43% of revenue, captures this demand, providing a stable, non-cyclical earnings stream. This durable revenue base, secured by a multi-year backlog of \$6.9b, insulates the company from downturns as it leads the modernization of America's buildings.

**Company Overview** Comfort Systems USA is a national leader in mechanical, electrical, plumbing (MEP), and HVAC services. Since inception, the company has completed 46 acquisitions. With 47 operating units and over 18,000 employees, they have a very lean corporate office of ~130 people which handles back-office tasks, while the local operating units focus on operations, and enjoy autonomy as well as shared best practices. Under the leadership of CEO Brian Lane, the stock has appreciated more than 30x. Management follows a people-first approach, and average tenure of the leadership team is around 12 years.

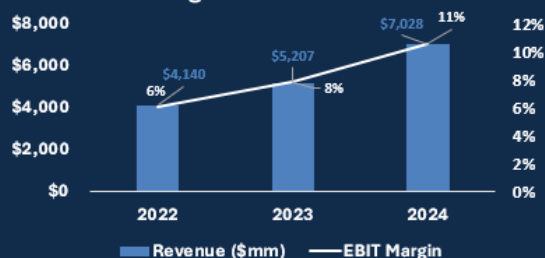


TICKER:	\$FIX
RATING:	BUY
CURRENT PRICE:	\$394.90
PRICE TARGET:	\$500.00
MARKET CAP:	\$13.9bn
52-W RANGE:	\$296.51 - \$553.08
P/E LTM:	26.0x
IMPLIED UPSIDE:	27%

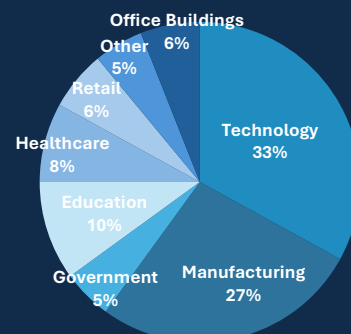
### 1 Year Price History



### EBIT Margin with Annual Revenue



### Customer Market Sector



**Risk 1** FIX continues to face extended lead times for key equipment such as HVAC systems, switchgear, and large generators. Management anticipates these pressures may persist through 2025. Delays could impact project schedules, defer revenue recognition, or pressure margins if cost inflation outpaces contractual protections.

**Risk 2** A single customer represented 13% of revenue in 2024. The company's growing concentration in the tech sector makes FIX highly sensitive to the CapEx spending of just one or two key tech giants. A slowdown or shift in spending from a single hyperscaler could lead to material and abrupt shocks in revenue visibility, backlog growth, and near-term earnings, creating volatility for the stock.

**Risk 3** The company's growth forecasts for the year are predicated on the continuation of the current, aggressive AI data center build-out. Any signs that this trend is slowing, whether due to a broader economic recession, physical power grid limitations, or a peak in hyperscaler investment pose a material thematic risk. Just as the AI boom is a primary catalyst, a broad-based deceleration in data center demand would challenge the core growth narrative and could lead to a significant de-rating of the company's multiple. That being said, we are not especially worried as we find the company to be fairly valued even if AI was out of the equation.

**Catalysts** Near-term catalysts for FIX are centered on the secular data center construction boom, which has already fueled its explosive backlog growth. We see two primary triggers that could move the stock higher: first, positive industry-level data, such as continued hyperscaler CapEx growth or commentary. Second, and more directly, would be company-specific confirmation in its quarterly earnings, specifically through continued, significant backlog growth and positive management commentary on the demand pipeline. Any updates on the company's expanding capabilities in modular construction could also serve as a catalyst.

**Valuation - Price Target of \$500**

DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2028	FY2030	FY2032	FY2034
	12/31/2024	12/31/2025	12/31/2026	12/31/2028	12/31/2030	12/31/2032	12/31/2034
Revenue	7,027.50	7,638.74	8,263.79	9,533.56	10,788.25	11,973.55	13,097.69
Revenue Growth	35%	9%	8%	7%	6%	5%	5%
Mechanical Services	5,527.60	6,000.52	6,487.23	7,489.02	8,503.06	9,494.01	10,467.14
Electrical Services	1,499.90	1,638.22	1,776.56	2,044.53	2,285.18	2,479.55	2,630.55
EBIT	746.34	804.61	864.94	985.13	1,100.40	1,205.34	1,309.77
EBIT Margin	11%	11%	10%	10%	10%	10%	10%
Tax Expense	210.74	185.06	198.94	226.58	253.09	277.23	301.25
Effective Tax Rate	28%	23%	23%	23%	23%	23%	23%
NOPAT	535.60	619.55	666.01	758.55	847.31	928.11	1,008.52
D&A	145.49	151.49	156.70	164.18	167.01	164.52	157.17
Capex	111.10	117.85	124.35	136.19	145.90	152.80	157.17
Changes in NWC	(322.30)	(162.71)	(170.23)	(183.04)	(192.03)	(196.37)	(196.47)
UFCF	892.28	815.90	868.59	969.59	1,060.45	1,136.19	1,204.99
PV of FCF	881.67	765.04	751.18	713.31	663.66	604.88	545.71

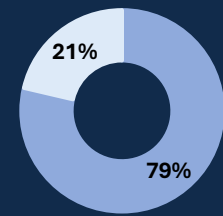
We model no contribution from future acquisitions. This visual also hides every other projected year after 2025 to allow for space.

Our base case 10-year DCF projection **only projects organic revenue growth** making it generally more conservative. The model assumes a 13.0x EV/EBITDA exit multiple, a revenue CAGR of 6% through FY2034, and EBIT margins keeping steady at 10%, to reflect management's strategic flexibility to high-grade its project backlog. The 13.0x multiple reflects the current industry average. These projections reflect management guidance and may be rather conservative when considering AI data center demand. Given Comfort Systems' long-standing track record of disciplined, cash-funded, accretive M&A, **we apply a modest premium to reflect potential upside from ongoing capital deployment.** Please reference bottom of the appendix on the next page for descriptions of our downside and upside DCF projections.

**Conclusion**

In Comfort Systems, investors can find comfort in acquiring a rare "best-of-both-worlds" opportunity: a proven, high-ROIC compounder that is now a premier "picks and shovels" play on the AI revolution and a beneficiary of policy trends such as aging infrastructure, sustainability and reshoring. The business is resilient, with a massive \$6.9B backlog and a recurring revenue base that makes up 43% of their revenue, while also having a long runway of growth. Layered on top of this, the AI data center boom acts as a supercharger to an already compelling growth story, making FIX a great way to invest in today's secular trends of AI, reshoring, and aging infrastructure. **We initiate \$FIX with a BUY rating, and a PT of \$500, representing 27% upside in the next year. That being said, we currently view this as a business to buy and rarely, if ever, sell. Don't interrupt the compounding magic!**

**Revenue Segments**



■ Mechanical Services ■ Electrical Services

Terminal Value	
Perpetuity Growth Method	
2034 EBIT	\$1,310
Exit Multiple	13.0x
Terminal Value	\$19,070
PV of Terminal Value	\$8,547
PV of Projection Period	\$7,412
PV of Terminal Value	\$8,547
<b>Implied TEV</b>	<b>\$15,959</b>
(-) Debt	\$309
(+) Cash	\$550
Implied Equity Value	\$16,201
Basic Shares Outstanding	35
<b>Implied Share Price</b>	<b>\$462.89</b>
Upside/Downside	17.22%

**Football Field Valuation Range**



**Risk vs. Reward - DCF Cases**



## Appendix

Income Statement (\$mm)	2023A	2024A	2025E	2026E	2027E	CAGR%
Revenue	5,207	7,028	7,639	8,264	8,897	19.6%
EBITDA	490	892	956	1,022	1,086	30.4%
EBIT	409	746	805	865	925	31.3%
NOPAT	439	536	620	666	712	17.5%
Margin & Growth Data	2023A	2024A	2025E	2026E	2027E	AVG%
EBITDA Margin	9.4%	12.7%	12.5%	12.4%	12.2%	11.8%
EBIT Margin	7.9%	10.6%	10.5%	10.5%	10.4%	10.0%
Revenue Growth	25.8%	35.0%	8.7%	8.2%	7.7%	17.1%
EBIT Growth	62.0%	82.6%	7.8%	7.5%	7.0%	33.4%
Valuation Metrics	2023A	2024A	2025E	2026E	2027E	AVG%
P/FCF	27.1x	15.9x	17.3x	16.3x	15.4x	18.4x
EV/Sales	2.7x	2.0x	1.9x	1.7x	1.6x	2.0x
EV/EBITDA	15.9x	14.8x	13.9x	13.0x	12.3x	14.0x
FCF Yield	3.8%	6.4%	5.9%	6.2%	6.6%	5.6%

## Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
EMCOR Group, Inc. (NYSE:EME)	\$ 18,773	\$ 17,784	19.2x	\$ 14,566	\$ 1,479
APi Group Corporation (NYSE:APG)	\$ 10,658	\$ 13,194	-45.7x	\$ 7,018	\$ 777
IES Holdings, Inc. (NasdaqGM:IESC)	\$ 3,743	\$ 3,712	17.4x	\$ 3,000	\$ 358
MasTec, Inc. (NYSE:MTZ)	\$ 10,292	\$ 12,600	63.9x	\$ 12,304	\$ 943
<b>ComfortSystemsUSA</b>	<b>\$13,453</b>	<b>\$13,212</b>	<b>26.0x</b>	<b>\$7,028</b>	<b>\$892</b>

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth	Rate LF
EMCOR Group, Inc. (NYSE:EME)	12.0x	19.0%	10.2%	9.2%	15.8%	
APi Group Corporation (NYSE:APG)	17.0x	8.6%	3.3%	1.4%	(7.7%)	
IES Holdings, Inc. (NasdaqGM:IESC)	10.4x	13.2%	7.7%	3.5%	2.6%	
MasTec, Inc. (NYSE:MTZ)	13.4x	19.8%	11.6%	7.3%	12.6%	
<b>ComfortSystemsUSA</b>	<b>14.8x</b>	<b>14.3%</b>	<b>8.2%</b>	<b>5.0%</b>	<b>14.2%</b>	

High	16.98x	19.8%	11.6%	9.2%	15.8%
75th Percentile	14.81x	19.0%	10.2%	7.3%	14.2%
Average	13.51x	15.0%	8.2%	5.3%	7.5%
Median	13.36x	14.3%	8.2%	5.0%	12.6%
25th Percentile	12.02x	13.2%	7.7%	3.5%	2.6%
Low	10.38x	8.6%	3.3%	1.4%	-7.7%

## ComfortSystemsUSA Valuation

Implied Enterprise Value (25th Percentile)	\$	10,720
<b>Implied Enterprise Value (Median)</b>	<b>\$</b>	<b>11,915</b>
Implied Enterprise Value (75th Percentile)	\$	13,212
Implied Share Price (25th Percentile)	\$	310.69
<b>Implied Share Price (Median)</b>	<b>\$</b>	<b>344.56</b>
Implied Share Price (75th Percentile)	\$	381.31

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.12%
Beta	0.99
Risk Free Rate	4.22%
Cost of Equity	8.11%
Weighted Average Cost of Debt	5.30%
Tax Rate	21.60%
Cost of Debt	0.09%
Total Equity	\$13,912
Total Debt	\$309
Equity/Total Capitalization	97.83%
Debt/Total Capitalization	2.17%
WACC	8.20%

**Downside Case:** Our downside case assumes a moderation in infrastructure spending caused by a broader economic slowdown, slower backlog conversion due to supply chain disruption, and margin compression from rising labor costs and cost inflation. Under these conditions, organic revenue growth would slow to low-single digits, with margins contracting meaningfully (250bps). With a 9.0x EV/EBITDA multiple, we arrive at \$300, implying 24% downside.

**Upside Case:** Our upside case assumes stronger-than expected organic revenue growth at 7.7% CAGR, driven by technology sector growing as a share of revenue. We assume Comfort Systems works through its elevated backlog more efficiently by improving project execution through modular and continued operational excellence. Upside case of \$580 with a 14.0x EV/EBITDA multiple, 47% upside.

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