

Frontdoor, FTDR-US

Market Cap: \$2,532m (06/03/24)

Current SP: \$31.14

Target SP: \$46.47

Rating: BUY

SP Upside (2yrs): ~53%

Investment Overview

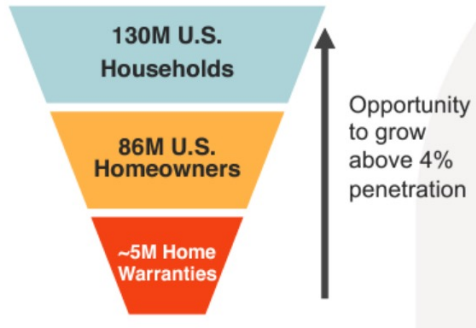
- Frontdoor (FTDR) is the industry leader in the US home warranty business generating >20% ROIC in an industry with high barriers to entry and strong revenue visibility.
- The company took decisive actions to improve execution and combat a challenging macroeconomic environment in the last two years, leading to record adj. EBITDA and a 9-year high gross margin level in the most recent quarter/YE update.
- **Management are now focused on top-line growth with key opportunities in:** (1) Retention increase (2) Home service plan volume recovery (3) Claims efficiency
- **Key risks** include continued inflationary pressure and further declines in the demand for home warranties across the different verticals, **primarily Real Estate.**
- **I recommend a BUY on the stock with a TP of \$46.47** a c.53% upside to the current SP and c.26% TSR PA over the next two years which includes a c.4% yield from share buybacks announced for FY24 – offsets downside risk.
- Whilst the risks are well understood by the market, I believe the strength of the business model continues to be overlooked despite the robust execution under CEO Bill Bobb in the last six quarters. **Moreover, I expect the FCF of the company to improve significantly over the next few years, following a couple years of investment.**
- I view the recent weakness in the SP following FY24 guidance as overblown and a good entry point for a LT holding. Sentiment is gradually improving along with the competitive advantage of FTDR with each earnings release.
- **ESG: No major flags on ESG.** One area for improvement could be separate CEO and Chairman roles.
- **Questions for management:** M&A plans, marketing trends and consumer behaviour.

Market Overview

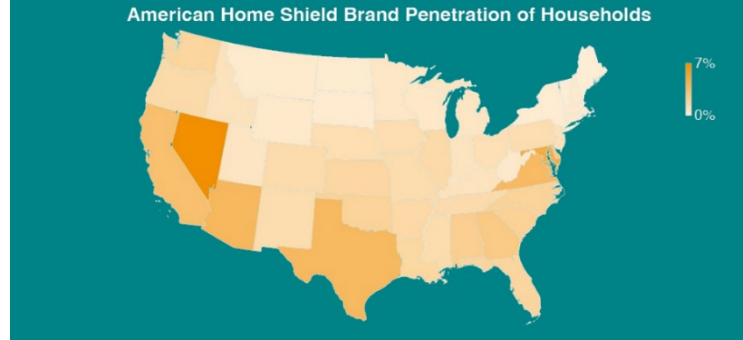
Home warranties are not home insurance. Unlike insurance companies they don't write cheques they take care of the repairs. Warranties does not cover catastrophes but are higher frequency with 2 claims per year on avg. and settled within 3 months.

Market drivers: (1) compelling value proposition (2) larger and diverse target audience (3) favourable macro and demographic trends

Sizable Category Growth Potential

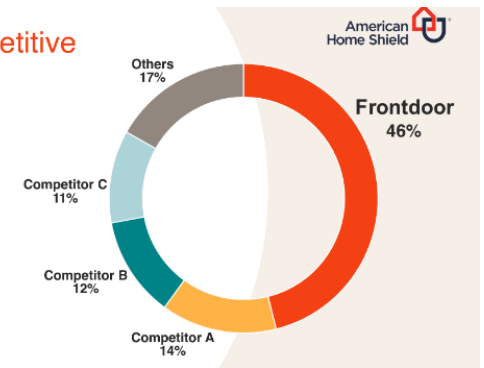


Significant Geographic Expansion Opportunity



Leading Competitive Position

3x
Our nearest competitor



- FTDR is 3x larger than the #2 competitor. AHS has led the industry for 50+ years, with limited differentiation in the category.
- **Current FTDR verticals (within repair and maintenance) is worth \$100b TAM and represents 20% of the wider \$500b home improvement, repair and maintenance market. (Source: US Census and IBIS World).**

Low CAC costs

High retention rates and efficient cash collection

Efficient servicing of customers

Upselling/cross selling products and services

Optimal model to generate profit in the market

Business Model

Frontdoor has been providing home service plans (warranties) in the US for over 50+ years, covering the repair or replacement of up to 23 essential household systems and appliances. It serves homeowners under the American Home Shield label (core home service plans – legacy brand) and Frontdoor (digital home services membership – relatively new).



- Category leader with c.2m members
- 4m service requests last year
- 86% of customers on autopay



- Rated 4.5 on the app store
- Prices starting from \$25 per year
- DTC 50% renewals margin & LTV/CAC ~3x

16k qualified contractors with 4k preferred contractors

Preferred contractors enjoy FTDR work (consistent) which in turn gets FTDR lower prices and more highly engaged technicians

Highly engaged technicians translates into better customer service. Customers don't get ripped off or receive any unexpected repair costs

Lower cost per claim ~45% than non-preferred contractors

Significant benefits of scale – growing the competitive advantage



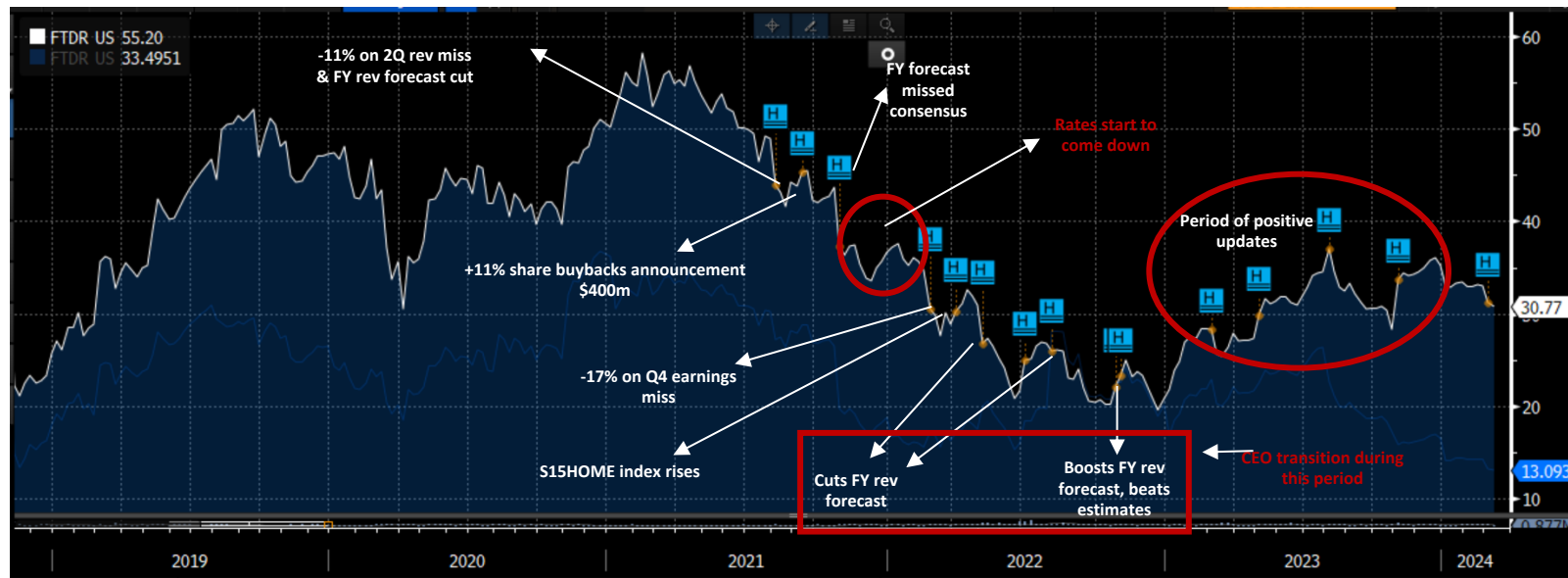
Business Divisions

- (1) Renewals (77% of rev) – strong pricing power
- (2) Real Estate (8% of rev) – structurally declining
- (3) DTC (11% of rev) – 2x the LTV as RE
- (4) Other (4% of rev) – on demand services

FTDR aligns with the optimal model to generate profit and is capital light
(see page 3)

Stock Performance

- FTDR was formerly part of ServiceMaster (pest and franchise services group) but was spun off in Q1'19. The stock has underperformed the S&P 500 over this time, with a total return of -3.63%, against 14.77%.
- In the last 2 years since CEO Bill Bobb took over, results have exceeded the high-end of top & bottom-line guidance six quarters in a row (or every quarter) and sentiment has gradually improved – see appendix (page 19).
- **Most recently the stock dropped 6% on Q4'23 earnings (Feb 24) despite reporting record adj. EBITDA and a 9-year high gross margin.** The negative reaction was down to top-line estimates being revised down from the CMD 2022 guidance – no longer hitting 2bn in revenue in FY25, updated guidance TBC.
- Negative sentiment has historically presented a good entry point for the stock, and this has traditionally been due to higher operating costs. Seasonality in results also presents opportunity with q1 results being weaker than q2/q3 over the last few years



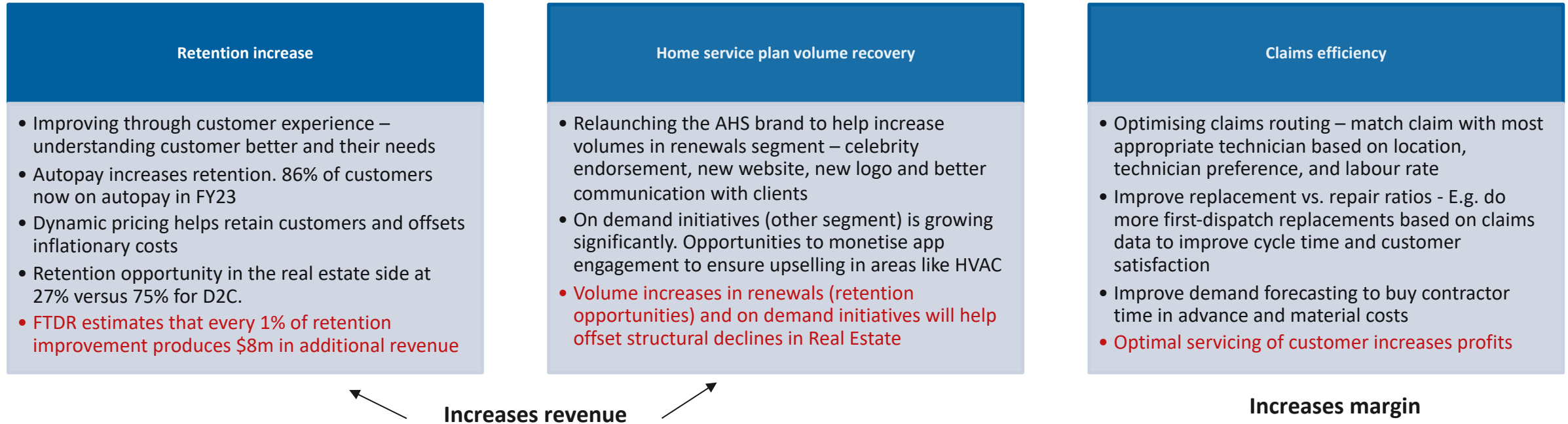
The following updates have weighed down on the stock in the past - good entry points. I view these reactions as overblown, as they have not impacted the LT model or mgmt. have addressed them effectively.



- **Averaged 3.7% yield from share buybacks in the last 3 years**, already guided for \$100m in FY24 (~4% yield)
- Viewed as a value stock based on activity by holder style
- Momentum of the S&P homebuilding index (S15HOME) has influenced the stock in the past

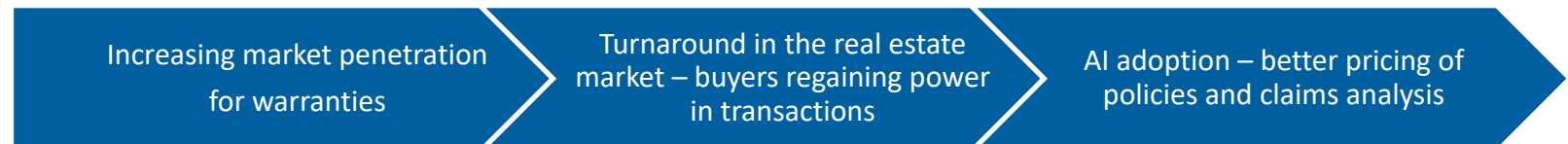
Key Opportunities

Key opportunities for FTDR are centred around managements priority for top line growth. This focus comes after 2 years of successful margin work



FTDR seem to be ticking all the boxes for how to successfully make money in this sector (discussed on page 3). Both the increase of revenue and margin from these key opportunities leads to increased FCF

Alongside the opportunities which the company are in control of, the following could also work in its favour

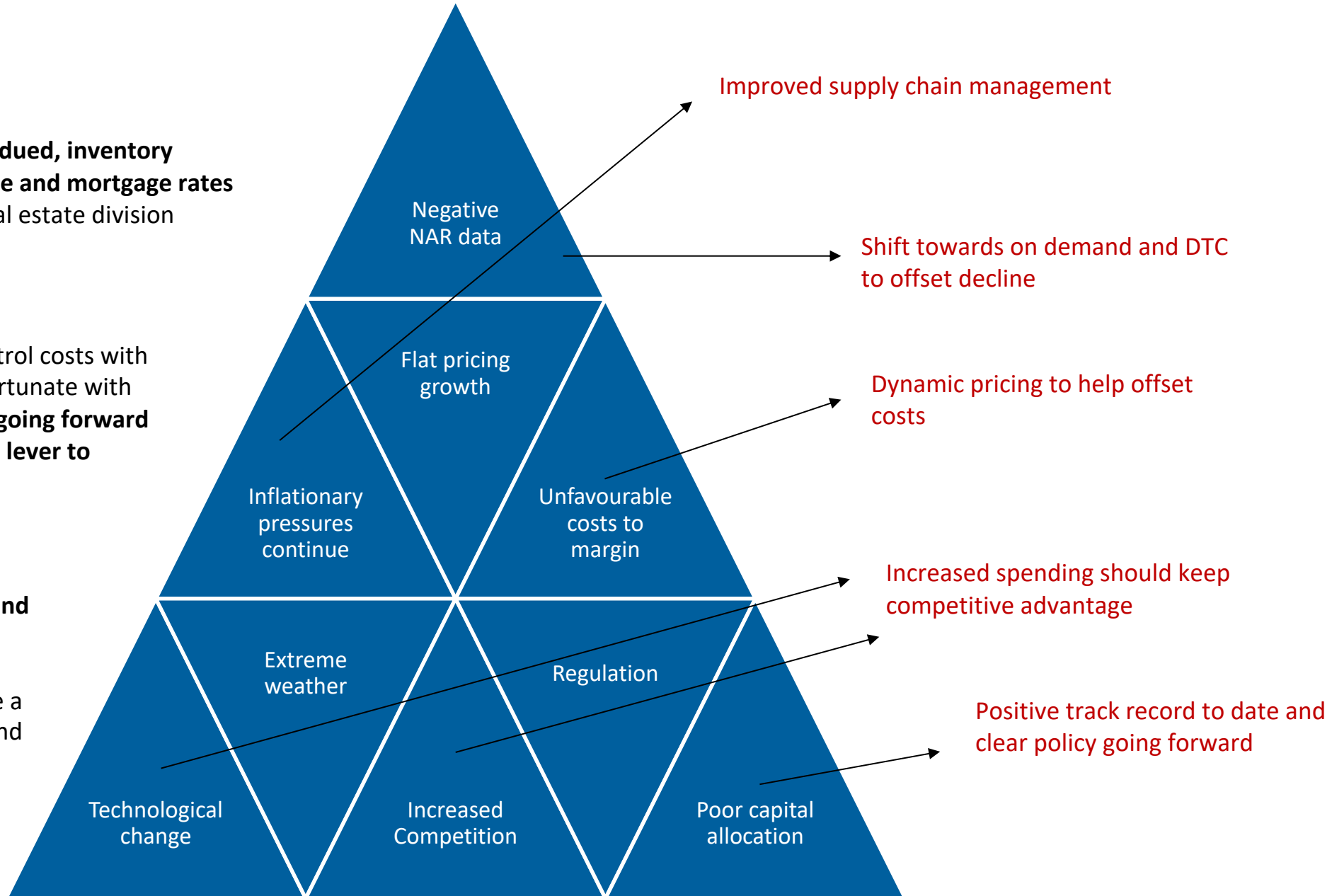


Investment Risks

Mortgage application activity is subdued, inventory significantly below historical average and mortgage rates remain high – weighing heavy on real estate division
And is a drag on the top-line

Management have done well to control costs with pricing power and have also been fortunate with claims. **Risk of unfavourable claims going forward and continued inflation without the lever to increase prices DD again**
Could impact margins

Some potential structural risks around extreme weather, technological change and regulation remain LT threats. Increased competition more a derivative of technological change and poor capital allocation



Real Estate Data

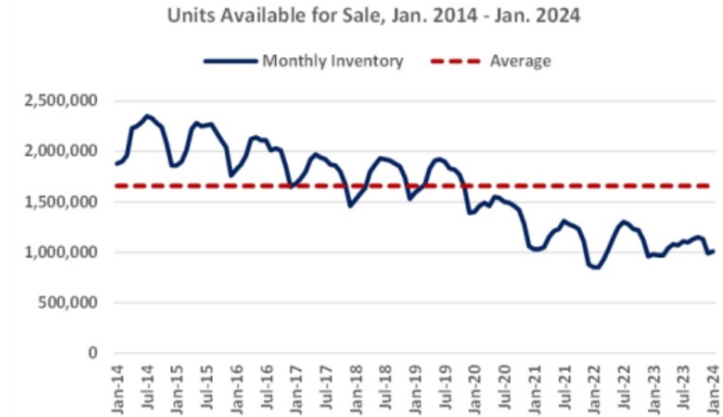
Real estate data is key to monitor going forward for the investment case. **Mixed indicators for now and still uncertainty around the no. of rate cuts (if any!) for 2024.**

Existing home sales were <4m in Q4, showing early signs of recovery



Sources: National Association of Realtors, KeyBanc Capital Markets Inc.

Units available for sale Jan 14 – Jan 24. Makes for a **sellers' market** which is less favourable for warranty attachment



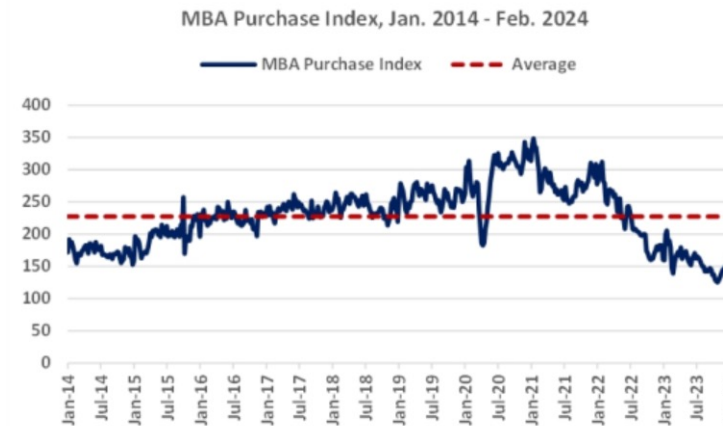
Sources: National Association of Realtors, KeyBanc Capital Markets Inc.

Mortgage rates have more than doubled since 2021 but are down from Nov peak



Sources: National Association of Realtors, KeyBanc Capital Markets Inc.

Mortgage application activity is subdued and likely to continue until rates come down more



Sources: Mortgage Bankers Association of America, KeyBanc Capital Markets Inc.

Key Financials

Key Financials	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026		FY17-19	FY20-22	FY23-26	Comments
\$m, except per share data								est	est	est		CAGR	CAGR	CAGR	
Renewals	759	835	927	1,012	1,104	1,204	1,367	1,444	1,559	1,680		10.5%	9.1%	7.1%	Less price than the last 2 years but expect volumes to rebound Guiding for MSD increase
% YoY		10.0%	11.0%	9.2%	9.1%	9.1%	13.5%	5.6%	8.0%	7.7%					
% of Total Revenue	65.7%	66.4%	67.9%	68.7%	68.9%	72.5%	76.8%	78.7%	78.9%	79.0%					
Real Estate	249	262	262	263	253	184	141	113	122	130		2.6%	-16.4%	-2.6%	Continued weakness a result of tight market conditions, market expects -15%
% YoY		5.2%	0.0%	0.4%	(3.8%)	(27.3%)	(23.4%)	(20.0%)	8.0%	7.0%					Expect an uptick in FY25 'buyers market'
% of Total Revenue	21.5%	20.8%	19.2%	17.8%	15.8%	11.1%	7.9%	6.2%	6.2%	6.1%					
Direct-to-Consumer	144	156	167	183	200	219	193	173	182	191		7.7%	9.4%	-0.3%	FY23 decline due to overall decline in category demand Guiding for 10% decline
% YoY		8.3%	7.1%	9.6%	9.3%	9.5%	(11.9%)	(10.1%)	5.0%	5.0%					
% of Total Revenue	12.5%	12.4%	12.2%	12.4%	12.5%	13.2%	10.8%	9.5%	9.2%	9.0%					
Other	5	4	9	16	47	56	77	103	114	124		34.2%	87.1%	17.2%	On demand home services (HVAC) increasing - guiding for 30% (\$100m)
% YoY		(20.0%)	125.0%	77.8%	193.8%	19.1%	37.5%	34.3%	10.0%	9.0%					
% of Total Revenue	0.4%	0.3%	0.7%	1.1%	2.9%	3.4%	4.3%	5.6%	5.8%	5.8%					
Total Revenue	1,156	1,258	1,366	1,474	1,602	1,661	1,780	1,833	1,977	2,126		8.7%	6.2%	6.1%	Mgmt. guided for 2bn in FY25 back in March 23, this target has since been revised
%YoY		8.8%	8.6%	7.9%	8.7%	7.2%	7.2%	3.0%	7.8%	7.5%					
% versus VA consensus								0.0%	1.8%	2.3%					Slightly above consensus
% price & product mix			4.1%	3.1%	6.2%	6.0%	11.0%								Proxy/actual
% volume		8.8%	4.4%	4.8%	2.5%	(2.3%)	(3.8%)								Aggressive pricing to offset volume decline in the last couple of years
Customer retention		75.0%	74.9%	75.8%	74.2%	75.7%	76.2%	76.4%	76.5%	76.5%					Expect a slight uptick
%YoY			(0.1%)	1.2%	(2.2%)	2.0%	0.7%	0.3%	0.1%	0.0%					
Total no. of home service plans		2.05	2.13	2.22	2.23	2.16	2.05	2.02	2.11	2.20		NA	-1.4%	2.5%	Mgmt. expect a decline in warranties of 1-3% Expecting a 'buyers market' to improve vols from FY25+
%YoY			3.9%	4.2%	0.5%	(3.1%)	(5.1%)	(1.4%)	4.6%	4.3%					
Avg. cost of home service plan		612	637	657	697	743	831	856	881	908		NA	6.4%	3.0%	Price increases less than last 2 years, in line with inflation
%YoY			4.1%	3.1%	6.2%	6.6%	11.8%	3.0%	3.0%	3.0%					
Gross Profit	566	572	392	716	784	709	885	902	973	1,046		-16.8%	-0.5%	5.7%	FY23 - Higher price, less servicing (favourable weather), continued process improvement. FY24 guidance 48.5%-49.5%
%YoY		1.1%	(31.5%)	82.7%	9.5%	(9.6%)	24.8%	1.9%	7.8%	7.5%					FY22 - margin decline due to inflation
% margin	49.0%	45.5%	28.7%	48.6%	48.9%	42.7%	49.7%	49.2%	49.2%	49.2%					Pricing power reflected with resilient gross margin
Total Operating Expenses	(350)	(385)	(418)	(510)	(579)	(587)	(632)	(627)	(676)	(720)		9.3%	7.3%	4.5%	SG&A increase \$580m-\$595m - brand relaunch, net flat marketing Marketing cost not disclosed
%YoY		10.0%	8.6%	22.0%	13.5%	1.4%	7.7%	(0.8%)	7.8%	6.5%					
EBIT	216	187	260	206	238	122	253	275	297	326		9.7%	-23.0%	8.8%	
%YoY		(13.4%)	39.0%	(20.8%)	15.5%	(48.7%)	107.4%	8.7%	7.8%	9.8%					
% margin	18.7%	14.9%	19.0%	14.0%	14.9%	7.3%	14.2%	15.0%	15.0%	15.3%					
% tax rate	26.8%	24.7%	25.0%	24.3%	24.1%	24.5%	25.0%	25.0%	25.0%	25.0%					
Adj. EBITDA	259	238	302	270	300	214	347	356	388	428		8.0%	-11.0%	7.3%	Mgmt. guided for 300m adj. EBITDA in FY25 back in March 23 FY22 decline due to impairment and restructuring FY24 guidance of \$350-\$360m
%YoY		(8.1%)	26.9%	(10.6%)	11.1%	(28.7%)	62.1%	2.6%	9.1%	10.3%					
% margin	22.4%	18.9%	22.1%	18.3%	18.7%	12.9%	19.5%	19.4%	19.6%	20.1%					
% versus VA consensus								(0.0%)	1.1%	1.4%					Slightly above consensus
Net Income	159	124	153	113	128	71	172	185	205	235		-1.9%	-20.7%	10.9%	
%YoY		(22.0%)	23.4%	(26.1%)	13.3%	(44.5%)	142.3%	7.6%	11.0%	14.2%					
% margin	13.8%	9.9%	11.2%	7.7%	8.0%	4.3%	9.7%	10.1%	10.4%	11.0%					
EPS (p)	1.88	1.46	1.80	1.32	1.50	0.86	2.12	2.39	2.65	2.99		-2.1%	-19.2%	12.3%	
%YoY		(22.2%)	23.1%	(26.7%)	13.3%	(42.4%)	145.2%	12.9%	11.1%	12.7%					
% versus VA consensus								1.7%	1.3%	0.1%					Broadly in line with consensus
NOSH (diluted,m)	84.5	84.7	84.9	85.5	85.5	82.3	81.3	77.4	77.4	78.4					Management are targeting \$100m in FY24 - ~4% yield
SB yield		0.0%	0.0%	0.0%	3.4%	3.5%	4.2%	3.9%	0.0%	0.0%					

Valuation

I recommend a BUY on the stock with a TP of \$46.47 a c.53% upside to the current SP and c.26% TSR PA over the next two years which includes a c.4% yield from share buybacks announced for FY24 – offsets downside risk

Front Door - Valuation & Model Summary								
Market Value and TSR		Sm, Dec-YE						
Price		\$31.14						
NOSH		81						
Mcap		2,532						
Net Debt/(Cash)		269						
Other		0						
EV		2,801						
Weighted TP (March-26)		\$46.47						
TSR PA (incl. SBP)		26.2%						
SP upside/(downside)		53.2%						
	Exit PE							
	EPS 2026e							
	TP (March-26)							
	TSR PA							
	SP upside/(downside)							
	Implied EV/EBITDA							
	Probability weight							
			Bear Case		Base Case		Bull Case	
			10.0x	12.0x	13.3x	16.0x	17.5x	20.0x
			2.54	2.54	2.99	2.99	3.29	3.29
			\$25.4	\$30.5	\$39.7	\$47.8	\$57.5	\$65.7
			(9.7%)	(1.1%)	13.0%	24.0%	36.0%	45.4%
			(18.5%)	(2.1%)	27.6%	53.5%	84.7%	111.1%
			7.9x	9.3x	10.1x	12.0x	13.0x	14.7x
			5%	5%	15%	60%	10%	5%

Downside Scenario – 10% weighting

- **Macro:** Hard landing and further decline in housing market
- **Multiple:** 10x historical trough multiple. 12x another c.10% decline from current levels
- **Revenue:** Estate declining 30% in FY24
- **Margins:** Bad claims year, increased marketing & restructuring

Base Scenario – 75% weighting

- **Macro:** Soft landing with the housing market showing signs of recovery
- **Multiple:** 13.3x current PE, 16x c.20%+ on top line growth coming through early
- **Revenue:** Estate declining no more than 20% in FY24 and pricing in renewals still coming through
- **Margins:** Another year of operational efficiency

Upside Scenario – 15% weighting

- **Macro:** Soft landing with housing market rebounding earlier than FY25/26
- **Multiple:** Closer to historical averages
- **Revenue:** Volumes flattish
- **Margins:** Market rebound leading to lower CAC and another year of operational efficiency

FTDR trading at historical lows

- FTDR shares are trading at 5-year trough multiples despite strong execution in recent quarters
- EV/EBITDA peak of 18x and average of 13x
- Previous listed comp Homeserve was acquired by Brookfield's in 2022 at a 12.9x EV/EBITDA (c70% premium to price) 17% EBIT margin, 1.3bn revenue, 4bn deal
- Discount seems to have widen since the rate cycle began in March 2022 – see appendix page 20

Valuation

FTDR remains cheap with significant capital return

- FTDR continues to trade at a 47% discount P/E ratio to the peer group which is a combination of insurance, home service and building/installation product companies.
- **I believe this discount is unwarranted given the FCF yield potential of the company over the next year.** I view this yield as a strong indicator of the competitive advantage of the company and a good indicator of cash flow that investors will be entitled to.

Current vs 5Y Average Historical Premium					
Metric	Current	Hist Avg	Diff	# SD	3M Trend
Current Price					
1) BF P/E	-41%	5%	-47%	-2.6	↘
2) BF EV/EBITDA	-46%	-4%	-42%	-2.6	↘
3) BF EV/EBIT	-38%	16%	-54%	-2.8	↘
4) BF EV/Rev	-30%	27%	-58%	-1.4	↘
5) LF P/BV	--	--	--	--	

Name	Ticker	Price	Mkt Cap (M)	EV (M)	Financial (\$)		EV (x)		P/E (x)		Gross Margin (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)
					Sales (M)	EV/EBIT	EV/EBITD	Sales	Actual	FY1	NTM	NTM	NTM	NTM
Frontdoor	FTDR-US	31.14	2,514.8	2,782.8	1,780.0	10.42x	9.15x	1.56x	14.73x	13.25x	49.1%	19.5%	15.6%	10.0%
Insurance														
Admiral Group	ADM-GB	33.89	10,761.0	11,531.9	1,876.6	-	-	6.15x	22.14x	23.00x	-	14.3%	13.6%	9.7%
Tiptree A	TIPT-US	17.59	732.3	723.0	1,634.1	-	-	0.44x	47.44x	-	-	-	-	-
Topdanmark	TOP-DK	45.53	3,987.2	4,124.8	1,543.0	-	-	2.67x	26.48x	20.11x	-	-	16.8%	12.0%
Homeservice														
FirstService	FSV-CA	166.01	7,622.4	8,930.6	4,334.5	33.52x	22.65x	2.06x	74.08x	33.68x	32.1%	9.7%	6.5%	3.0%
Building/installation products														
Installed Building Prods	IBP-US	242.10	6,935.1	7,415.9	2,778.6	19.98x	14.92x	2.67x	28.12x	20.90x	33.0%	17.8%	15.0%	10.7%
Comfort Systems USA	FIX-US	314.43	11,265.6	11,104.6	5,206.8	26.69x	21.21x	2.13x	34.90x	28.91x	18.8%	9.4%	8.0%	6.2%
TopBuild	BLD-US	410.61	13,167.9	13,751.1	5,194.7	15.36x	13.38x	2.65x	21.24x	19.38x	30.2%	20.2%	17.3%	12.0%
Median - Insurance						#NUM!	#NUM!	2.67x	26.48x	21.55x	#NUM!	14.3%	15.2%	10.8%
Median - Homeservice						33.52x	22.65x	2.06x	74.08x	33.68x	32.1%	9.7%	6.5%	3.0%
Median - Building/installation products						19.98x	14.92x	2.65x	28.12x	20.90x	30.2%	17.8%	15.0%	10.7%
Median (excl. Frontdoor)						23.33x	18.07x	2.65x	28.12x	21.95x	31.1%	14.3%	14.3%	10.2%

46.5% of TSR

EPS CAGR 12.3%

Limited risk given pricing power and scale. Compound earnings from here onwards



46.5% of TSR

Multiple rerating +20%

Justified with growing FCF yield and competitive advantage



7% of TSR

Share buybacks 4% yield

\$100m announced for FY24, consistent delivery in last 2 years

Investment Conclusion

Investment decision:

- **I recommend a BUY on the stock with a TP of \$46.47** a c.53% upside to the current SP and c.26% TSR PA over the next two years which includes a c.4% yield from share buybacks announced for FY24 – offsets downside risk
- Whilst the risks are well understood by the market, I believe the strength of the business model continues to be overlooked despite the robust execution under CEO Bill Bobb in the last six quarters. **Moreover, I expect the FCF of the company to improve significantly over the next few years, following a couple years of investment.**
- I view the recent weakness in the SP following FY24 guidance as overblown and a good entry point for the stock. Sentiment is gradually improving with each earnings release, but I expect further volatility given the seasonality in earnings and tough macro environment – **use these as buying opportunities to build a LT position.**

Three questions for management:

- M&A – what does M&A look like?
 - Spoke about it being in the core business but what size and quality of business?
- Marketing – How does CAC trend over a cycle?
 - One area which helps me better understand the strength of the flywheel and true competitive advantage the company is building.
- Consumer behavior – How do you expect the adoption of warranties and level of claims to change in a recession?
 - Still trying to understand the net impact for the consumer in different economic situations. Do they spend more on warranties as a downside protection, or do they claim more? Energy bills also may trend down eventually, can that spend switch into warranties?

ESG consideration:

- **No major flags relating to ESG.** One area of concern may be the joint Chairman-CEO role held by Bill Cobb. This risk is offset by the company maintaining an independent majority board and fully independent key committees (nomination, audit, risk and pay).

Investment Conclusion

Where can I be wrong (*considered in my 10% weighting of the downside scenario*):

- Tougher macro environment continues to be a drag on volumes
- Management don't control costs in the same way – tailwinds become headwinds around favorable claims, higher marketing costs
- Disruptive M&A – bloats operating costs, kills FCF

Other catalysts for momentum (*considered in my 15% weighting of the upside scenario*):

- Updated FY25 guidance, previously stated \$2bn of revenue won't be achieved
- **Positive news flow in the housing market – should re-rate with a decline in interest rates (*see appendix page 20*)**
- Better disclosure of financials in key areas like margin breakdown, marketing spend and volume/pricing mix for the divisions
- Mgmt. pushing the narrative around FCF potential of the company and disclose more plans on capital allocation – dividends?
- Additional brokering

Areas for further work:

- LTIP and management succession plans (current CEO 67)
- Research calls, would like to speak with experts/individuals for the following:
 - Better understanding of the US real estate market and rate cycle
 - Recent former employees – culture and turnaround
 - Contractors/technicians – experience of platform
 - Technology experts – to see where AI can impact this market and model
- Digging more into the customer experience: claims process, app, customer reviews compared to competitors etc.
- More work on competitors and comps – particularly companies with similar impact from real estate market

Appendix

Investment Checklist

Business Quality	88%
Growth Duration	67%
Industry Structure	84%
Management	64%
Financial Cleanliness	92%
Stock Related	70%
Valuation	88%
Financials	64%

**Conclusion:
77%, BUY**

Industry Structure 21 Out of 25 84%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Threat of new entrants	4	SS research	High barriers to entry given relationships with realtors, high renewal rates and legacy brands	
2 Bargaining power of suppliers	4	AR & SS research	FTDR is using scale to reduce costs of materials and also has preferred contractors programme to reduce cost of job	
3 Bargaining power of customers	5	AR & SS research	Good value proposition for customers. Small cost relative to cost of replacing item or covering repair	
4 Threat of substitutes	4	AR & SS research	Value proposition for not using a warranty is low. Consumers can buy directly from manufacturer but a lot to manage across the house	
5 Competitive rivalry	4	AR & SS research	Pricing has been aggressive as opposed to promotional in recent years	

Valuation 22 Out of 25 88%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Margin of safety on valuation	5	Financials	Trough multiples reduces downside risk	
2 Starting multiple	5	Financials	High discount to historical average and peer group median	
3 Multiple influence	2	Financials	Multiple seems to have re-rated following the rate cuts starting in March'22	
4 Has the valuation overshoot	5	Financials	High discount to historical average and peer group median	
5 Re-rating potential	5	Financials	Expect a re-rating once FCF yield increases, rate cycle is more clear and/or topline growth comes through	

Business Quality 22 Out of 25 88%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Pricing Power	5	Financials	Increased prices ahead of inflation for 2 years, which includes DD last year	
2 High ROIC/Incremental ROIC	4	Financials	forecasting >20% ROIC over the next couple of years. In line with pre-COVID returns. Incremental ROIC also positive going forward	
3 Revenue visibility	5	Financials	High recurring revenue for warranties. 86% of renewals are on autopay. 75%+ retention rates for home service plans.	
4 Moat	4	Financials, AR & SS research	Industry leader for 50+ years, 3x the no.2 competitor, offering is becoming more differentiated with digital transformation	
5 Ability to Scale	4	AR & SS research	Industry leader and using this to negotiate lower servicing costs for both labour and material. Geographically diverse across the US	

Financial Cleanliness 23 Out of 25 92%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Accounting risks	4	AR	Adj. figures seem reasonable and are well disclosed annually	
2 Related party risks	5	AR	No risks disclosed	
3 Leverage risks	4	Financials	Stable credit rating and the company is generating enough cash to meet debt maturity in FY26 & FY28	
4 Litigation risks	5	AR & ESG report	No claims disclosed	
5 Currency risks	5	AR	Limited risks given revenue generated in the US. Maybe some exposure in cost materials but this has not been flagged by mgmt. in the past	

Financials 16 Out of 25 64%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Quality of earnings	3	Financials	Recent topline growth has been a result of pricing which can not grow at the same level for much longer. There have been operational efficiencies and favorable claims environment	
2 FCF conversion	4	Financials	<50% but expecting this to increase to <65% in the next few years	
3 Dividend sustainability	3	AR	No dividends but stable level of SBP c. 4% yield in the last 2 years and already announced for FY24	
4 Revenue review	3	SS research	Underlying markets are weak with mixed signals of a recovery in the short term	
5 Earnings review	3	Financials	Operational efficiency still coming through but risk of tailwinds becoming headwinds (claims). Topline should support growth	

Growth Duration 20 Out of 30 67%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Underlying market growth	2	AR & SS research	Real estate downturn weighing on market growth. Further penetration of warranties is a bigger opportunity as opposed to further market share gains	
2 Duration of market growth	4	AR & SS research	Market is only at 4% penetration so a huge opportunity to educate consumers on benefits of warranties	
3 Market share gains potential	3	AR & transcripts	Increasing customer service and marketing can increase share, but already well known and the biggest player in the market	
4 M&A growth opportunity	3	AR & transcripts	Not a priority for mgmt. in regards to capital allocation but previously referenced opportunistic M&A will be considered in core markets	
5 Optionality to growth	4	AR & SS research	Currently demonstrating this with on demand initiatives (other segment), still below 5% of revenue. Extends TAM	
6 Ability to grow in a weak cycle	4	Financials	Pricing power allowed them to offset volume declines and grow SD despite DD declines in underlying markets	

Stock Related 21 Out of 30 70%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Me vs. consensus	3	Financials & FactSet	18% above consensus TP albeit with a slightly longer time horizon (2yrs). Broadly in line on top and bottom line numbers	
2 Downside risk near-term	3	Financials & SS research	Limited as already at trough multiples and weak macro outlook (real estate).	
3 Catalysts over the next 3 months	4	AR & SS research	FY25 guidance release, uptick in real estate market, another positive earnings update	
4 Positive earnings momentum	4	FactSet	Successive updates in the last 2 years under CEO William Cobb	
5 Investor base	3	Bloomberg & FactSet	Majority seem to be institutional holders with a value style bias	
6 Flows	4	Bloomberg	Short interest is limited at 3.8% of float. Net flows are flat	

Management 16 Out of 25 64%				
Category	(1 = B, 5 = G)	Source	Comment	
1 Incentivised with shareholders	2	AR, Bloomberg & FactSet	Struggled to find adequate disclosure on LTIP. Can see majority of comp was incentive based	
2 Level of humility	3	N/A	N/A	
3 Ability to create their own market	4	AR	Current management have overseen shift towards on-demand services	
4 Capital allocation track-record	4	AR	Track record of share buy backs over the last couple of years. No bad M&A thus far and priorities have been clearly outlined for future plans	
5 Board	3	AR	Majority independent but CEO/Chairman duel role	

Management

- Previous CEO Rex Tibbens departed in May 2022. He was pivotal in starting the turnaround of the company. He was replaced by the current CEO/Chairman William Cobb.
- During the ~2 years of management under Cobb, the company has continued to transition well towards a more digitally driven company with brand refreshes across the portfolio.

Notable management appointments:

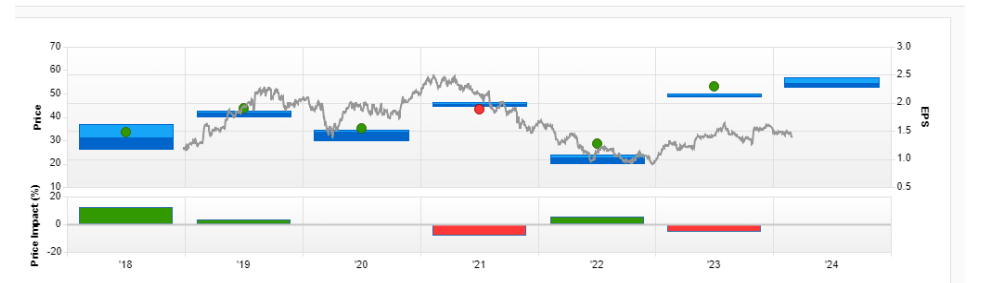
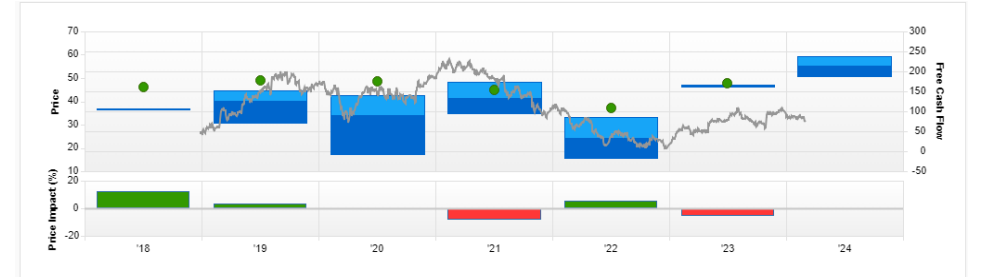
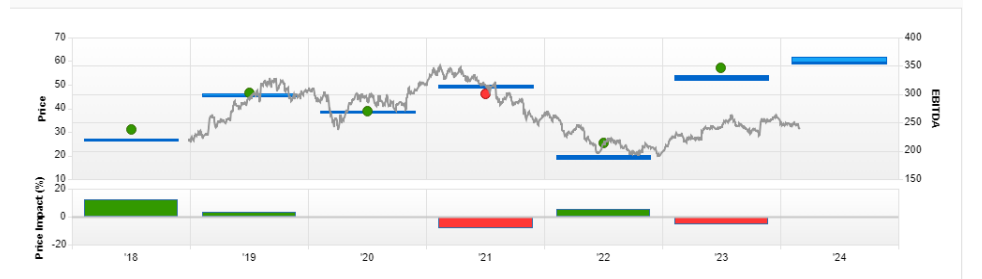
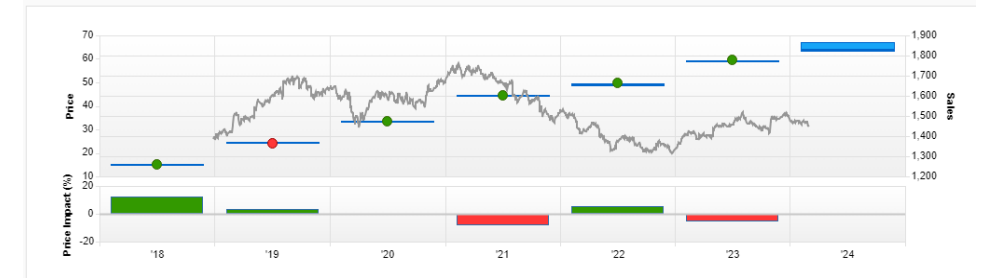
- Lara Balasz to the board, previously CMO of Intuit.
- Newly created positions of Chief Revenue Officer and Chief Operating Officer to further streamline and strengthen the AHS and Frontdoor brands.

Capital allocation:

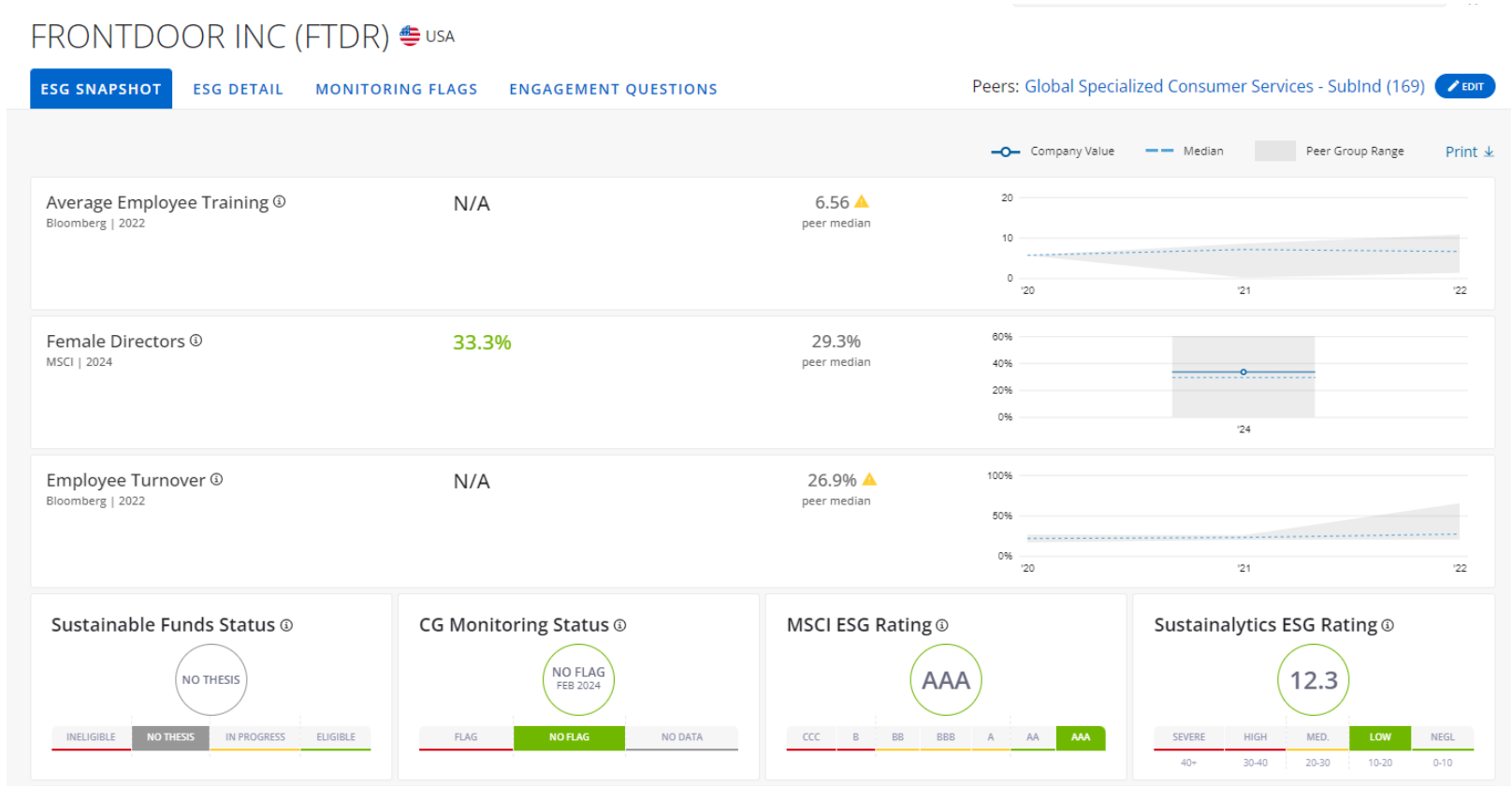
- **1st priority** – invest for growth. Organic through modest capex requirements. M&A focused on core business.
- **2nd priority** – maintain prudent levels of debt. Currently have prudent levels of debt after completing the refinancing and debt repayment in 2021.
- **3rd priority** – return capital to shareholders.
- Bought back around 10% of the outstanding shares since initiating the programme in 2021 8.1m shares and \$280m returned

Guidance:

- In the last 2 years since CEO Bill Bobb took over, results have exceeded the high-end of top & bottom-line guidance six quarters in a row (or every quarter) - *see charts on the right*

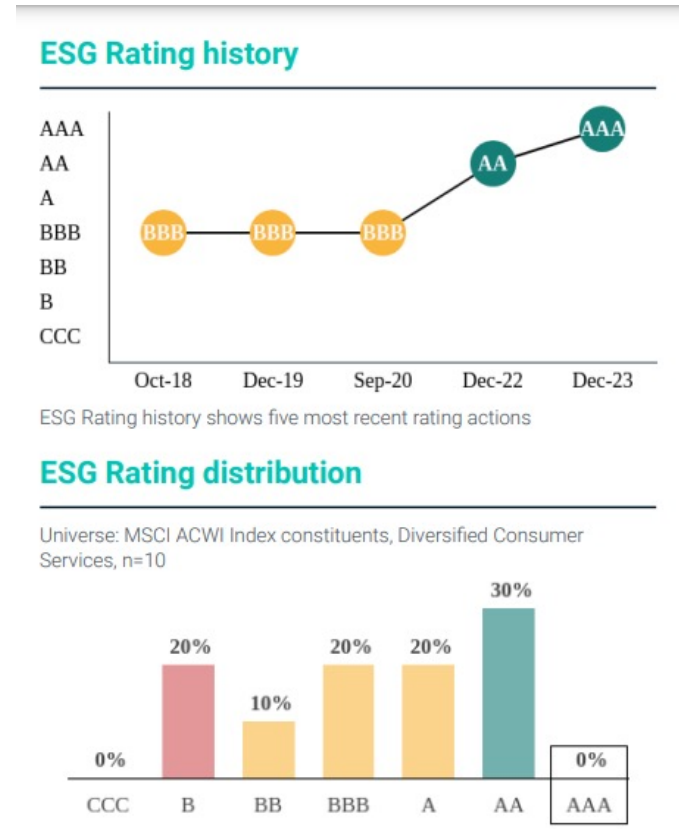


No major flags picked up on ESG screen



Areas for further engagement on ESG will include:

- Company's policies related to collection, use and retention of customer information



Stock Sentiment

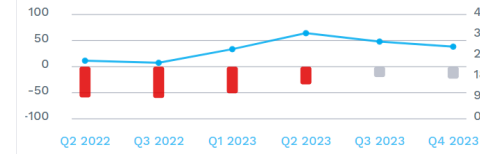
Stock sentiment is gradually improving with each update. From -60 (negative) to -23 (neutral), based on a FactSet scoring

Q4'23 (Feb 24)

Sentiment score ⓘ

-23
Neutral

Earnings Sentiment and Price over time ⓘ



Topics ⓘ

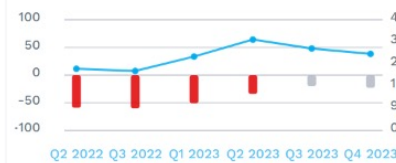


Q3'23 (Nov 23)

Sentiment score ⓘ

-20
Neutral

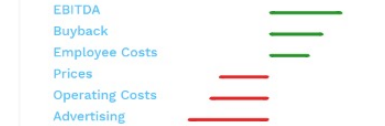
Earnings Sentiment and Price over time ⓘ



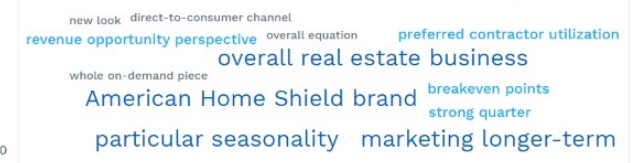
People ⓘ



Topics ⓘ



Trending themes ⓘ



Q2'23 (Aug 23)

Sentiment score ⓘ

-34
Negative

Earnings Sentiment and Price over time ⓘ



People ⓘ



Topics ⓘ



Trending themes ⓘ

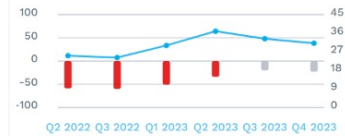


Q1'23 (May 23)

Sentiment score ⓘ

-51
Negative

Earnings Sentiment and Price over time ⓘ



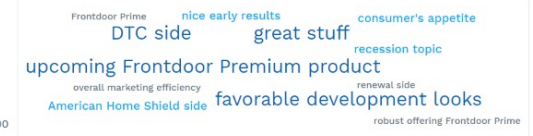
People ⓘ



Topics ⓘ



Trending themes ⓘ



Q3'22 (Nov 22)

Sentiment score ⓘ

-60
Negative

Earnings Sentiment and Price over time ⓘ



People ⓘ



Topics ⓘ



Trending themes ⓘ



Stock Charts

Traded below S&P500 Value since Jan-March 2022 (rate cycle began) across most of the key valuation metrics. Should re-rate from a decline in interest rates



Debt

Credit rating is stable, expect the company to generate cash to pay down debt

Current Credit Ratings

	Date	Rating	Direction	Watch	Outlook
Moody's	09-Sep-22	Ba2	Affirm	-	Stable
S&P	07-Apr-22	BB-	-	-	Stable

Source: Moody's and S&P

CDS Spreads

	Latest (bps)	1D	1W	1Mo	3Mo	6Mo
1 Year	-	-	-	-	-	-
2 Year	-	-	-	-	-	-
3 Year	-	-	-	-	-	-
5 Year	-	-	-	-	-	-
7 Year	-	-	-	-	-	-
10 Year	-	-	-	-	-	-

Source: IHS Markit



Historical Credit Analysis

	30-Sep-2023	30-Jun-2023
ST Debt	17.0	17.0
LT Debt	580.0	584.0
Cash & ST Investments	320.0	344.0
Curr. Portion LT Debt	17.0	17.0
Capital Leases	0.0	0.0
EBITDA	294.0	251.0

Debt Capital Structure Summary

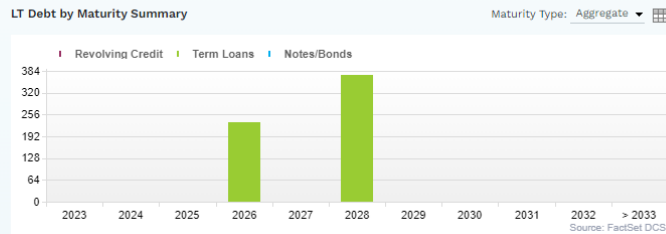
	Sep '23	/LTM EBITDA	/NTM EBITDA	Jun '23	/LTM EBITDA	/NTM EBITDA
Short Term Debt	17.0	0.06x	0.07x	17.0	0.07x	0.08x
Current Portion of LTD	17.0	-	-	17.0	-	-
Long Term Debt	597.0	2.03x	2.39x	601.0	2.39x	2.74x
Revolving Credit	0.0	0.00x	0.00x	0.0	0.00x	0.00x
Term Loans	602.0	2.05x	2.41x	605.0	2.41x	2.76x
Notes/Bonds	-	-	-	-	-	-
Other	-5.0	-0.02x	-0.02x	-4.0	-0.02x	-0.02x
Long Term Debt, Less Current Portion	580.0	1.97x	2.32x	584.0	2.33x	2.67x
Long Term Debt	597.0	2.03x	2.39x	601.0	2.39x	2.74x
Current Portion of LTD	-17.0	-0.06x	-0.07x	-17.0	-0.07x	-0.08x
Total Debt	597.0	2.03x	2.39x	601.0	2.39x	2.74x

All figures in millions of USD
EBITDA is based on GAAP/IFRS
Source: FactSet

Liquidity Summary

	Sep '23	Jun '23
Cash & ST Investments	325.0	320.0
LT Revolvers Available	248.0	248.0
Sec. Rev. Facility	248.0	248.0
Total Liquidity	573.0	568.0

All figures in millions of USD
Source: FactSet DCS, FactSet Fundamentals



Share Ownership

Short interest is below 10%, liquidity should not be an issue

Ownership Statistics



SHARES OS
79,621,736
106.10% TOTAL OWNERSHIP

- 105.65% Inst. Ownership
- 55.59% Top 10 Inst. Holders
- 0.48% Insider Ownership
- 0% Unknown

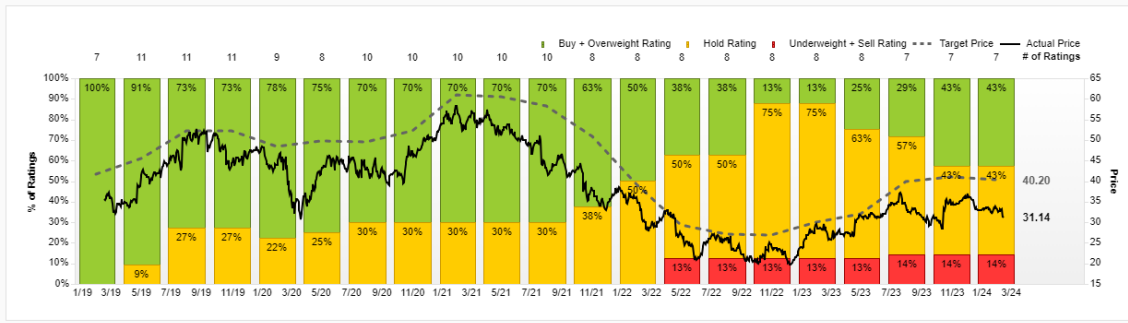
SHORT INTEREST FLOAT INST. OWNERSHIP
3.9 DAYS / 3.8% FLOAT 99.5% 106.2% OF FLOAT

Compare Current Stats Against 03/03/24

Institutional - Based on Current Filings				Insider - Based on Last 6 Months			
	03/03/24	Curr	Change		03/03/24	Curr	Change
11 % of Shares Held	118.7	118.7	0.00%	21 % of Shares Held	0.34	0.34	0.00%
12 % of Float Held	119.27	119.27	0.00%	22 % Chg Insider Positions	-0.08	-0.08	0.00%
13 # of Institutions	438	437	-0.23%	23 # of Insiders	15	15	0.00%
14 # of Buyers	132	132	0.00%	24 # of Buyers Opn Mkt	0	0	
15 # of Sellers	138	138	0.00%	25 # of Sellers Opn Mkt	1	1	0.00%
16 # of New Buyers	100	100	0.00%	26 # of Shrs Bought Opn Mkt	0	0	
17 # of Selloffs	39	39	0.00%	27 # of Shrs Sold Opn Mkt	4,250	4,250	0.00%
18 % Chg in Inst Positions	+98.32	+98.35	+0.03%	28 Avg Opn Mkt Buy Price	0	0	0.00%
				29 Avg Opn Mkt Sell Price	35.63	35.63	0.00%

Broker Outlook

Mixed views from brokers, roughly in line with PT for those who have the stock on a buy rating



U.S. Dollar

Broker	Analyst	Rating Date	Rating*	Price on Rating Date	Tgt Price Date	Tgt Price*	Price on Tgt Price Date	Tgt Price Implied Return (%)
Mean		03 Mar '24	Overweight (1.71)	31.14	03 Mar '24	40.20	31.14	29.1
JP Morgan	Cory A. Carpenter	28 Feb '24	Buy →	31.12	28 Feb '24	45.00 →	31.12	44.5
Goldman Sachs	Eric James Sheridan	28 Feb '24	Sell →	31.12	28 Feb '24	31.00 ↓	31.12	-0.4
William Blair	Jeff Schmitt	28 Feb '24	Hold →	31.12	-	-	-	-
Oppenheimer	Ian Zaffino	28 Feb '24	Buy →	31.12	28 Feb '24	44.00 →	31.12	41.3
Wells Fargo Securities	Brian P. Fitzgerald	28 Feb '24	Hold →	31.12	28 Feb '24	36.00 ↓	31.12	15.6
KeyBanc Capital Markets	Sergio Segura	28 Feb '24	Hold →	31.12	-	-	-	-
Truist Securities	Mark Hughes	28 Feb '24	Buy →	31.12	28 Feb '24	45.00 →	31.12	44.5
⊞ Excluded								

Competitors

Competitors seem to be products/divisions with bigger companies who are less likely to deploy the same level of resources as FTDR

Top 5 by Revenue in Homeowners and Renters Insurance

	% of Revenue	Revenue	Market Value (M)	1 Yr Pr Trend
Frontdoor, Inc.	95.67	1,703	2,412	
The Allstate Corp.	20.56	11,739	41,138	
The Travelers Cos., Inc.	19.61	8,110	50,195	
Chubb Ltd.	9.35	4,676	100,734	
Mapfre SA	11.16	3,274	6,617	
Progressive Corp.	4.60	2,855	110,834	

Showing up to 6 of 50 companies | Values in USD
Values are estimated based on FactSet's Revere Industry Classification System

