
Watsco Technology Summit and Investor Meeting

A Focus on our Digital Transformation and Customer
Obsessed Culture

May 18, 2018

watsco

WSO
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NYSE

Safe Harbor Statement

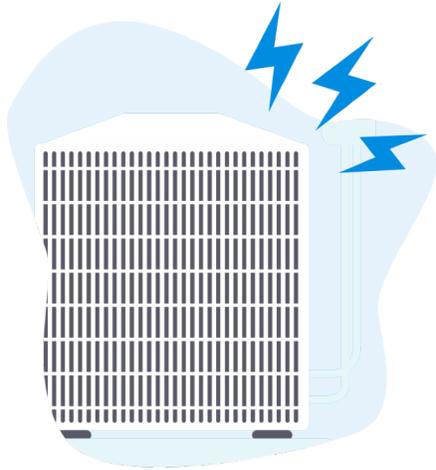
This Presentation contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Statements which are not historical in nature, 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.



What is Watsco?

What is Watsco's Business Model?



Broken AC at a Home



Contractor on site to diagnose



Contractor in our store



Contractor on site to repair/replace

Watsco's Investment Thesis

Market leader in a highly fragmented industry

Transforming customer experience with technology

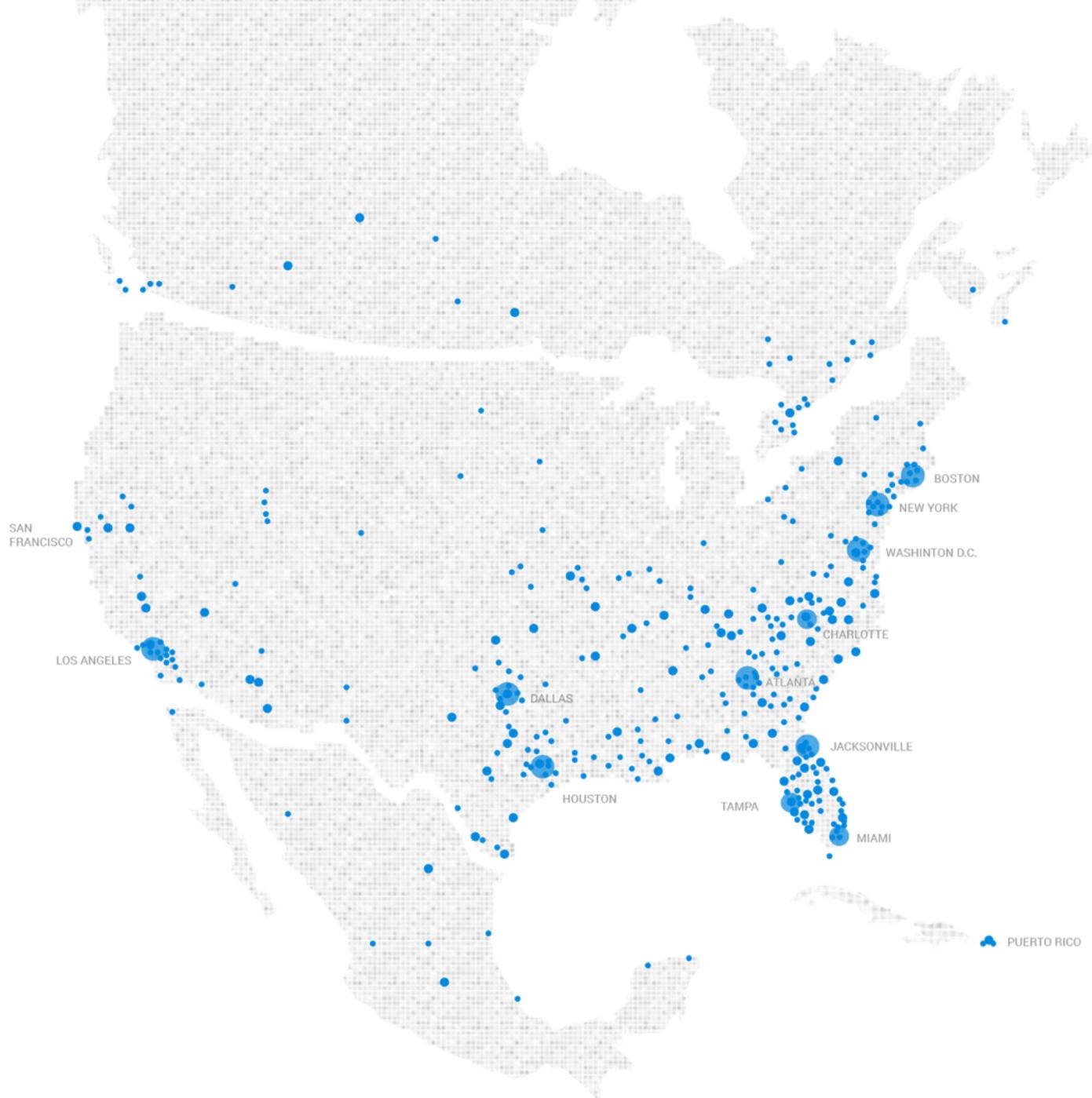
Unique ownership culture with **long-term** focus on value creation

Deep Ties to the industry's leading OEMs and suppliers

Proven track record of delivering superior shareholder returns

Robust capital position to fund any growth opportunity





Our Locations

United States	502
Canada	36
Latin America & Caribbean	25
TOTAL	563



Market Leader in a Fragmented Market

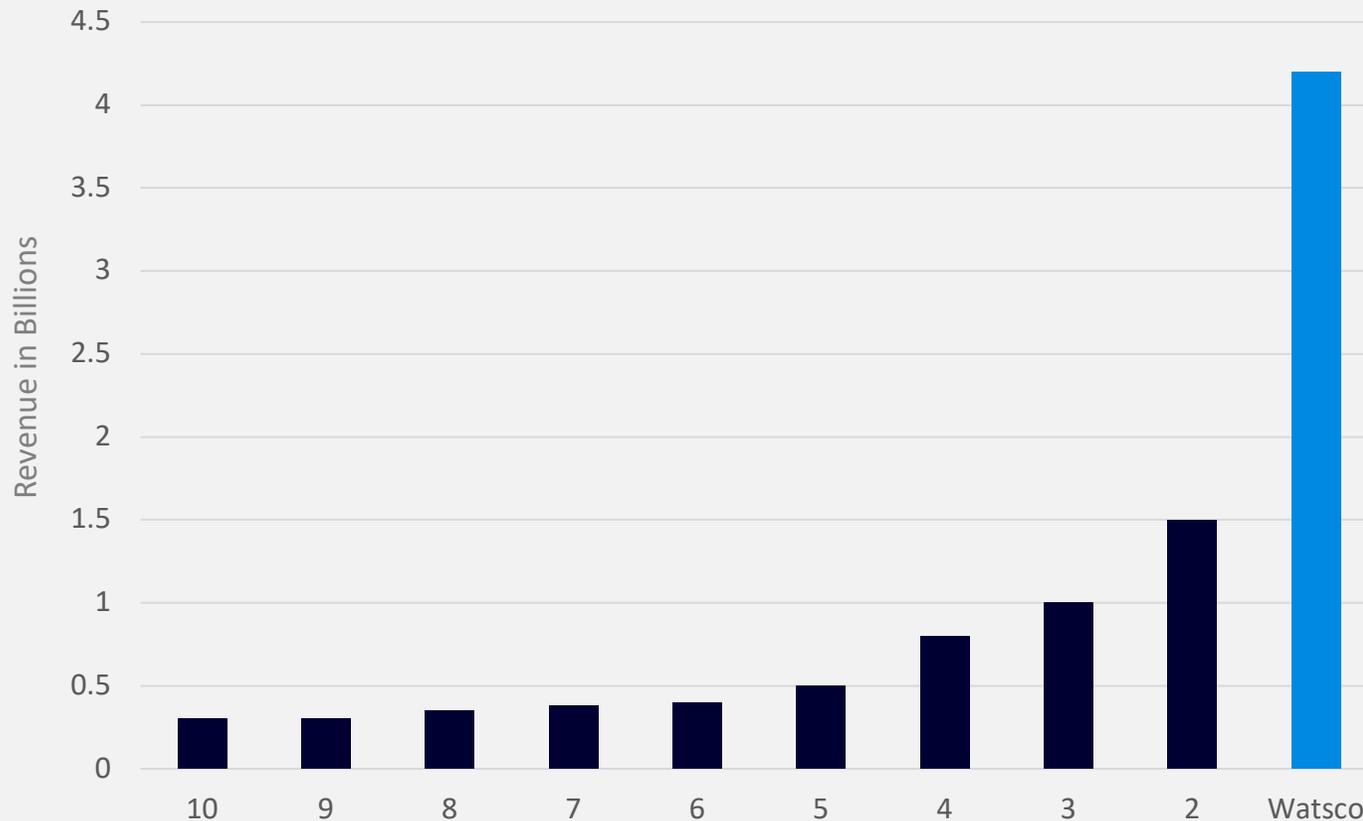
Why scale matters:

- 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 throughout network

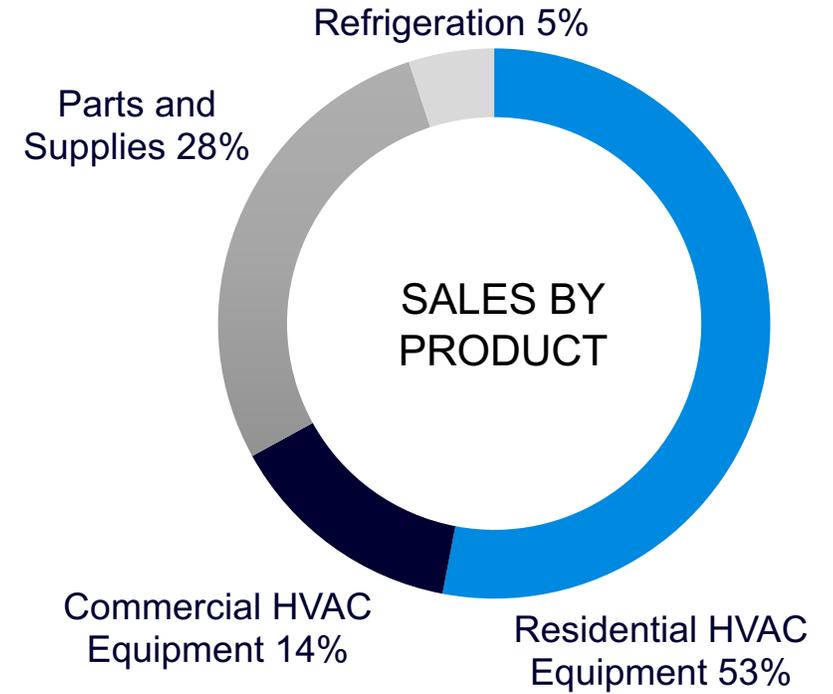
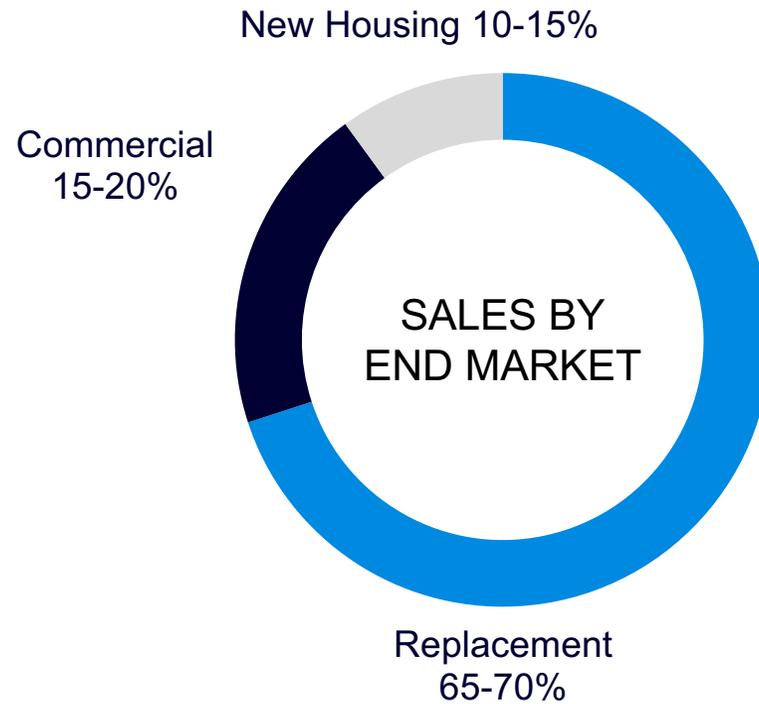
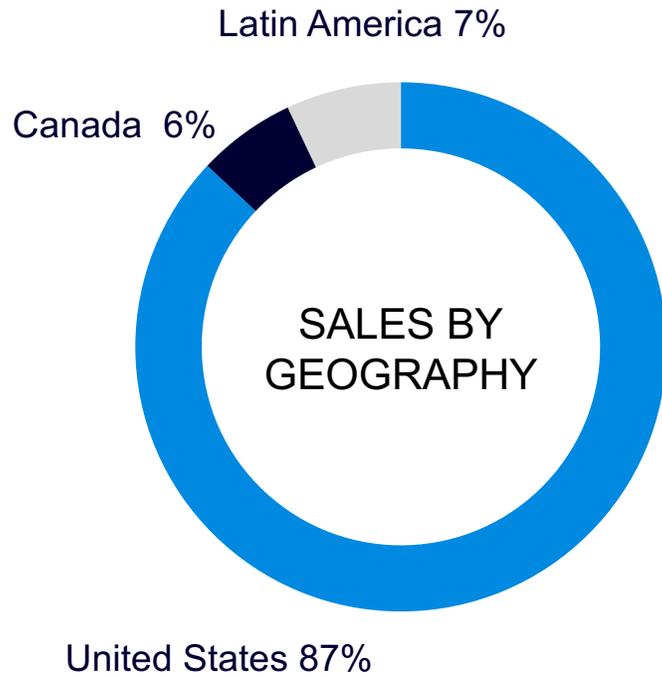
Significant barriers to entry:

- 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
- 24-hour fulfillment is 23 hours too late

Watsco vs. Competitors



End-Markets and Products

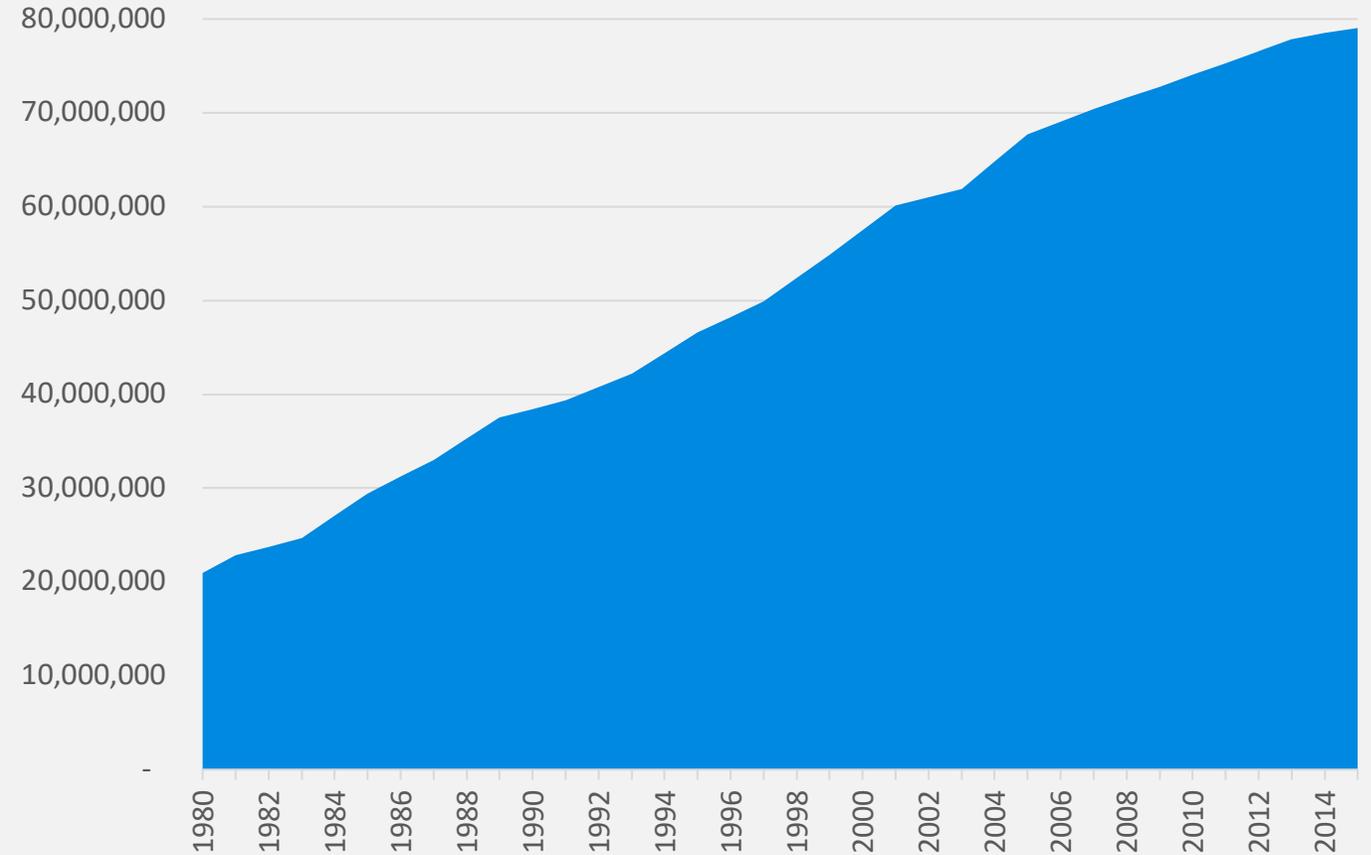


Installed Base

Large and Growing Installed Base Drives Steady Replacement Business

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

Installed Base of Central A/C Units



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*	LTM 3/31/18	CAGR
Revenues	\$64M	\$4.39B	16%
EBIT	\$2M	\$359.1M	20%
Share Price	\$2.70	\$180.97	16%
Dividends	\$1M	\$173M	20%
Market Cap	\$22M	\$6.76B	22%
Market Share (est.)	<1%	~12%	N/A
Locations	16	563	N/A

*1st year of distribution

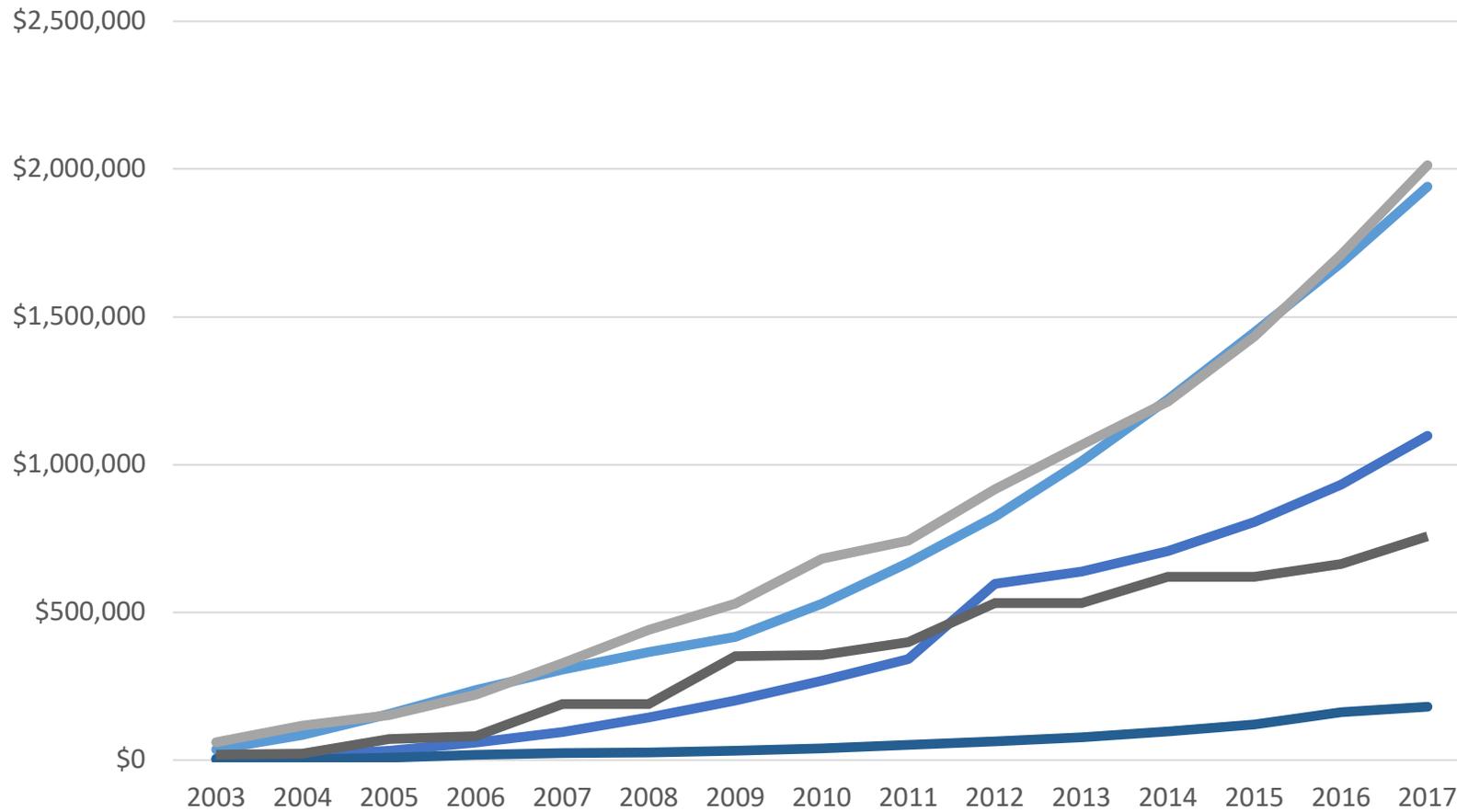
Source: Company SEC filings

	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**

watsco

Robust Capital Position

Watsco maintains a conservative balance sheet.

Well-positioned to fund virtually any growth opportunity.

Annual Dividend Rate \$5.80 effective April 2018.

	2016	2017	3/31/18
Cash & Equivalents	\$56m	\$80m	\$58m
Total Debt	\$236m	\$22m	\$91m
Shareholders Equity	\$1,252m	\$1,551m	\$1,549m
Debt to Capitalization	16%	1%	1%
EBITDA*	\$366m	\$376m	\$381m
Net Debt to EBITDA	< 1.0x	< 1.0x	<1.0x
Operating Cash Flow*	\$278m	\$307m	\$230m
Dividends per share	\$3.60	\$4.60	\$5.80

Source: Company SEC filings

*EBITDA and Operation Cash Flow represent trailing twelve months



The background of the slide is white with a pattern of light grey, wavy, horizontal lines that create a sense of movement and depth. In the center, the text "Our Culture Defines Us" is written in a bold, black, sans-serif font. A solid blue horizontal line is positioned directly beneath the text, underlining it.

Our Culture Defines Us

Watsco's Cultural Principals

Long Term Thinking

1



Entrepreneurial
leadership

2



When our
Customers Win, we
win

3

Ownership Culture Linked To Value Creation

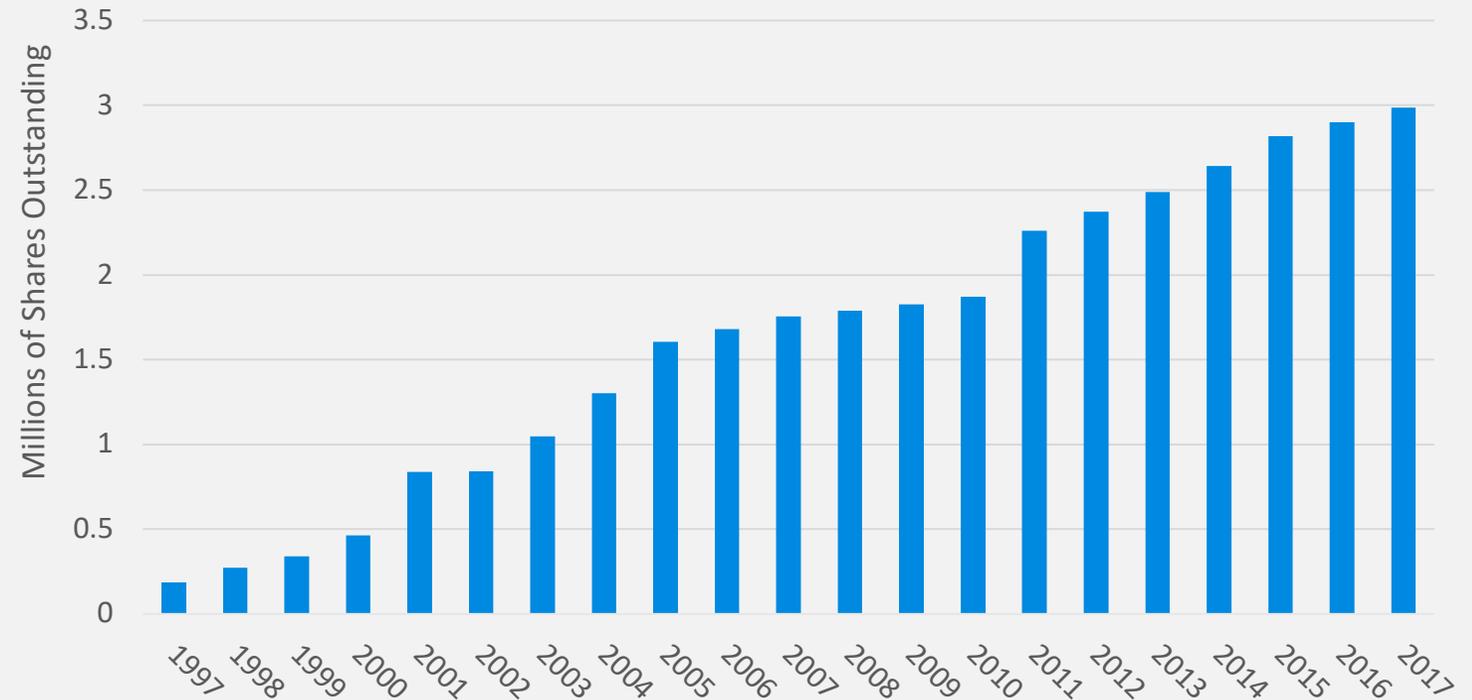
60 Restricted Stock Plan Participants

- 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
- Nearly 5.0m shares held by all insiders

Restricted Stock Plan



What Technology is Watsco Investing In?

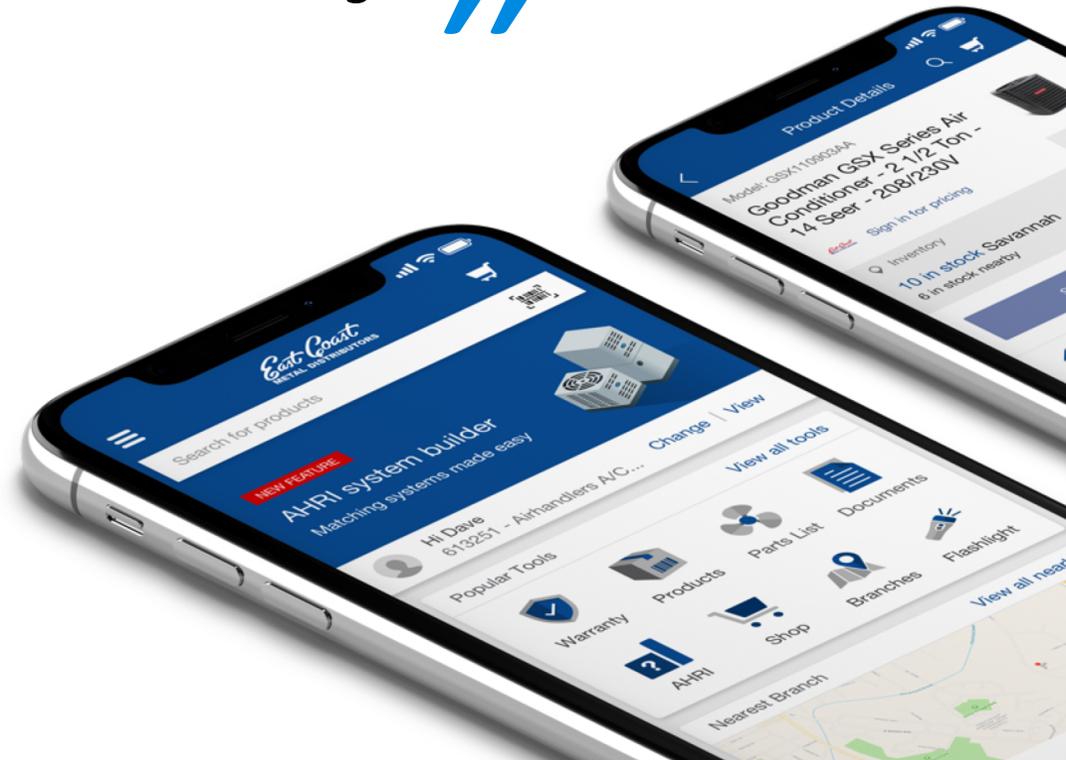
Using Technology to Transform the HVAC Industry

Help Our
Customers Grow
Their Businesses

Transform Our **Customer Experience**

Create New **Productivity** Paradigms

*“ A Technology Company That
Happens To Sell Heating &
Air Conditioning ”*



Watsco Technology's Passion

Continually Assess, Challenge and Transform Industry
Paradigm's Through a Technology Focused Lens

Creating new productivity paradigms through Foundational Data Centric Platforms



Analytical Insight - Business Intelligence



Traditional

Company	ALL	Division	ALL	Region	ALL	Branch	ALL
Section	ALL	Group	ALL	Category	ALL		
Customer	ALL			Job No.	ALL		
	This Yr Sales	This Yr G/P	Last Yr Sales	Last Yr G/P			
JAN	43,008,438.82	9,986,858.09	42,445,955.76	9,515,552.33			
FEB	44,932,706.95	10,196,966.92	35,949,351.09	7,928,208.48			
MAR	49,677,463.39	10,657,117.41	50,893,855.79	10,929,735.87			
APR	55,341,188.82	12,087,067.47	52,388,385.97	10,952,328.87			
MAY	.00	.00	66,810,611.74	14,229,844.80			
JUN	.00	.00	70,475,565.74	14,789,154.61			
JUL	.00	.00	68,823,409.07	14,526,543.45			
AUG	.00	.00	68,006,477.27	14,274,534.85			
SEP	.00	.00	52,443,633.78	11,069,489.88			
OCT	.00	.00	52,353,607.90	10,803,861.77			
NOV	.00	.00	42,136,084.76	8,691,182.42			
DEC	.00	.00	39,749,916.79	7,893,326.71			
Ttl	192,959,797.98	42,928,009.89	642,476,855.66	135,603,764.04			

Digital

VS



Supports our move to a **data driven culture**

Augmenting our industry expertise with **deep analytical insight**

Enhanced ability to baseline, **adjust and measure impact**

Identifies opportunities which are not immediately evident

Optimized Inventory – Advanced Forecasting & Replenishment



Traditional



Digital



VS

Algorithmic ordering
ensures inventory levels
follow demand

Increase customer
service levels

Increase Inventory
Turns

Reduced excess and slow
inventory

Digitized Assets - Product Information Management

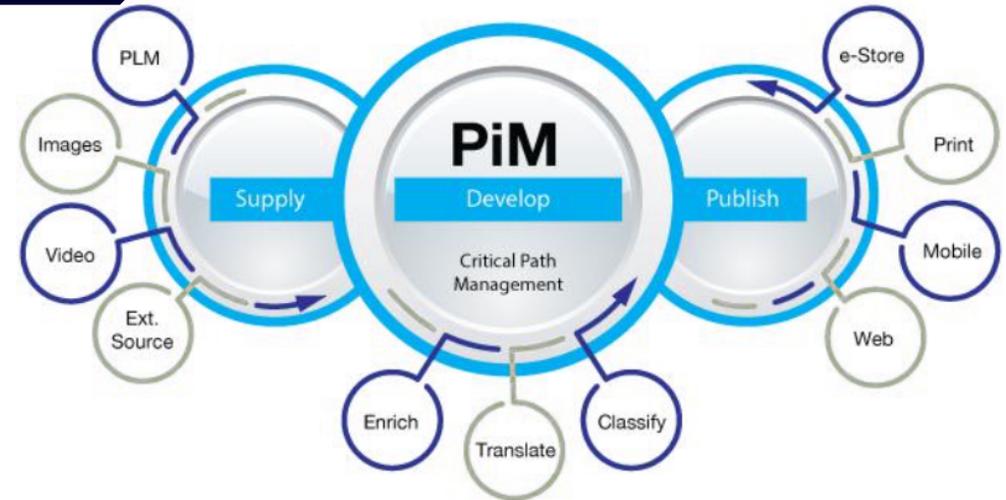


Traditional



Digital

VS



Industries **largest collection** of rich digital product content

Enables the implementation of **product focused technologies**

Ensures **consistent representation** of products through **all channels**

Provides our customers the **critical product details** and assets they require



Digital Warehouse Operations – Order Fulfillment

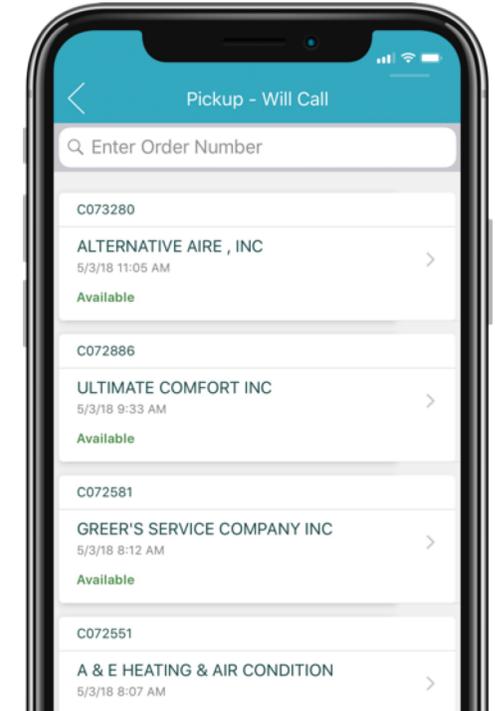
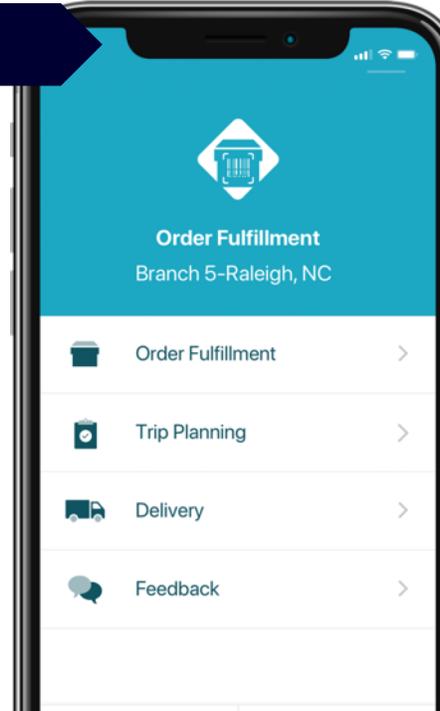


Traditional



Digital

VS



Supports a **fully digital** customer experience

Facilitates **Express Pickup**, saving technician time in branch

Improves **pick accuracy** and **reduces labor hours**

Enables warehouse **efficiency analytics**

Transforming Our Customer Experience and Partnership through Technology



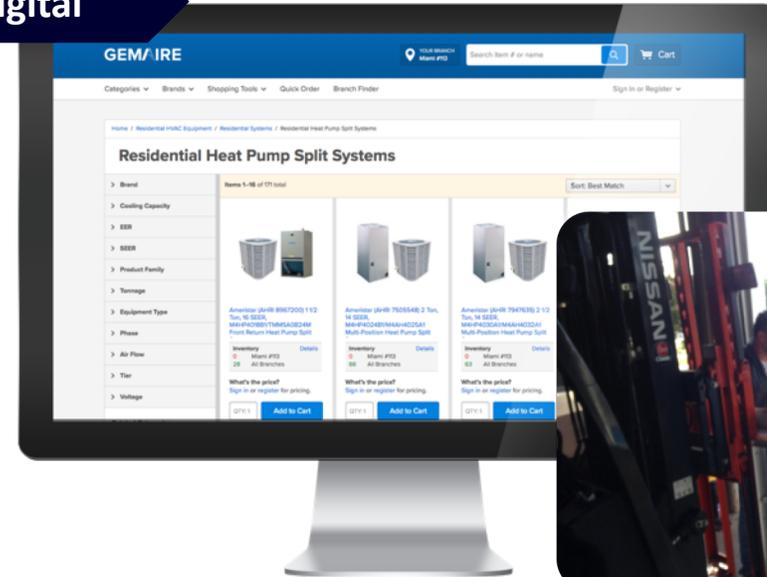
The Digital Branch – B2B eCommerce & Express Pickup



Traditional



Digital



VS

Digital expertise at the fingertips of our customers

Counter bypass increases technician productivity

Digital cross sell increases line items per invoice

Reduced customer attrition

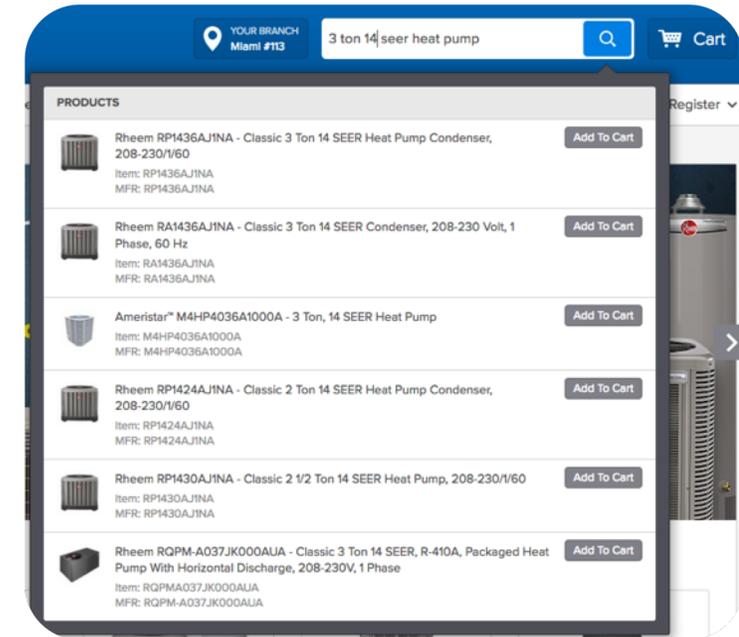
Machine Learning Product Search – eCommerce & Mobile

Traditional



Digital

VS



Relevant results, getting the customer quickly to what they need **without assistance**

Learning algorithms which improve as interaction increases

Personalization which learns what a specific customer prefers

Reduced branch call volume and counter wait times



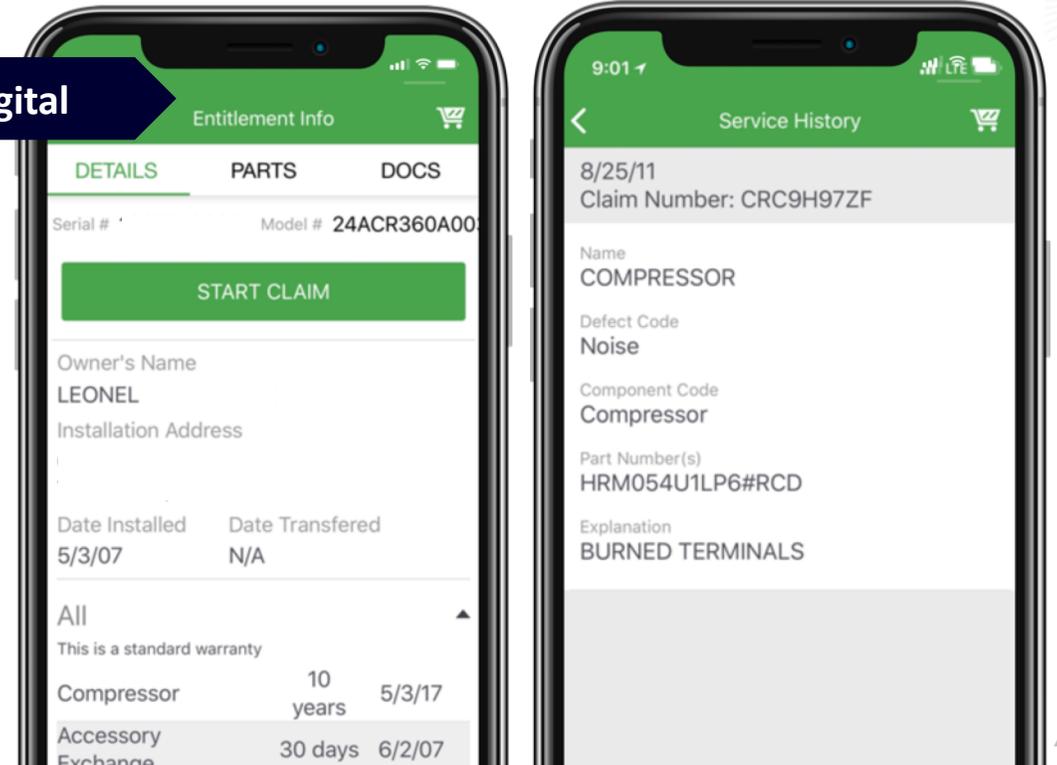
Digital Warranty - Lookup & Processing

watsco

Traditional



Digital



VS

Job-site lookup improves professionalism and **eliminates phone calls**

Job-site warranty claim processing **eliminates time in branch & paperwork**

Speeds customer warranty credit receipt

Minimizes invalid or unneeded claims

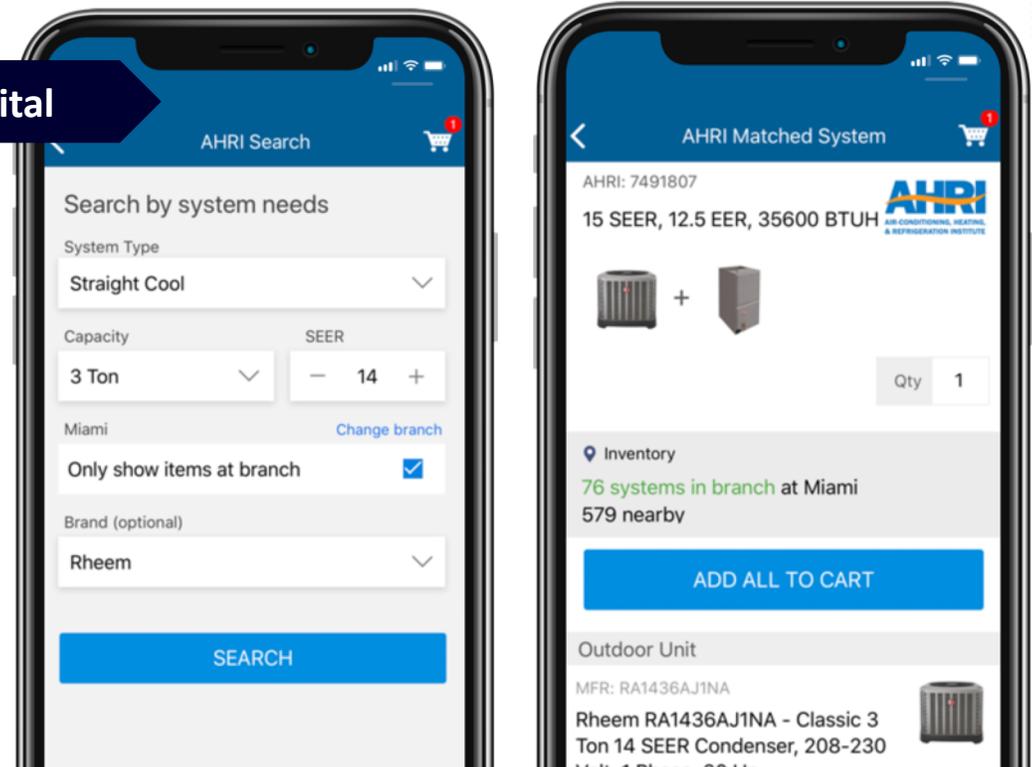
Digitized Product Matching - AHRI



Traditional

Line	Part #	Part Name	Manufacturer	Capacity	SEER	BTUH	Notes
1	171211	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
2	171212	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
3	171213	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
4	171214	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
5	171215	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
6	171216	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
7	171217	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
8	171218	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
9	171219	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	
10	171220	System	LEFRANCOIS INDUSTRIEL, INC.	35000	12.5	35600	

Digital



VS

Self service matchup process **improves customer and branch efficiency**

Greater system **build accuracy**

Higher likelihood of in-stock matchup

Simpler method of **gathering required information** for city permitting

Distributor Management Inventory

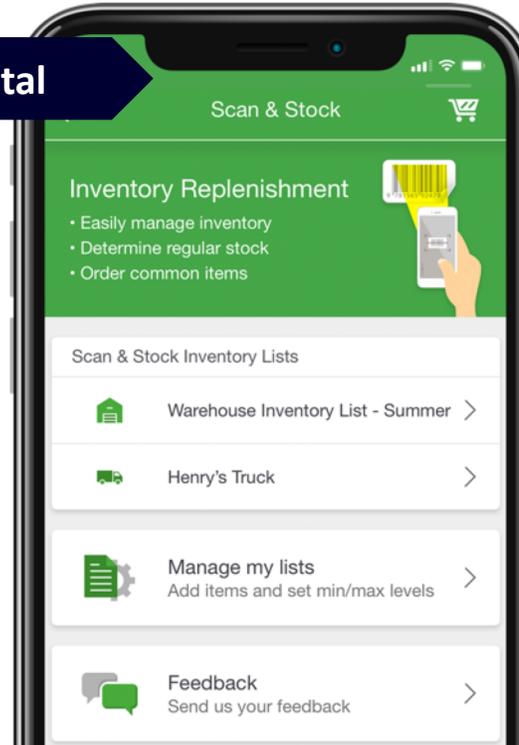
DEVELOPMENT UNDERWAY



Traditional



Digital



VS

Ensure customers **always have the parts** and supplies they need

Extend customer partnership into their warehouses and trucks

Increase parts & supplies sales

Increase inventory forecast accuracy

In Summary



Traditional



Countless hours **wasted** on the phone and waiting in line



Resources spend time **away from the jobs**



Waste eats into business profitability and growth

Digital



Ordering and pickups done in minutes, not hours



Teams and trucks focused on getting jobs done



Resources are deployed to margin-generating activities

VS

Technicians **complete more jobs** is a day

Customers are **more efficient** and profitable

Customer **Loyalty Increases**

Scalable to Future Acquisitions



Helping HVAC Contractors Grow their Business

Business Model Innovation



Innovation Levers



Technologies

- ★ Internet of Things
- ★ Mobile
- ★ Predictive Analytics
- ★ Artificial Intelligence



New business models

- ★ Software as a Service
- ★ Subscription services
- ★ Data monetization



3 ways to innovate

- ★ Build
- ★ Partner
- ★ Invest / Acquire



Investing in Innovation To Support Contractor Business Growth



Power your sales



Power your operation



Power your learning



Power your service contracts



Power your financing

OnCall Air

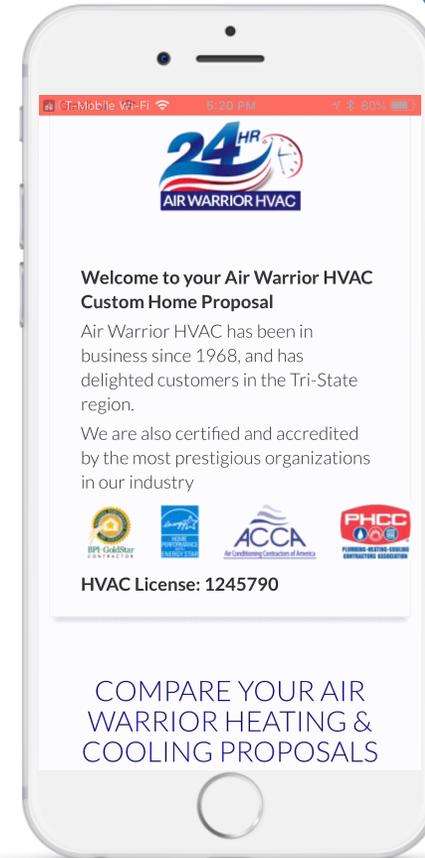


Traditional

Proposal
1880
McComagal 302-789-5092 7/17/10
Strip Circle A/C
Dunsmuir MA 31 Strip Circle
02243 N. DAIT MOUTH VIL
Install New A/C Unit (4th) x111
out door Condenser 4' Fan
New REFRIGERATION PIPING, REMOVE UP
Wiring, LINDO DUCT FITTING ON UNIT, NEW
DAMPERS ON DUCT, NEW ROBERTSONS BIC &
EQUAL TROUSERT, NEW LINE SET, SLIM DUCT
1-13 seer \$4675.00
1-14 seer ELM MOTOR \$6225.00
CHANGE ADDITIONAL DUCT WORK \$1425.00
Also Look for Video, PICS BEHIND ATTIC
All LABOR & VENTS
All LABOR 12 Years * Factory Warrantee
We propose hereby to furnish material and labor in accordance with above specifications, for the sum of
50% START 25% COMPLETION DELAY 25% COMPLETION
Acceptance of Proposal - This does not constitute an offer of insurance and is not intended to be used as a contract for the work as shown. It is intended to be used as a contract for the work as shown. It is intended to be used as a contract for the work as shown.

Digital

VS



Modern, digital **sales platform** optimized for HVAC contractors

Powerful ecommerce capabilities to power the sale – **in person or remotely**

Contractors grow sales, save time, and **delight the homeowner**

Provide **practical insights** into sales process and opportunities

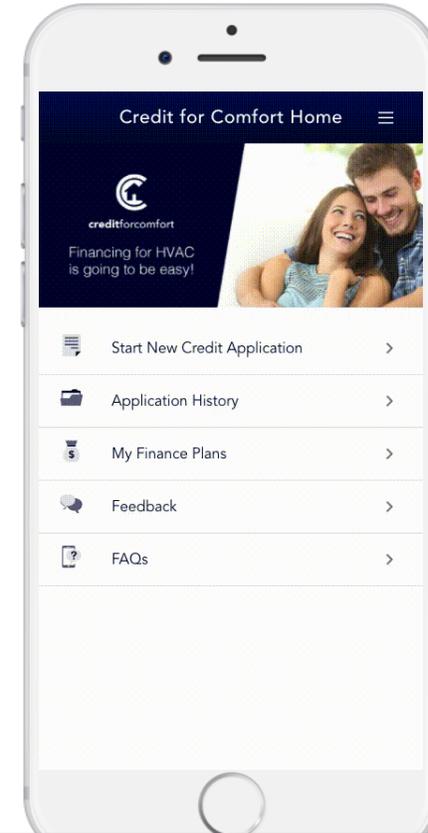
Credit for Comfort

Traditional



Digital

VS



Consumer **financing made easy** for contractors and home owners

Different financing options to suit **every consumer's situation**

Transact with **multiple lenders** through **one mobile experience**

White glove enrollment process for contractors

Housecall Pro



Traditional



Digital

VS



Web and mobile apps to run a **modern HVAC business**

Core features focus on **delivering a great experience** for home owner

Multi-channel job scheduling - supporting how consumers want to engage with contractors

Save time, look professional, **collect payments faster**. Driver of growth.

Service Business Evolution

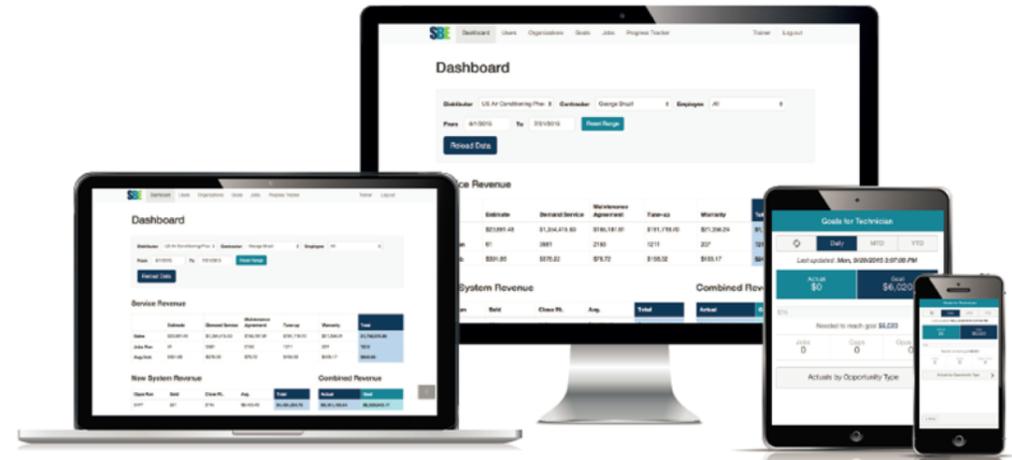


Traditional



Digital

VS



Business growth platform:
training + coaching +
playbook + performance
reporting

Powered by large,
successful, active AOR
contractor in Phoenix,
Arizona

Enables **business growth
ambition** conversation
between our customer and
our sales force

Platform to **share value
added services** from
Watsco and Watsco
Ventures



Traditional



Digital

VS



Remote monitoring and predictive diagnostic of old and new residential HVAC systems

Enabling contractors to offer a **new form of services**

Transformational opportunity for the industry

Increase contractors' **one and done** rates



Watsco Impact



Help our customers **grow their sales, be more productive and more profitable.**

Generate New Revenue Streams for Watsco

1

Drive growth in our core business

2

Gain **unique insights** into our customers and the HVAC industry

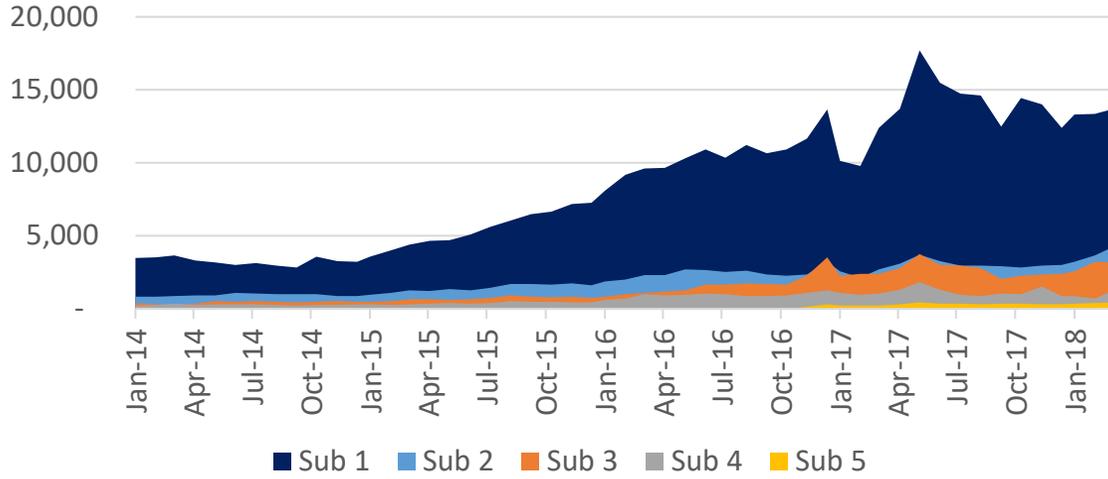
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What Impact Are The Technology Investments Having?

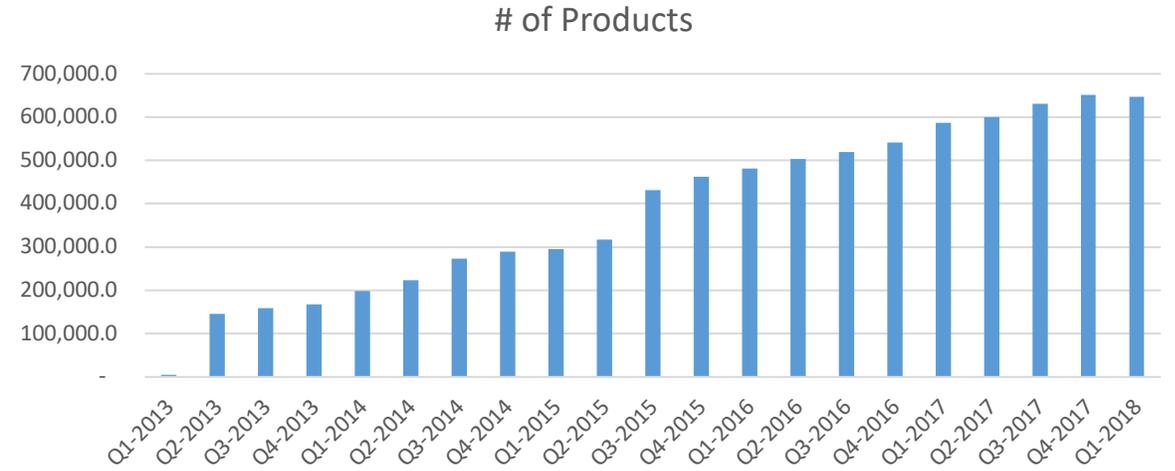
“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.”

– Bill Gates

Contractor Assist - Mobile App Unique Users

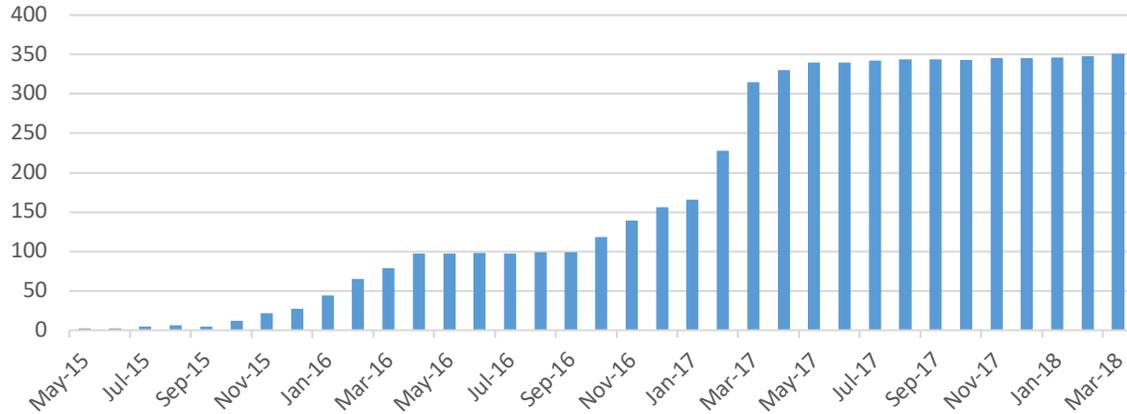


Digitized Assets - Product Information Management

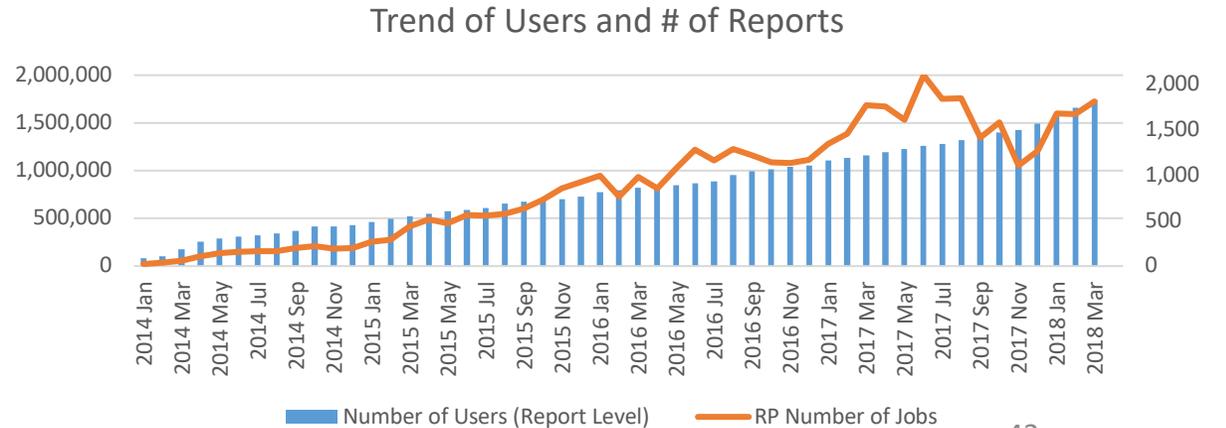


Digital Warehouse Operations – Order Fulfillment

Branches Enabled

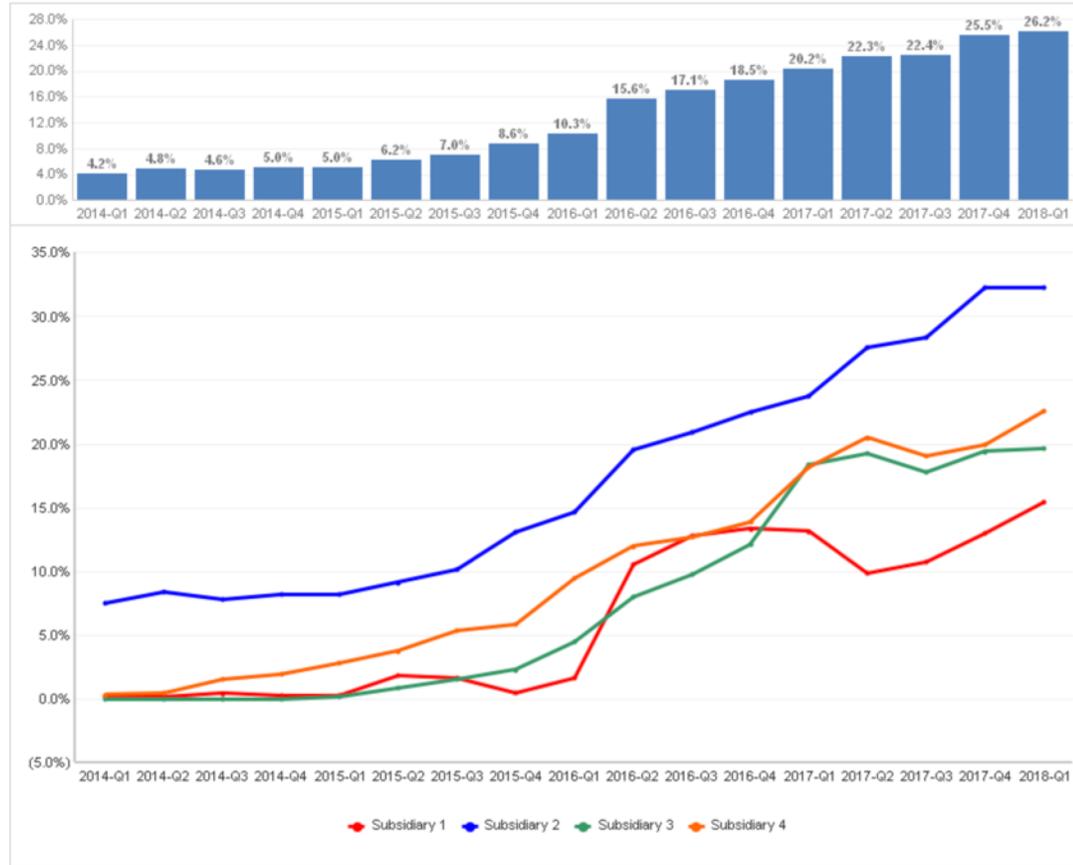


Analytical Insight - Business Intelligence

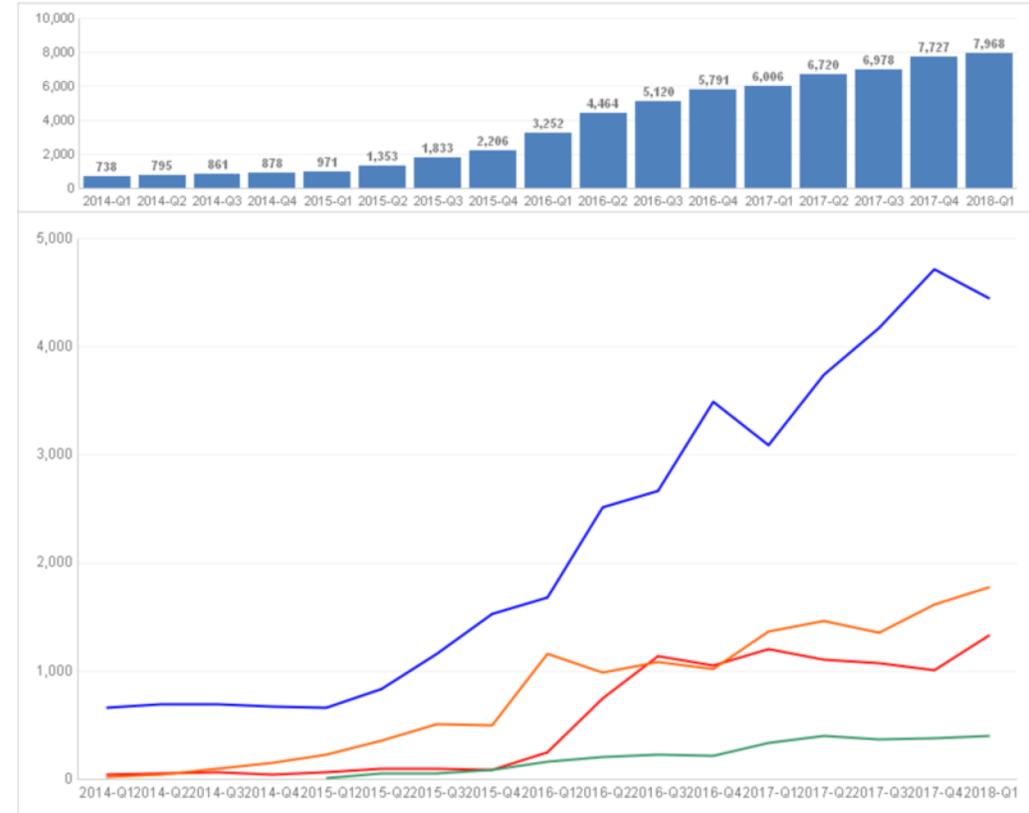


Trends in Technology Adoption

E-Commerce
% of Total Sales



E-Commerce
Number of Customers



Offense

300 bps

Improvement in **service level** fill rates to 97%

55 bps

Improvement in **inventory turns** for fully adopted locations

\$900M

In **e-commerce revenue** in 2017 and 25% revenue run-rate as of 1Q18

2.5x

Better **customer retention** ecommerce users

351

Branches with **Order Fulfilment Technology**

487,000 ft

Reduced real estate requirements in 2017

51%

Increase in **online transactions**

37%

More **line items per order** eCom vs in-store

Q and A
