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# Investor Presentation

J.P. Morgan ATI Conference

March 14, 2018

New York, NY

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WSO  
LISTED  
NYSE

# Safe Harbor Statement

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This Presentation contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Statements which are not historical in nature, including the words "anticipate," "estimate," "could," "should," "may," "plan," "seek," "expect," "believe," "intend," "target," "will," "project," "focused," "outlook" and variations of these words and negatives thereof and similar expressions are intended to identify forward-looking statements, including statements regarding, among others, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures and investments in unconsolidated entities, (iv) financing plans and (v) industry, demographic and other trends affecting our financial condition or results of operations. These forward-looking statements are based on management's current expectations, are not guarantees of future performance and are subject to a number of risks, uncertainties and changes in circumstances, certain of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of several factors, including, but not limited to general economic conditions; competitive factors within the HVAC/R industry; effects of supplier concentration; fluctuations in certain commodity costs; consumer spending; consumer debt levels; new housing starts and completions; capital spending in the commercial construction market; access to liquidity needed for operations; seasonal nature of product sales; weather conditions; insurance coverage risks; federal, state and local regulations impacting our industry and products; prevailing interest rates; foreign currency exchange rate fluctuations; international political risk; cybersecurity risk; and the continued viability of our business strategy.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. For additional information regarding other important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, please see the discussion included in Item 1A "Risk Factors" of our most recent Annual Report on Form 10-K, as well as the other documents and reports that we file with the SEC. Forward-looking statements speak only as of the date the statements were made. We assume no obligation to update forward-looking information or the discussion of such risks and uncertainties to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as required by applicable law. We qualify any and all of our forward-looking statements by these cautionary factors.



# Investment Thesis

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Market leader in a highly fragmented industry

Transforming customer experience via technology investments

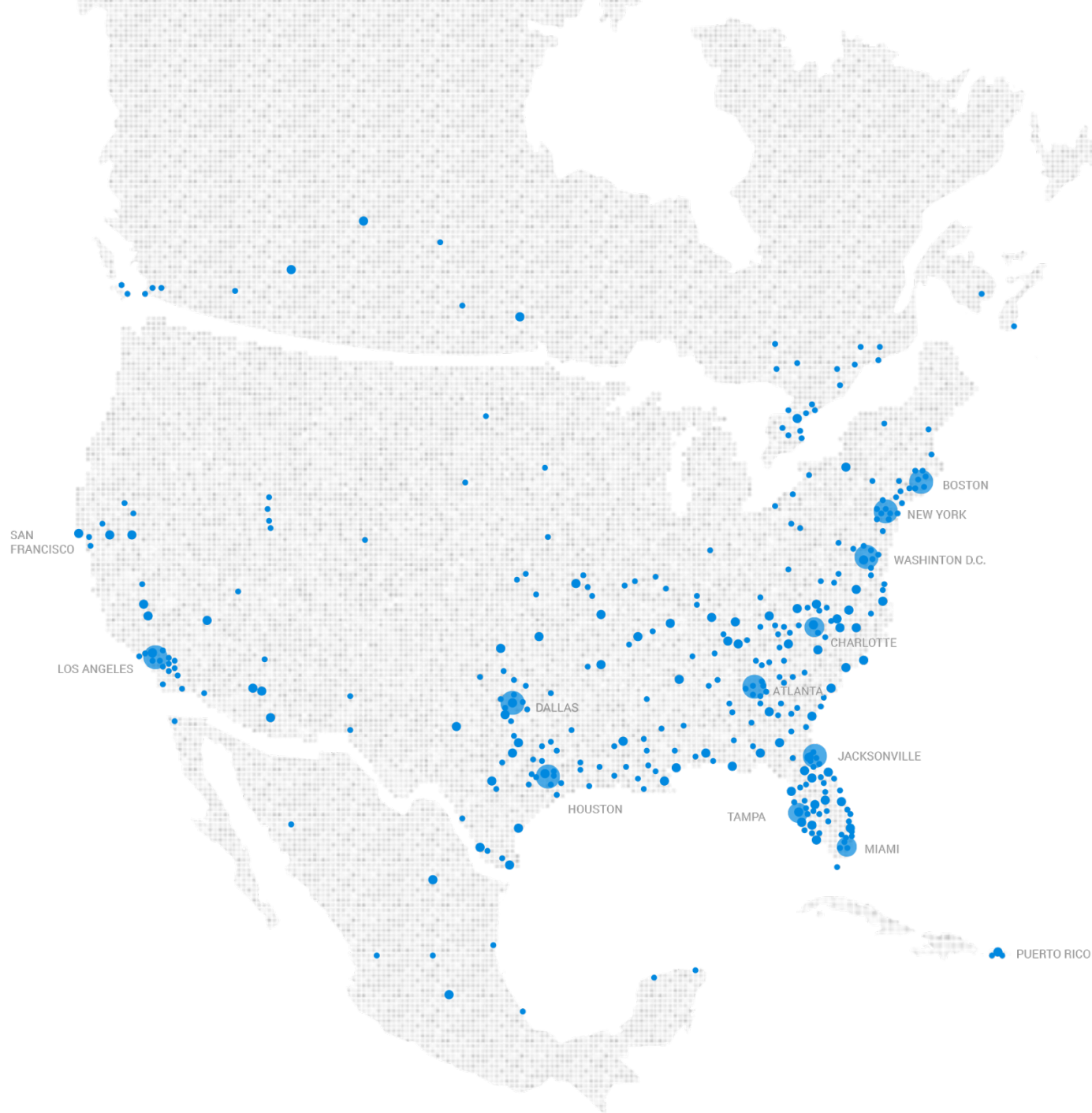
Unique ownership culture with long-term focus on value creation

Proven track record of delivering superior shareholder returns

Deep and Longstanding ties to industry's leading OEMs and suppliers

Robust capital position and conservative balance sheet



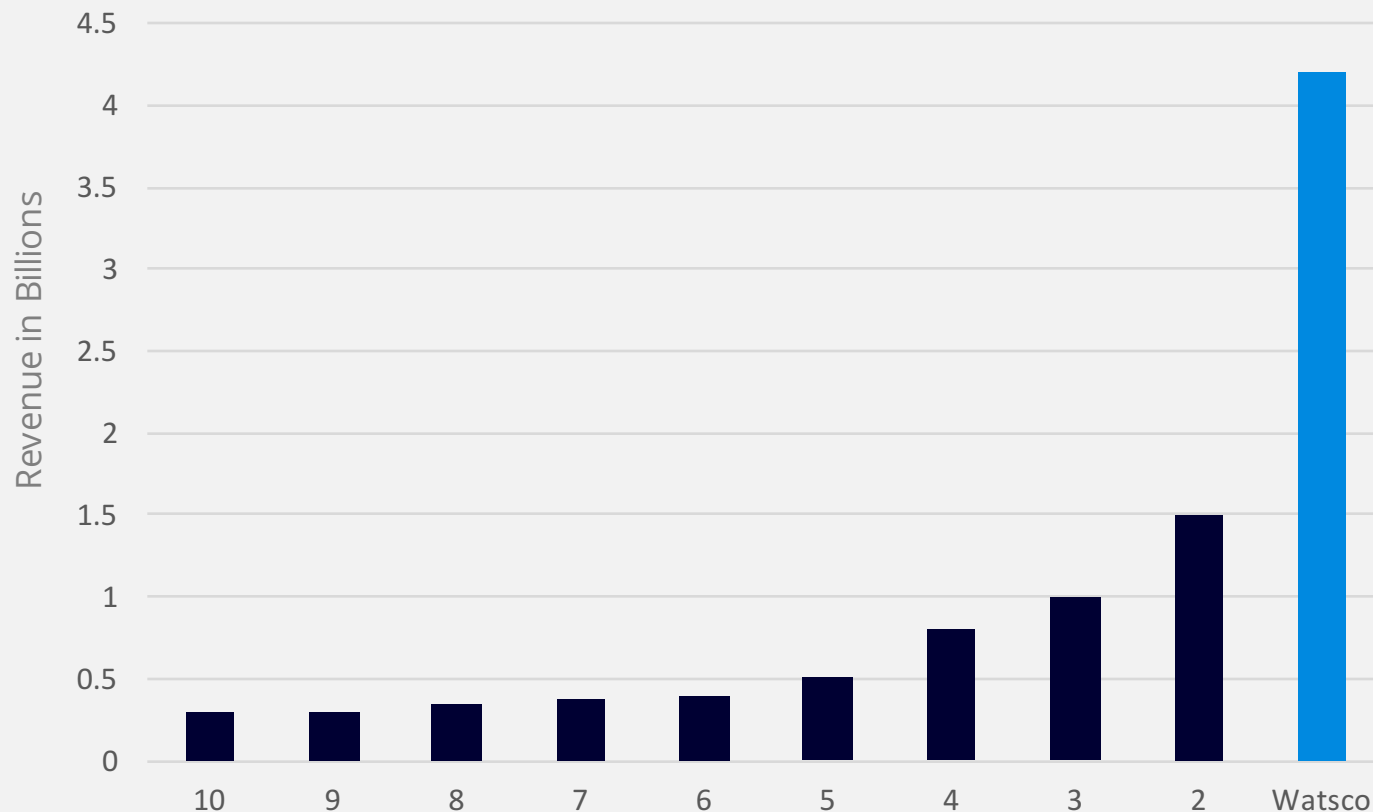


# Strategic Locations

United States	500
Canada	36
Latin America & Caribbean	24
<b>TOTAL</b>	<b>560</b>

# Market Leader in a Fragmented Market

Watsco vs. Competitors



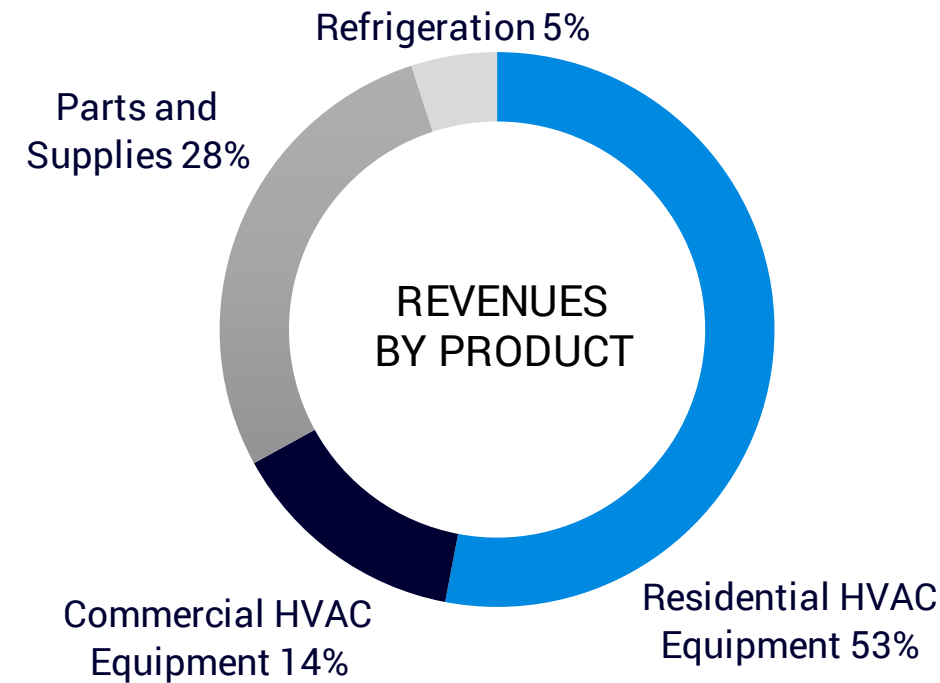
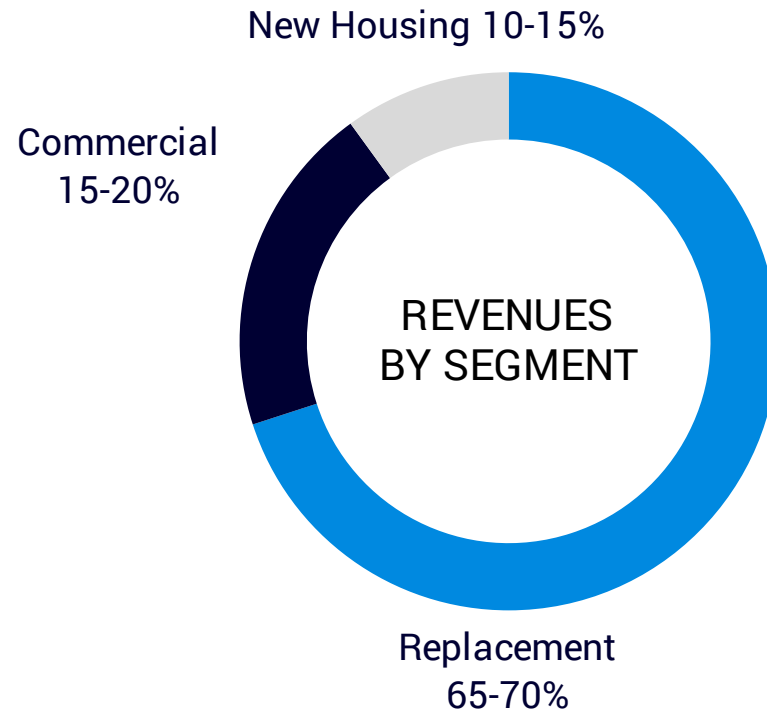
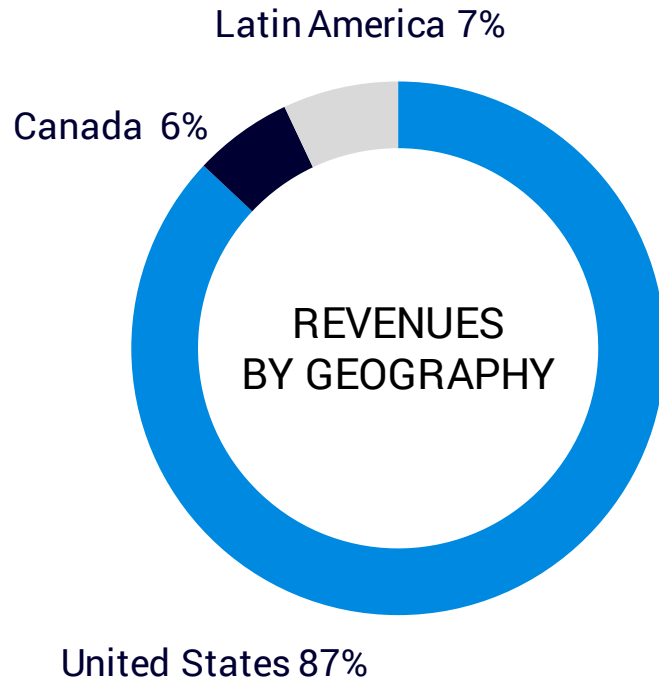
## Why scale matters:

- Dense, diverse network to serve local markets
- Strategic to over 1,200 OEM suppliers
- Talent acquisition, retention and development
- Access to capital for growth & investment
- Technology-enabled efficiently throughout network

## Significant barriers to entry:

- Technical know-how to serve HVAC customers
- Not a "do it yourself" product
- Brand exclusivities
- OEM approval required to acquire distribution
- Continued affinity with local relationships

# Attractive End-Markets and Products

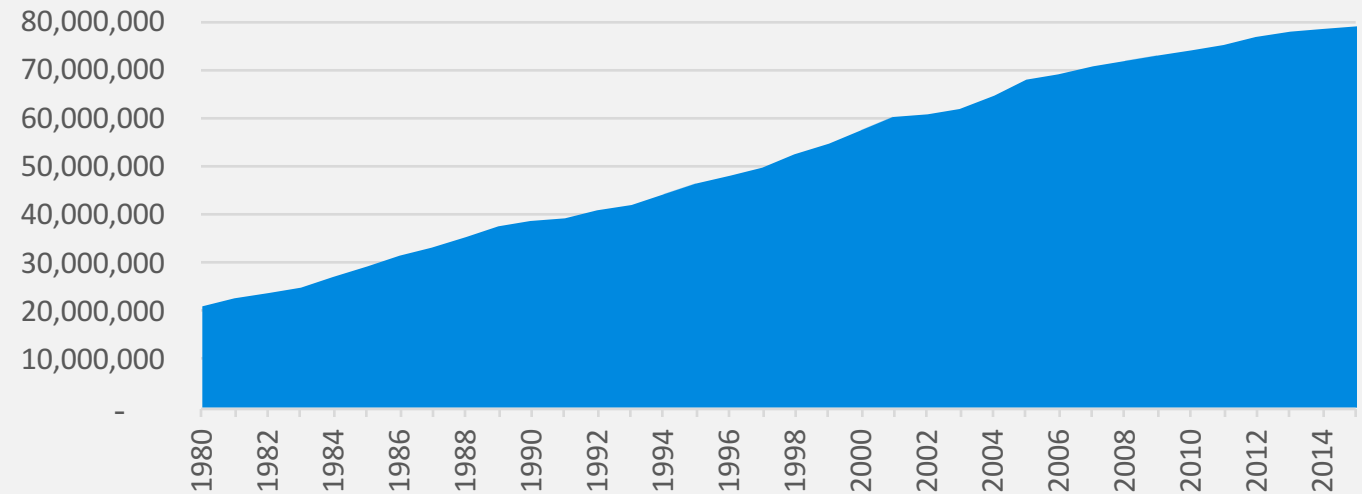


# Installed Base

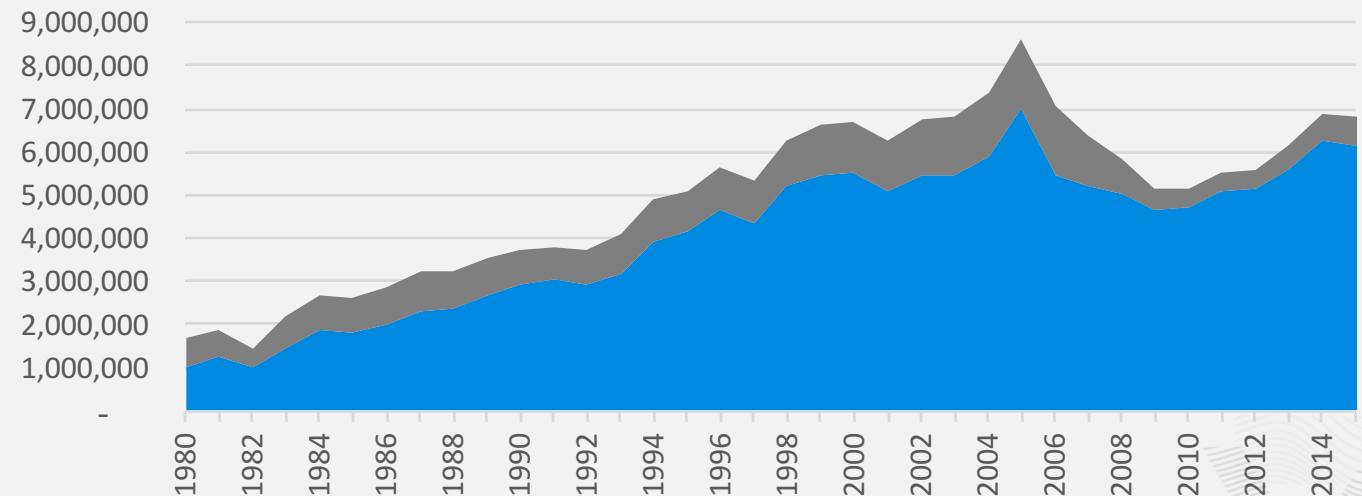
## Large and Growing Installed Base Drives Steady Replacement Business

- Installed base has increased every year
- Over 110 million installed HVAC units in U.S.
- Approximately 92 million units are 10+ years old
- 7 million+ units shipped in 2017
- 10% tied to SF residential new construction
- 4.1% unit growth CAGR since 1980

## Installed Base of Central A/C Units



## U.S. Shipments of Central A/C Units



# Using Technology to Transform the HVAC Industry

1

Make it Easier To Do  
Business with Watsco



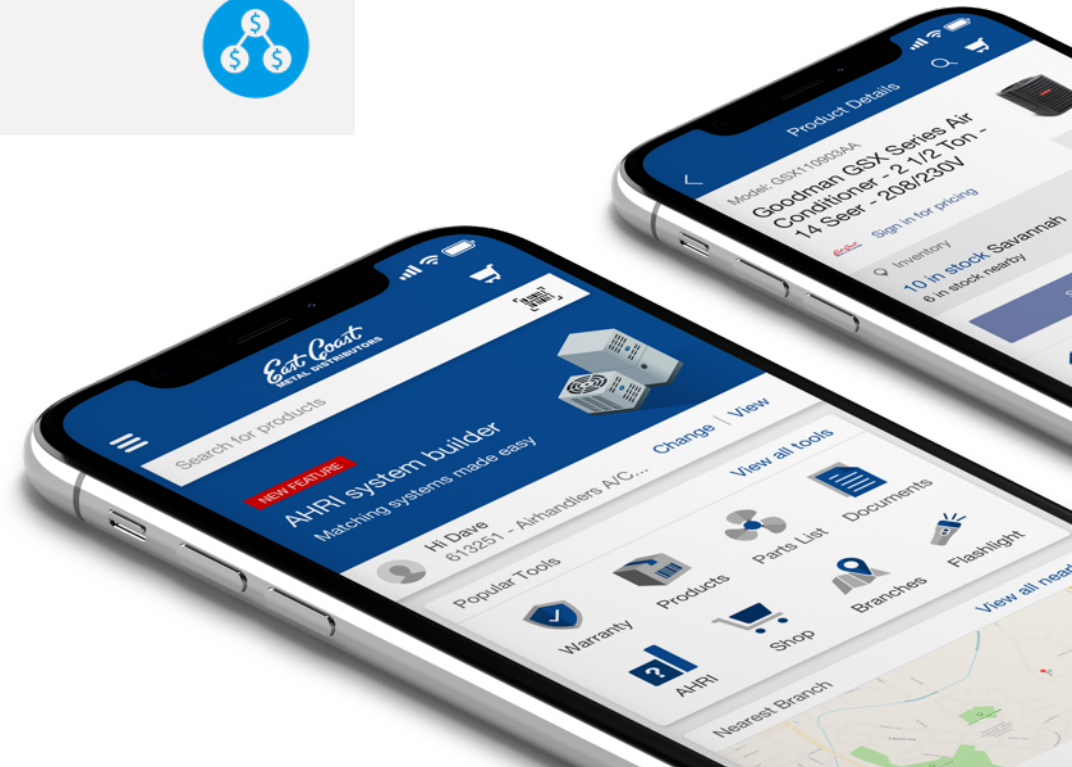
2

Make Watsco More  
Efficient and  
Profitable



3

Enable New Profit  
Streams





# Make it Easy for Contractors to do Business With Us

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We deliver an intuitive and contemporary digital experience for customers to do business with Watsco.

## Robust E-Commerce Platform

- Driving growth with existing customers and new customer acquisition, while reducing attrition

## Product Information Management

- Largest source of digitized HVAC product information for customers now with over 650,000 SKUs

## Mobile Apps for HVAC Customers

- Enable customer engagement, technical assistance and sale anywhere, anytime, on any device

\$900M

In e-commerce revenue in 2017 and 25% revenue run-rate as of 4Q17

2.5x

Better customer retention ecommerce users in 2017

57%

Increase in online transactions in 2017

33%

More line items per order vs in-store

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# Make Watsco More Efficient and Profitable

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Technology investments also enable operating efficiencies

- Optimize Supply Chain and Logistics
- Streamline Order Fulfillment and Digitize Workflows
- Conduct Sophisticated Demand Planning
- Rationalize Branch Network and Warehouse Infrastructure
- Drive Business Intelligence in 560 locations

300 bps

Improvement in Order Fulfillment fill rates to 97%

80 bps

Improvement in inventory turns for fully adopted locations

461

Locations with wireless functionality (82% of network)

487,000 ft

Reduced real estate requirements in 2017

# Decentralized Ownership Culture Linked to Value Creation

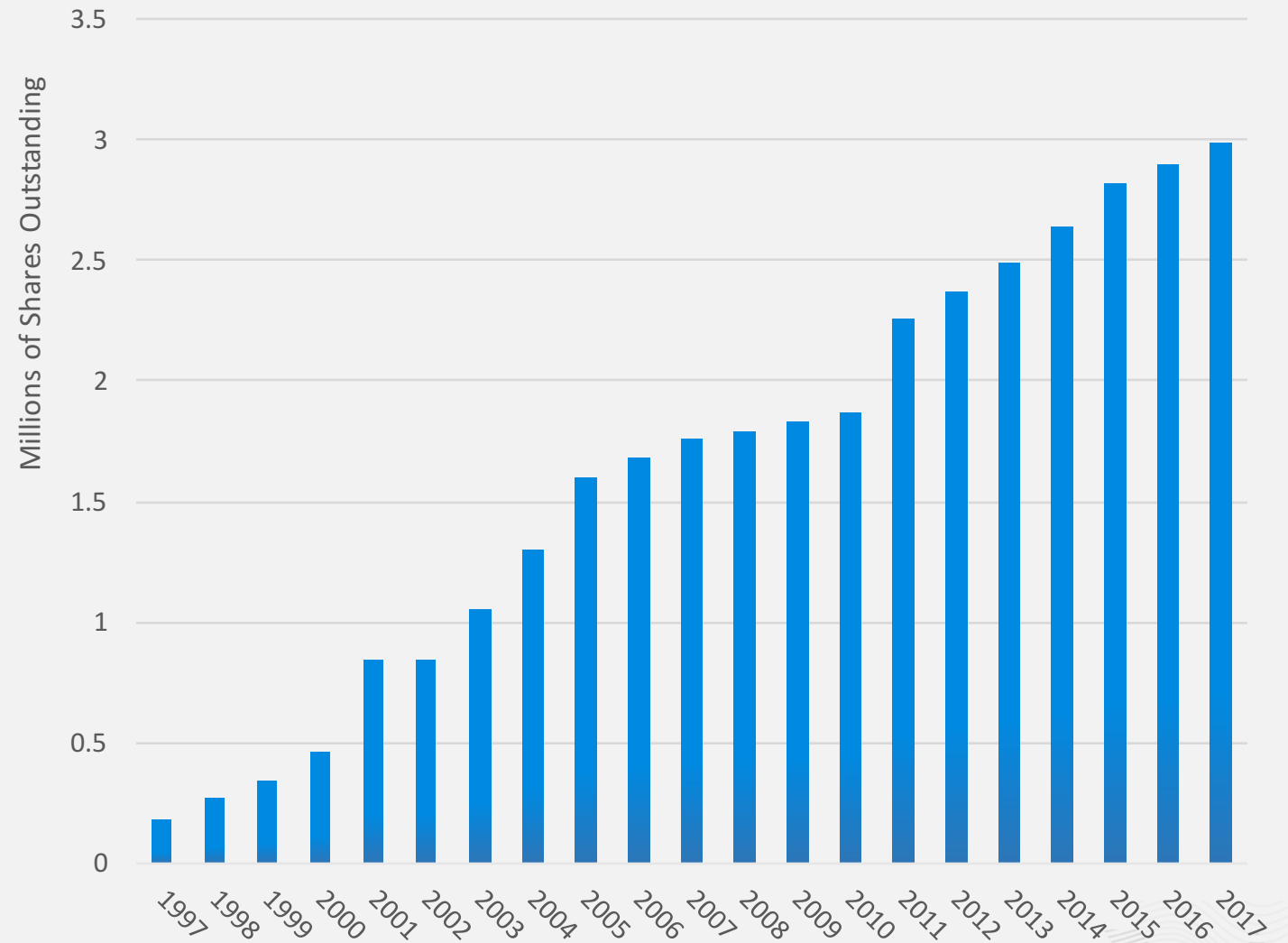
## 60 Restricted Stock Plan Participants

- Average vesting of approximately 11 years
- 82% of all shares granted remain outstanding
- 11% vested, only 7% forfeited

## Other Equity Plans

- 150+ owners in stock option plan
- 800+ owners in Employee Stock Purchase Plan
- 1,700+ owners through employee 401k plans
- Nearly 5.0m shares held by all insiders

## Restricted Stock Plan



# Watsco's Track Record

Watsco's culture is focused on long-term value creation for all stakeholders.

Over most time periods, Watsco produces superior Annualized Total Shareholder Return.

	1989*	12/31/2017	CAGR
Revenues	\$64M	\$4.34B	16%
EBIT	\$2M	\$353.9M	20%
Share Price	\$2.70	\$170.04	16%
Dividends	\$1M	\$164M	20%
Market Cap	\$22M	\$6.32B	22%
Market Share (est.)	<1%	~12%	
Locations	16	560	

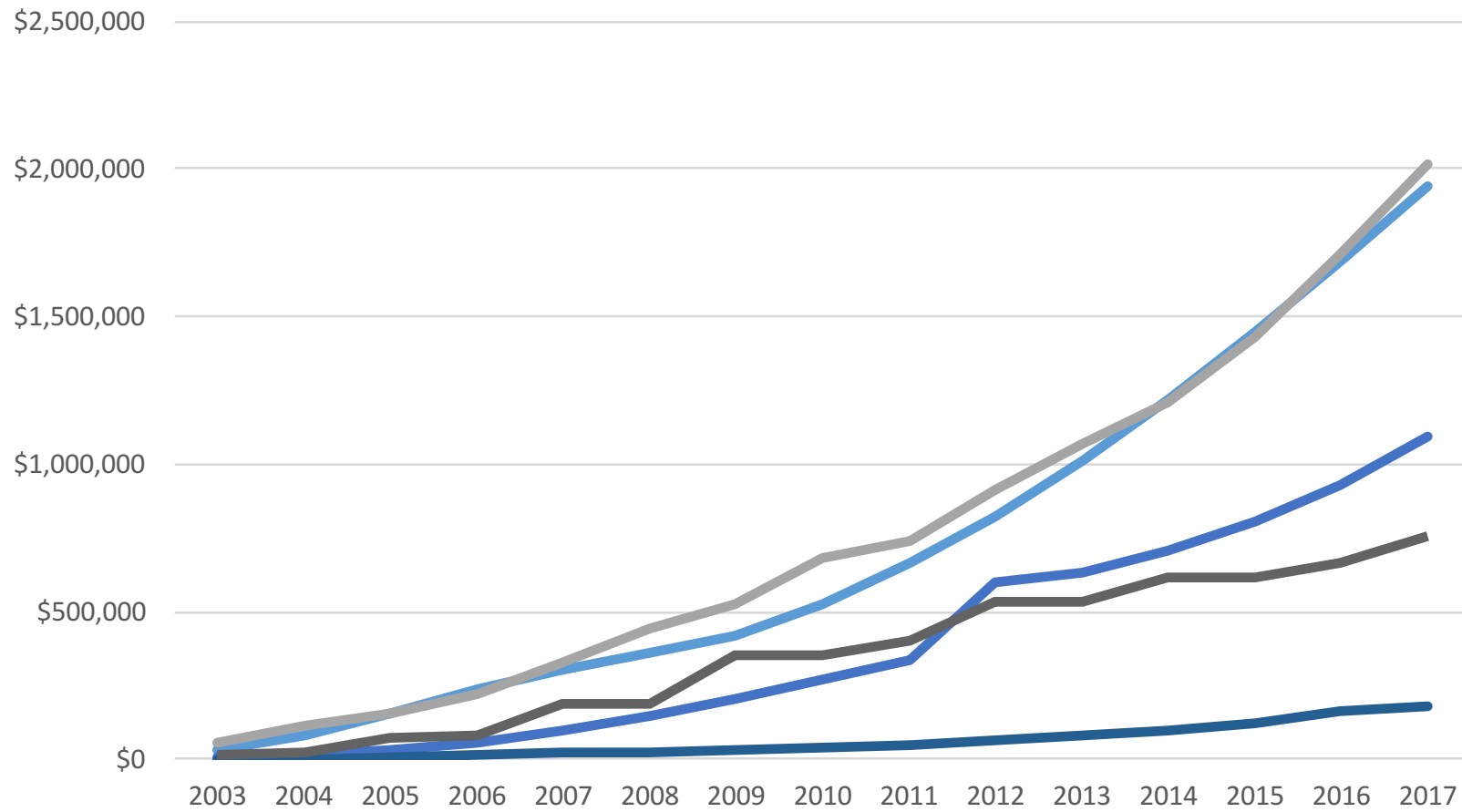
\*1st year of distribution  
Source: Company SEC filings

	5 YEAR	10 YEAR	15 YEAR	20 YEAR	25 YEAR
Annualized Total Shareholder Return	21%	21%	21%	15%	19%

Source: Factset as 12/31/17



# Solid Cash Flow Performance



Source: Company SEC filings

## 15-Year Cumulative Results

Operating Cash flow: \$2,013m

Net Income: \$1,940m

Dividends: \$1,097m

Acquisitions: \$757m

Capital Expenditures, net: \$180m

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# Robust Capital Position

Consistent with a long term focus, Watsco maintains a conservative balance sheet.

Company is well positioned to fund virtually any growth opportunity.

In February 2018, Watsco announced an increase to its Annual Dividend Rate to \$5.80 per share.

	2015	2016	2017
Cash & Equivalents	\$35m	\$56m	\$80m
Total Debt	\$246m	\$236m	\$22m
Shareholders Equity	\$1,204m	\$1,252m	\$1,551m
Debt to Capitalization	17%	16%	1%
EBITDA	\$356m	\$366m	\$376m
Net Debt to EBITDA	< 1.0x	< 1.0x	N/A
Operating Cash Flow	\$221m	\$278m	\$302m
Dividends per share	\$2.80	\$3.60	\$4.60

Source: Company SEC filings



# Delivering Exceptional Shareholder Value

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Watsco is part of an elite group of companies that have delivered 19% Total Shareholder Return over the last 25 years.



Time Warner



HEICO



QUALCOMM



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Source: Factset

# Long Term Objectives

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Enhance profitability, margins and cash flow



Develop and operate the most innovative technology platform in the industry



Create and maintain the industry's deepest repository of information on products, markets and customers



Accelerate sales growth and achieve greater share for our OEM and supplier partners



Extend Watsco's reach into new geographies and sales channels



Acquire strong, market leading businesses and deploy innovative technology to help them grow faster

