



Investor Presentation

Baird Industrial Conference

November 8, 2017

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# 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, (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 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 statement was 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.

# Watsco's Track Record

	1989 *	LTM 9/30/17	CAGR
Revenues	\$64M	\$4.3B	16%
EBIT	\$2M	\$351M	20%
Share price	\$2.70	\$161.07	16%
Dividends	\$1M	\$157M	20%
Market cap	\$22M	\$5.8B	22%
Market share	<1%	~12%	
Locations	16	562	

\* 1<sup>st</sup> year of distribution

# As of Sept 30, 2017

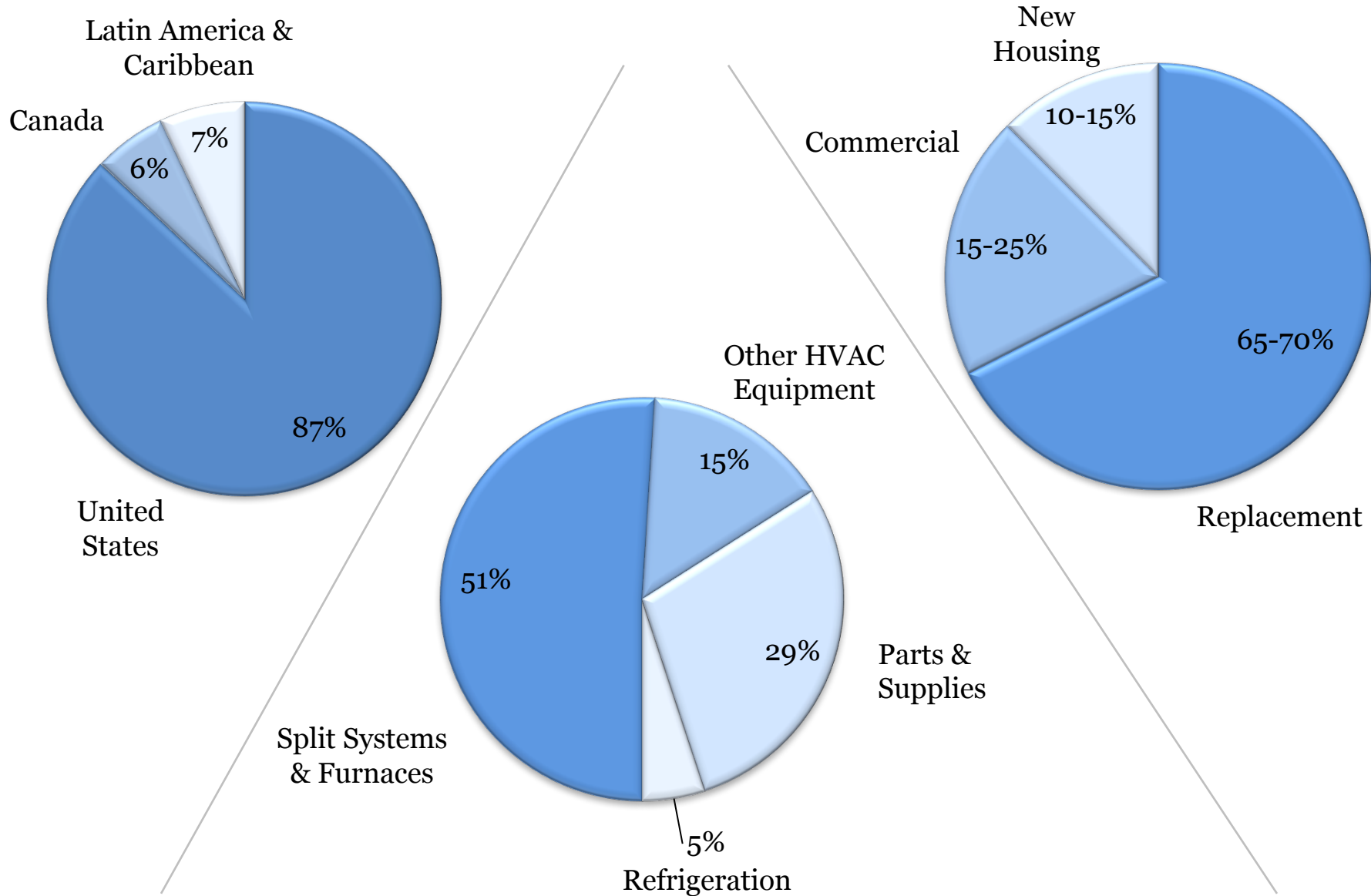
	Annualized Total Shareholder Return #
5-Year	21%
10-Year	18%
15-Year	21%
20-Year	14%
25-Year	19%

# Peer Group: 19%+ 25-Year Total Shareholder Return

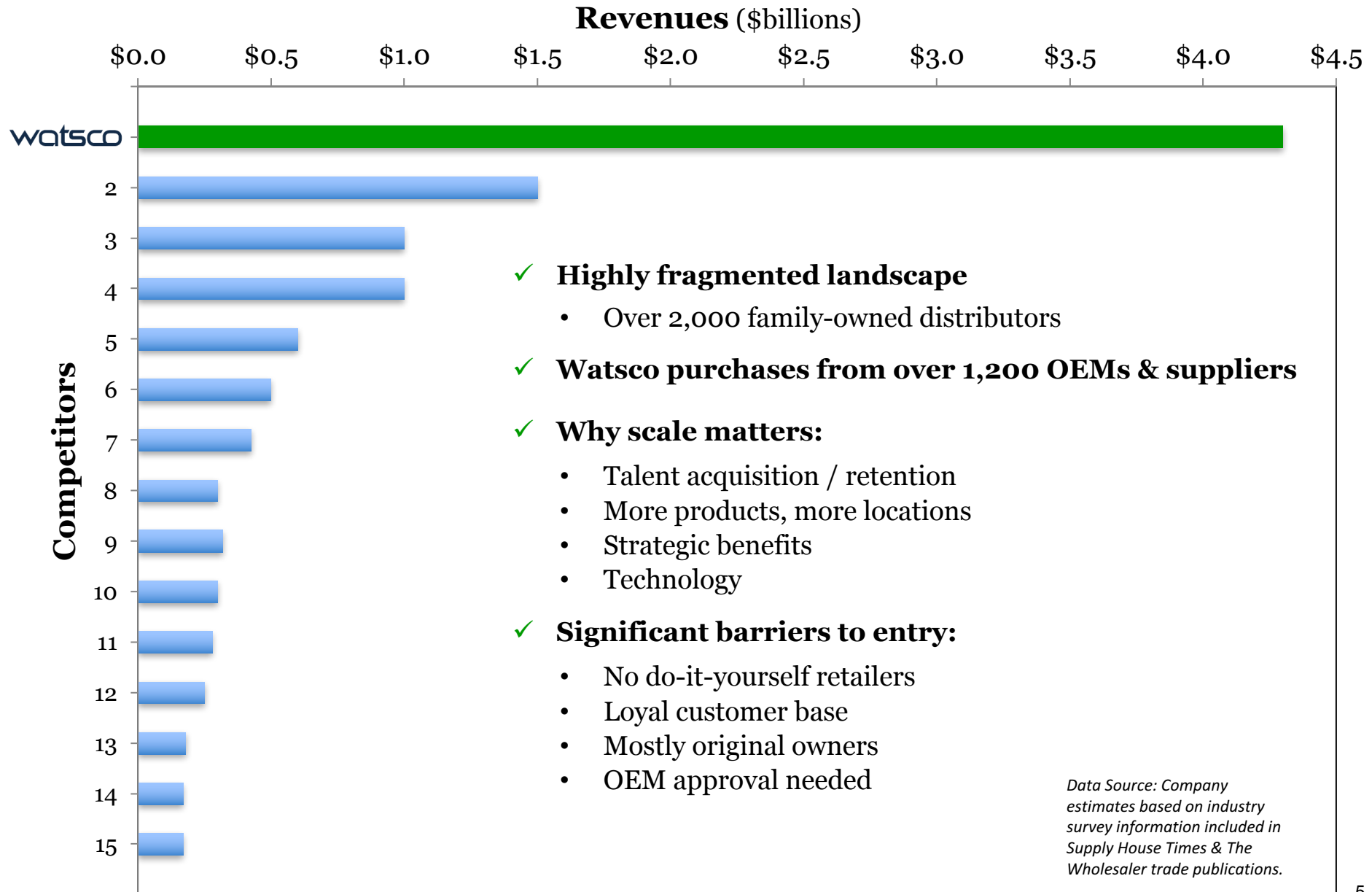


*Source: FactSet as of September 30, 2017. Represents sample of U.S. public companies with (i) 19% or greater compounded annual growth rate of total shareholder return and (ii) market capitalization of over \$2 billion.*

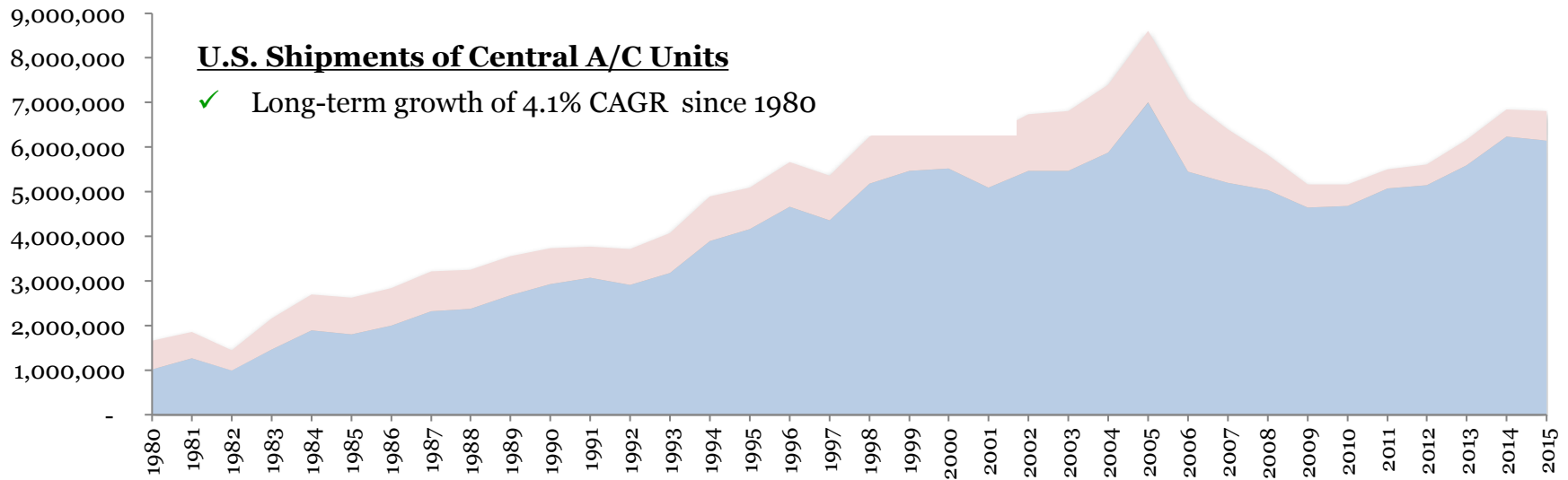
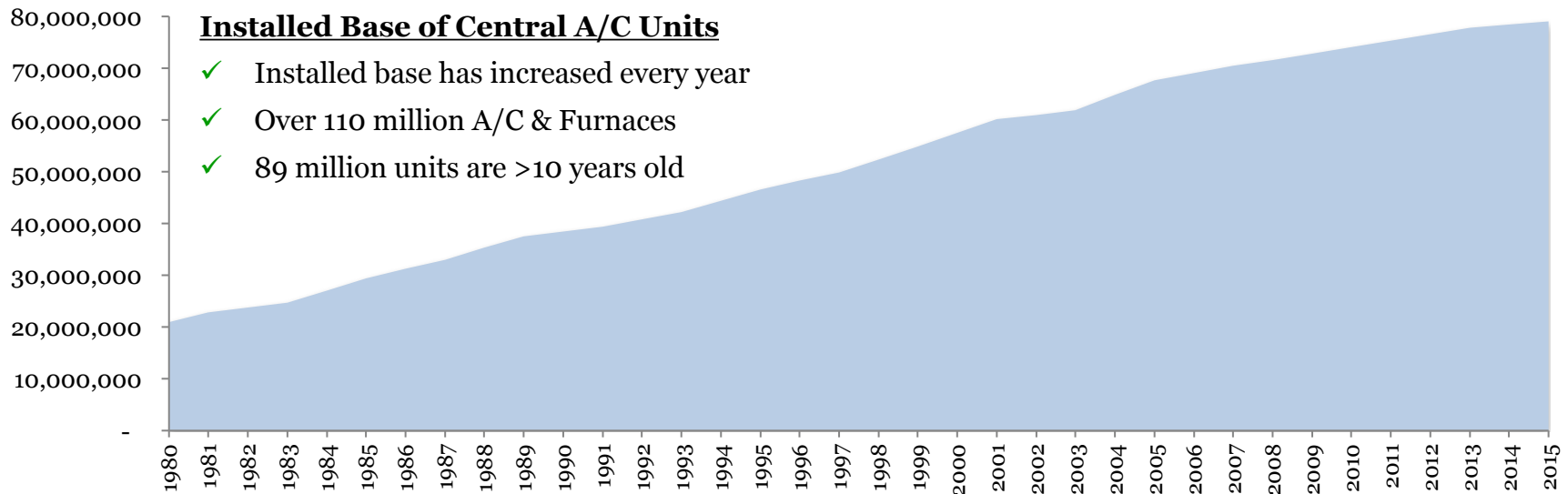
# Watsco's Markets & Products



# Market Leader in a Fragmented \$35bn HVAC/R Market



# Large & Growing Installed Base



(Data Source: ARI Shipment data, U.S. Census Bureau for housing completions.)

# Unrivaled Scale within the Industry

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## Unrivaled Scale Through Our 562 Stores

- 6,800,000 contractor transactions
- 307,000 distinct technicians shopping with us
- 27,600 transactions daily – picked-up or delivered
- 12.3 million square feet - warehouse, training, show rooms
- 1,000 outside sales engineers and commissioned salespeople
- 1,400 counter/inside sales personnel
- 900 drivers delivering product to job sites and customers
- 300,000 SKUs in stock, 1,200 vendors
- \$750,000,000 average inventory
- \$490,000,000 average A/R
- 250 credit staff serving local customers
- >1 million credit card transactions

## Advantages of Scale

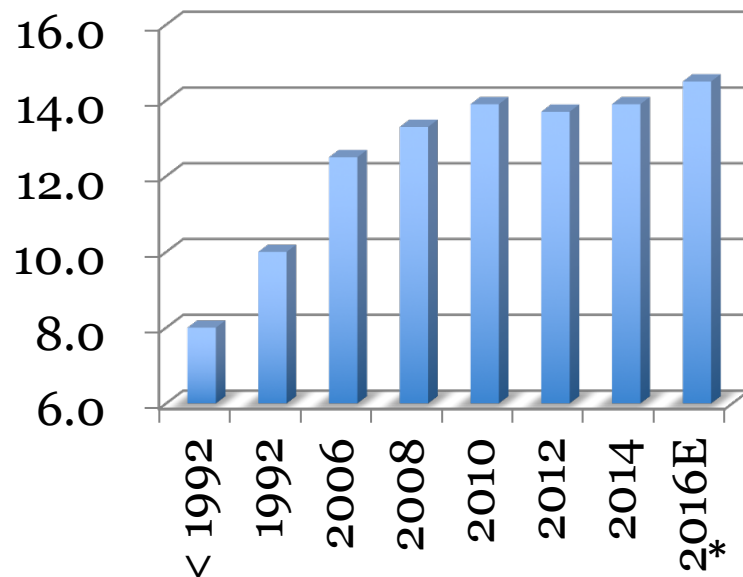
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- ✓ Find and invest in the best people
  - ✓ Make sizable acquisitions
  - ✓ Compete with more products, locations & know-how
  - ✓ OEM & supplier relationships are all strategic with one focus: gain market share
  - ✓ Technology



# Energy Conservation and Environmental Consciousness

## Energy Conservation and Environmental Consciousness Benefit Pricing and Replacement & Upgrade Cycle

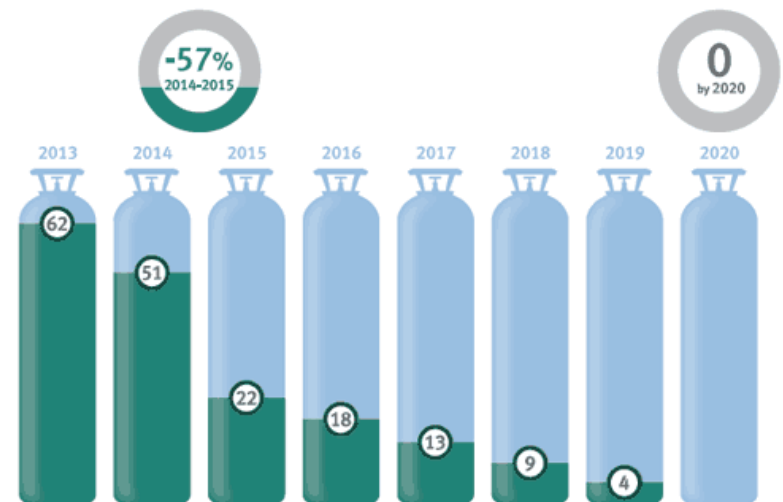
### Trends in Seasonal Energy Efficiency Rating (SEER)



- ✓ Increased efficiency supports pricing gains and premium offerings
- ✓ Strengthening US regulations enforce trend

(Date Source: 1992-2014 industry data from AHIR and Carrier – 2016 is Company estimate.)

### R-22 Refrigerant Phase Out



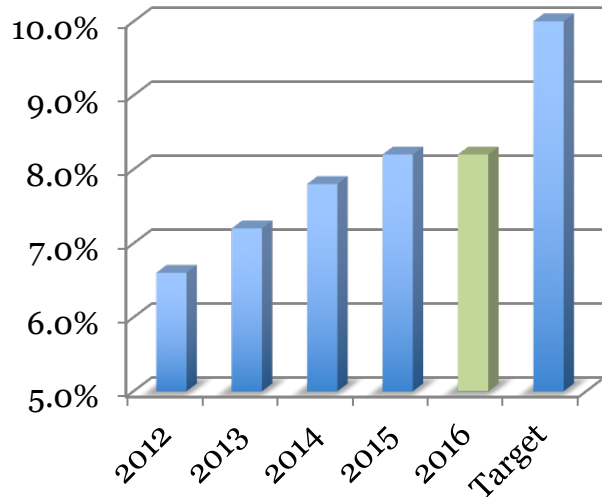
R-22 - Millions lbs

**EPA Final Rule – R-22 Consumption Allowances**

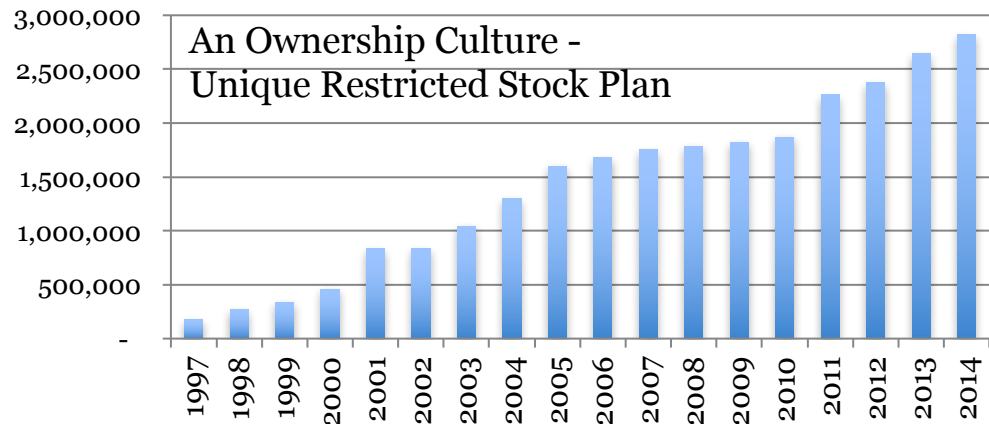
- ✓ EPA estimated 150m R-22 A/C & refrigeration units were in service (2010)
- ✓ Repair market affordable, but more expensive
- ✓ Pricing higher since final rule published

# Fundamentals – Decentralized, Ownership Culture

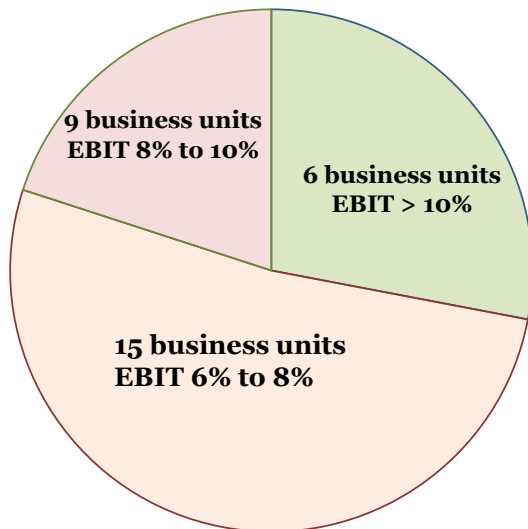
## EBIT Margin Expansion



## Restricted Stock Plan



## EBIT Mix of 30 Business Units



42 participants – average vesting in 10 years  
86% of historical grants are outstanding  
8% vested / 6% forfeited

## Other Equity Plans

125 owners in stock option plan  
1,200 owners in ESPP  
1,200 owners in 401k Plan  
5.0m shares held by all insiders

# Leveraging Technology to Enhance Profitability

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**1**

**MAKE IT EASIER  
TO DO BUSINESS  
WITH WATSCO**

**2**

**MAKE WATSCO  
MORE EFFICIENT  
AND PROFITABLE**

**3**

**ENABLE  
NEW PROFIT  
STREAMS**

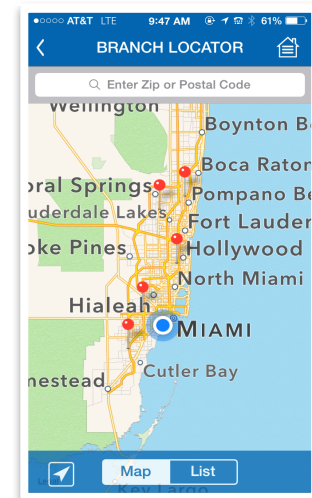
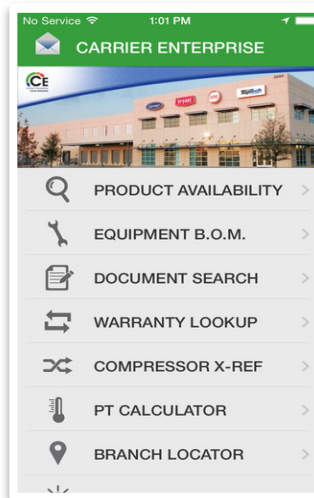
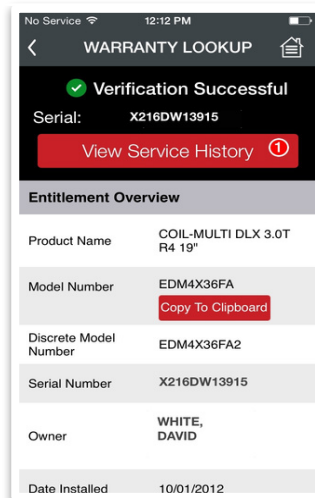
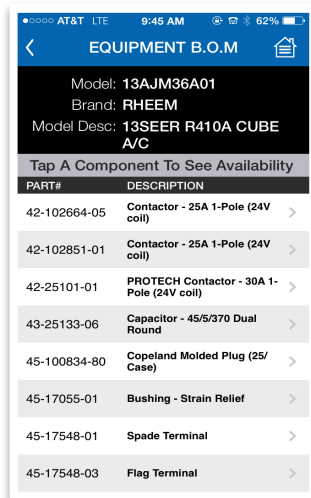
- ✓ Enhance Watsco's profitability by improving customer experience and internal operations using modern technology platforms
- ✓ Transformation, not a rip & replace
- ✓ Technology platforms to augment our capabilities
- ✓ Extreme research, due diligence, negotiation, buy-in and design
- ✓ Third-party experts to get started, transition & integrate in-house as a core competency

**Watsco Technology has no end; this is a new paradigm and a new posture for our company to win in the digital age**

# Make It Easy For Contractors To Do Business With Us

## Technology Deployed

- Product Information Management
  - Build the largest source of digitized HVAC product information
- HVAC Contractor Assist Mobile Apps
  - Enable customer engagement, technical assistance and sales
  - Anywhere, anytime, on any device
- Award-Winning B2B e-commerce



## Progress in 2016

- 71% increase in SKUs
  - Over 500,000
- 200% increase in users
  - iOS and Android
- 127% increase in online transactions
- 28% more line items per order vs in-store

# Make Watsco More Efficient and Profitable

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## Technology Deployed

- Supply Chain Optimization
  - Increase fill-rates to reduce missed sales
  - Improve inventory turns
    - Target inventory decrease of 20% or \$150 million
  - Reduce infrastructure costs
- Store Order Fulfillment
  - Digitize and Optimize Workflows
  - Improve Customer Experience
  - Reduce Order Fulfillment Times
    - Digitized order fulfillment software
    - Express pickup
- Demand Planning
- Network and Warehouse Optimization
- Business Intelligence

## Progress in 2016

- 300 bps improvement to 97%
- 32 bps improvement (80 bps for fully adopted locations)
- 359 locations with wireless functionality
- 150 locations vs 25 in 2015
- 68 locations (began late 2016)
- 500,000 sq foot reduction in required space
- 12% increase to 1,500+ users
- 7x better performance, BI-user vs non-user (salesperson)
- 5x better performance, BI-user vs non-user (store manager)

# Watsco's Long-Term Goals

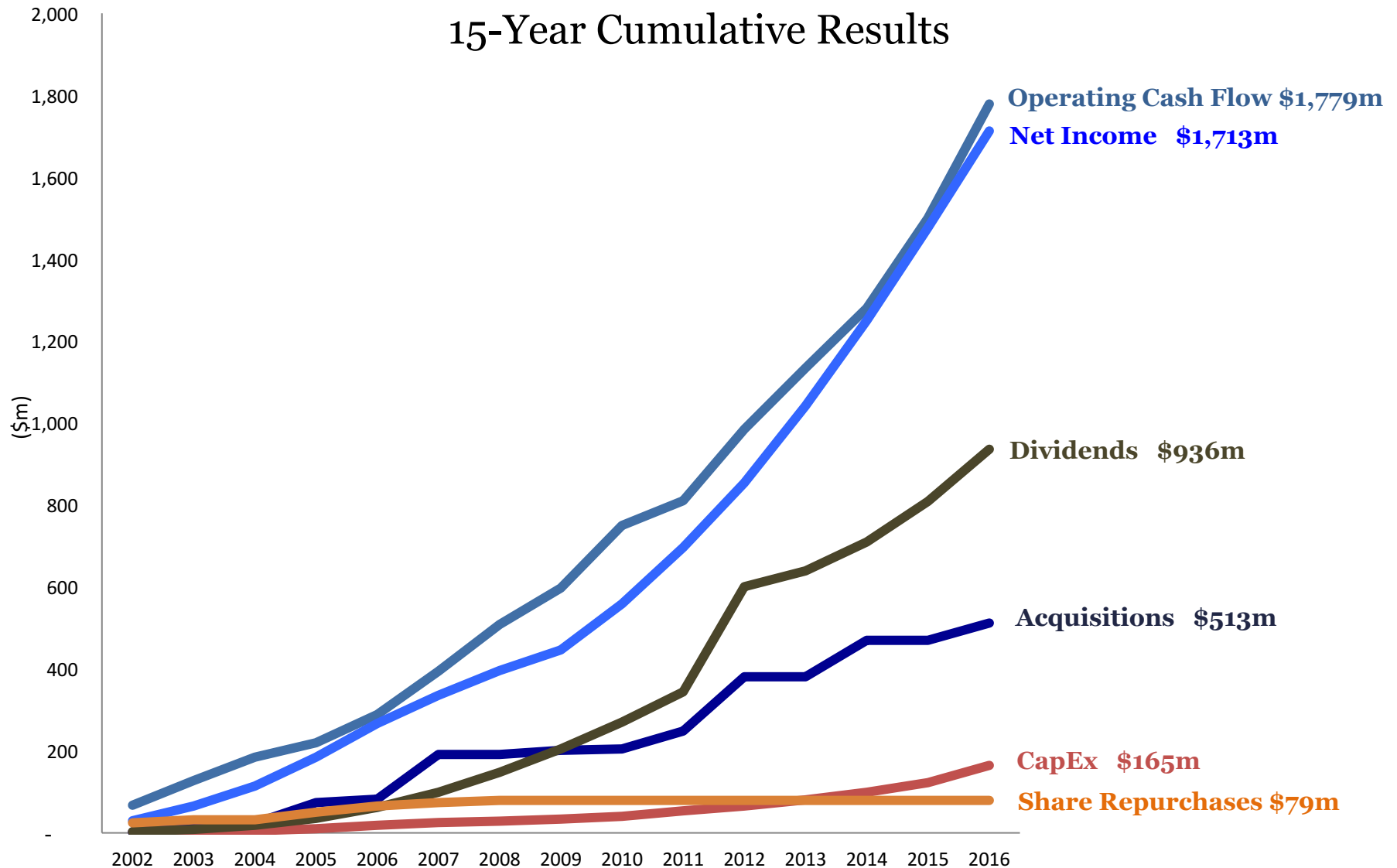
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- ➡ Enhance profitability, margins and cash flow
- ➡ Operate the most innovative suite of technology in the industry
- ➡ Create and maintain the industry's deepest repository of information regarding products, markets and customers
- ➡ Accelerate sales growth and gain share for our supplier partners
- ➡ Extend Watsco's reach into new geographies and sales channels
- ➡ Buy strong, established businesses, build them and deploy technology investments

# Balance Sheet & Other Data

	2016	2015	2014
Cash & cash equivalents	\$56m	\$35m	\$24m
Debt	\$235m	\$245m	\$303m
Shareholders' Equity	\$1,252m	\$1,204m	\$1,132m
<i>Debt-to-Total-Capitalization</i>	<i>16%</i>	<i>17%</i>	<i>21%</i>
EBITDA	\$366m	\$356m	\$324m
Net Debt-to-EBITDA	< 1.0 X	< 1.0 X	< 1.0 X
<i>Dividends paid per share</i>	<i>\$3.60</i>	<i>\$2.80</i>	<i>\$2.00</i>
<i>Cash flow from operations</i>	<i>\$278m</i>	<i>\$221m</i>	<i>\$145m</i>
<i>Cash flow from ops per share</i>	<i>\$8.52</i>	<i>\$6.82</i>	<i>\$4.48</i>

# Fundamentals – Cash Flow & Dividends





watsco

Q&A

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