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# Jefferies Industrial Conference

Rick Gomez, Vice President

August 8, 2019

watsco

WSO  
LISTED  
NYSE

# Safe Harbor Statement

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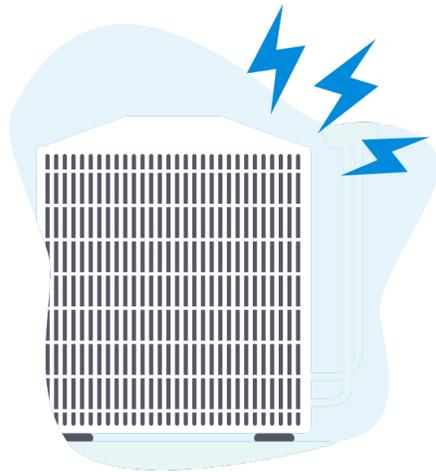
This Presentation contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Statements which are not historical in nature, including the words “anticipate,” “estimate,” “could,” “should,” “may,” “plan,” “seek,” “expect,” “believe,” “intend,” “target,” “will,” “project,” “focused,” “outlook,” “goal” 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, both in the U.S. and in international markets served; 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 patterns and 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's Business Model?

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Broken or Failing A/C unit at Home or Business



Contractor visits homeowner to diagnose problem and recommend solutions



Contractor visits our store or ecommerce site to buy equipment, parts and supplies needed to remedy problem



Contractor completes the repair or replacement of homeowners system

# Watsco's Cultural Principals

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Long Term Thinking

1



Entrepreneurial  
leadership and  
**De-centralized**  
operating philosophy

2



When our  
**Customers Win**, we  
win

3

# Investment Thesis

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**Market leader** in a highly fragmented industry

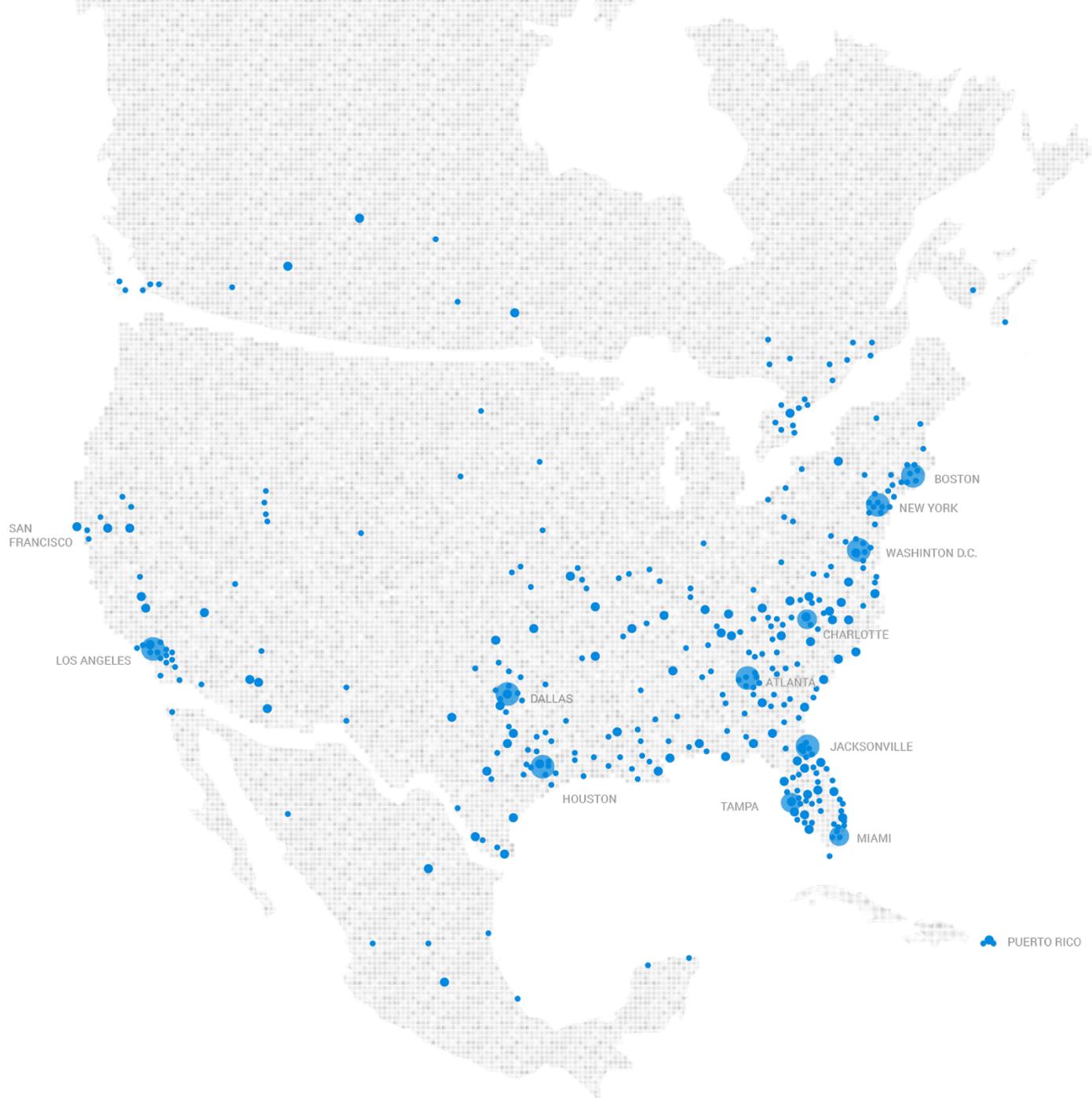
**Transforming** customer experience with enhanced technology

**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 and balance sheet to fund any growth opportunity



# Strategic Locations

United States	523
Canada	36
Latin America & Caribbean	26
<b>TOTAL</b>	<b>585</b>

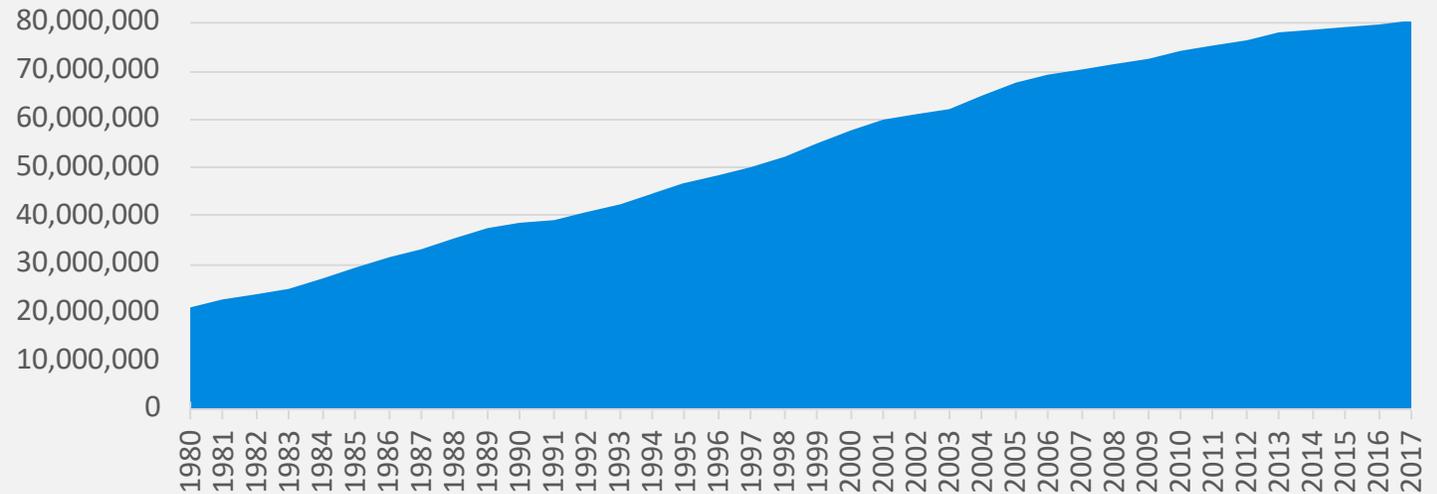


# Install Base

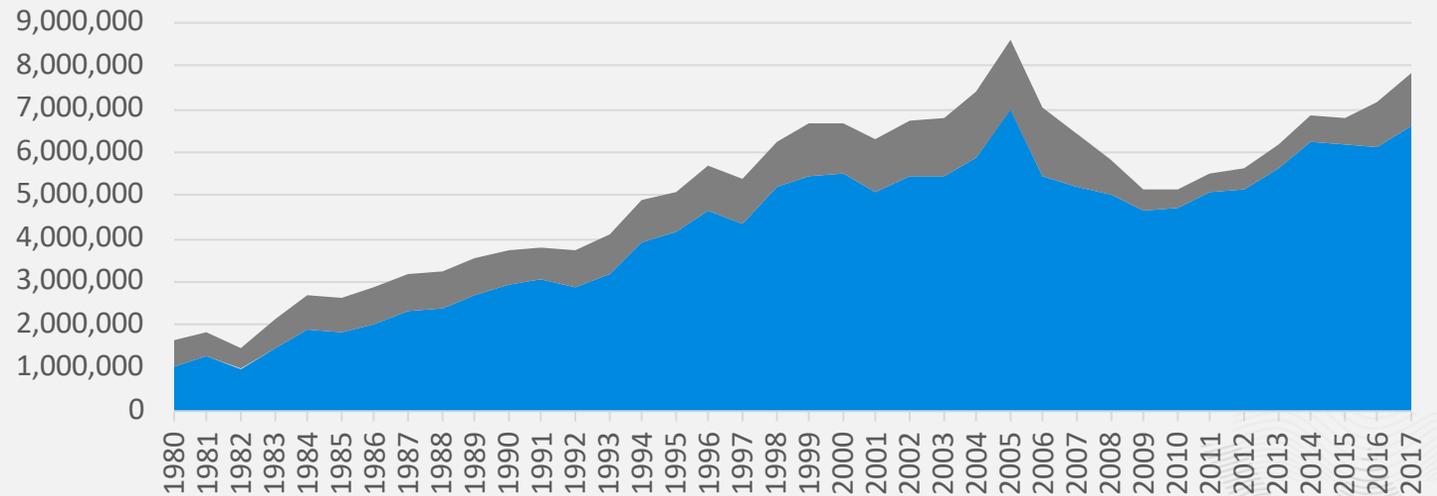
Large and Growing Install Base Drives Steady Replacement Business

- Installed base has increased every year
- Over 115 million installed HVAC units in U.S.
  - Roughly 80 million ducted, unitary systems
- Roughly 8 million units shipped in 2018
- Only 10 - 15% of industry shipments tied to Residential New Construction
- 3.7% CAGR of Install Base since 1980
- 4.3% CAGR of Shipments since 1980

## Installed Base of Central A/C Units

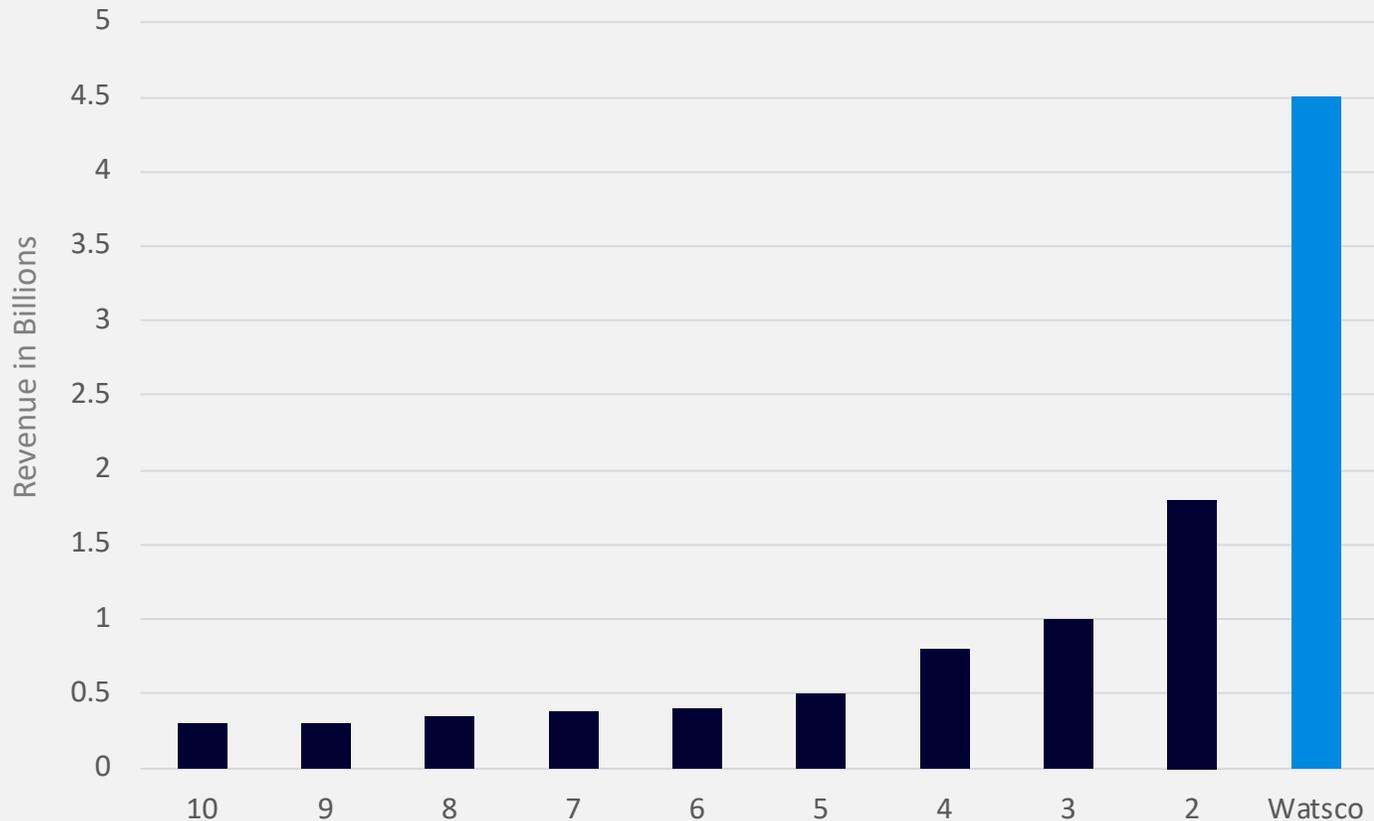


## U.S. Shipments of Central A/C Units



# Market Leader in a Fragmented Market

## Watsco vs Industry Competitors



### Why scale matters:

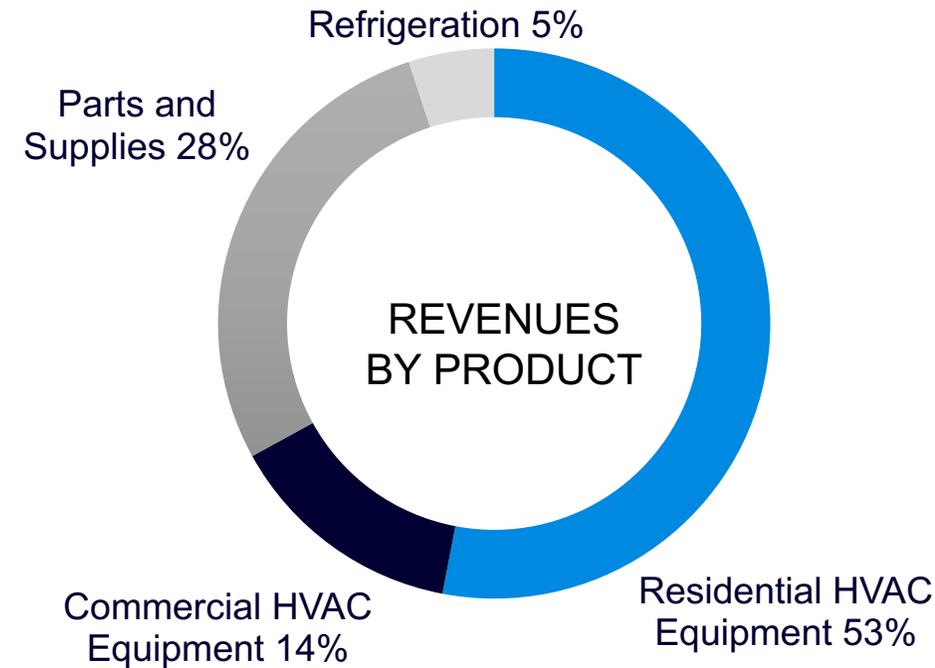
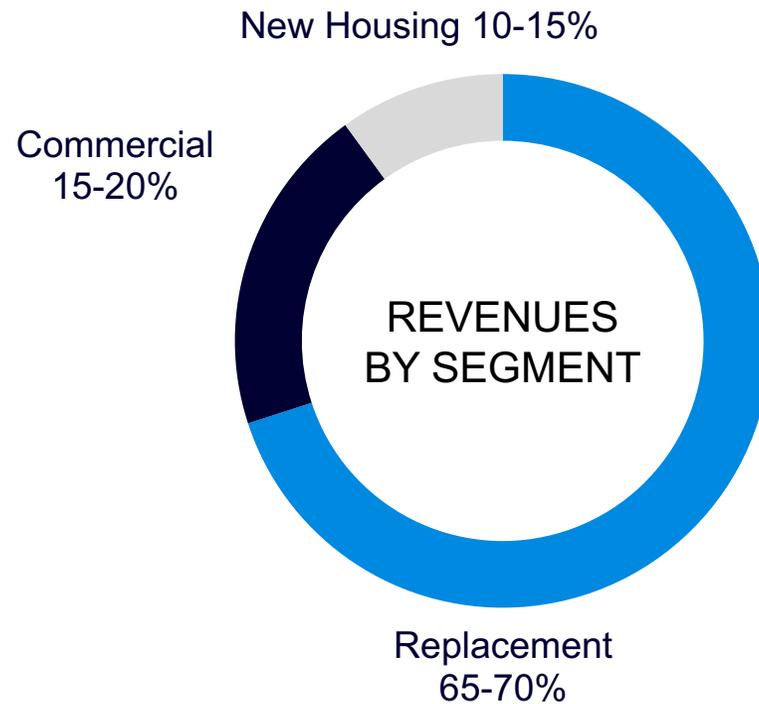
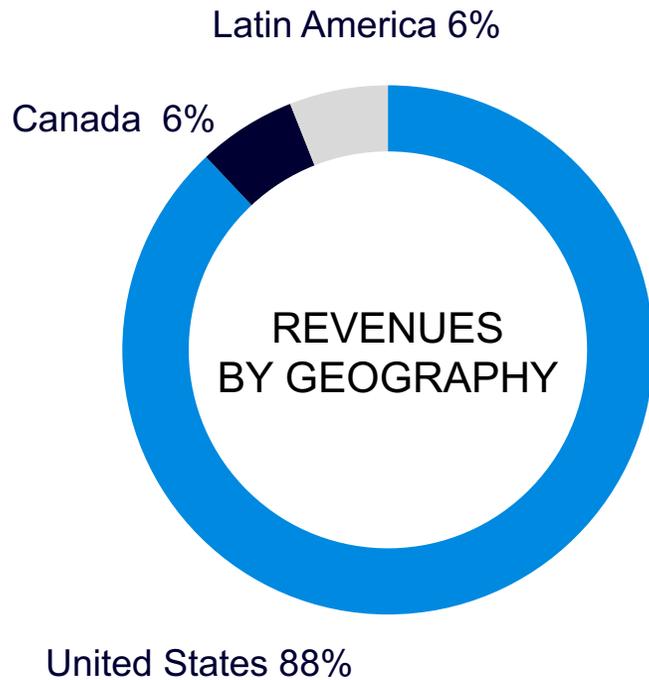
- Greater share of wallet from customer spend
- Greater product availability when it matters most
- Purchasing power from 1,200+ OEMs and suppliers
- Talent acquisition and retention
- Technology inherently scalable

### Significant barriers to entry:

- Technical savvy needed to install / service HVAC units
- Hard for homeowners and retailers to “do it yourself”
- OEM approval needed for most equipment distribution
- Loyal customer base



# Attractive End-Markets and Products



# Using Technology to Transform the HVAC Industry

1

Make it Easier To Do Business with Watsco Through Best-in-Class Digital Experience



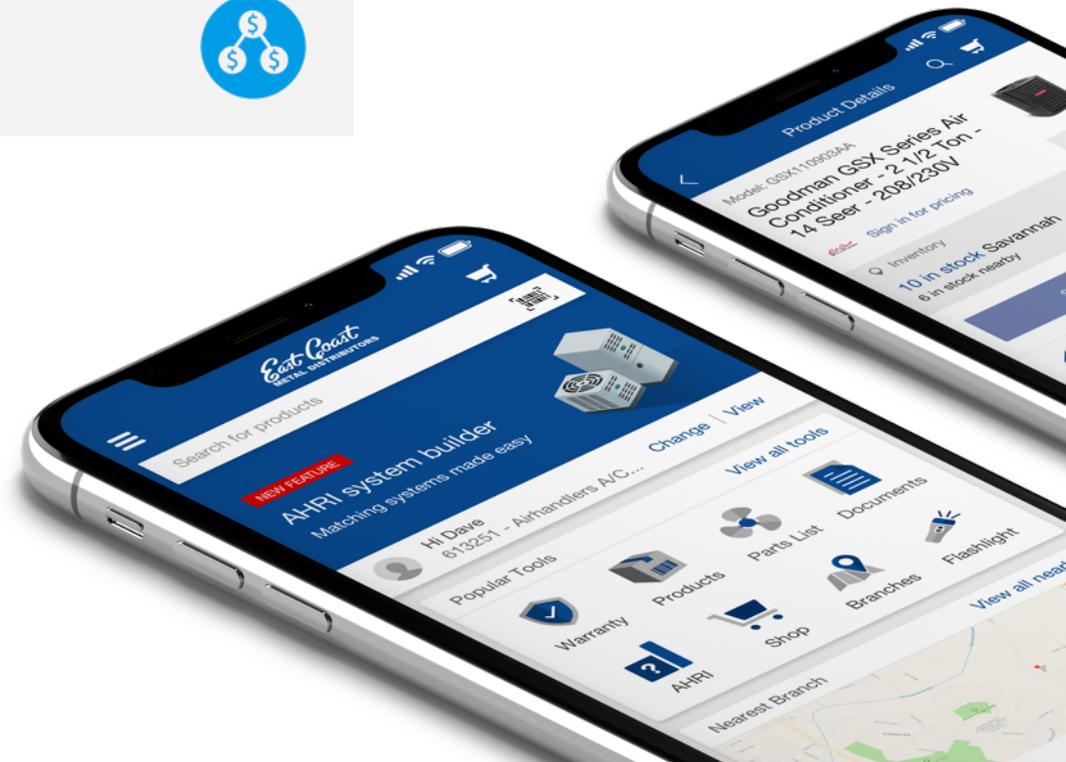
2

Make Watsco More Efficient and Profitable, While Improving Speed to Market



3

Enable New Profit Streams that Help Our Customers Grow Faster



# Benefits of Technology



## Traditional



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



People and resources spend time **away from customers**



**Inefficiencies** eat into business profitability and growth

## Digital



Ordering and pickups done in minutes, not hours



Sales becomes more pro-active and consultative vs. being order takers



Resources better deployed to higher margin-generating activities

VS

Technicians **complete more jobs** is a day

Customers are **more efficient** and profitable

Customer **Loyalty Increases**

**Scalable** to Future Acquisitions

# Early Results

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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 700,000 SKUs

## Mobile Apps for HVAC Customers

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

**\$1.27B**

Annualized e-commerce revenue, equaling 31% run-rate as of 2Q19

**2.5x**

Better customer retention with users of our e-commerce and technology platforms

**24%**

Increase in online transactions YTD 2019 vs. YTD 2018.

**34%**

More line items per order vs in-store 2Q19 vs. 2Q18.

# 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*	6/30/19 LTM	CAGR
Revenues	\$64M	\$4.6B	15%
EBIT	\$2M	\$370M	19%
Share Price	\$2.70	\$163.53	15%
Dividends	\$1M	\$228M	20%
Market Cap**	\$22M	\$6.15B	21%
Market Share (est.)	<1%	~12%	
Locations	16	585	

\*1st year of distribution

\*\* Market Cap calculated using Common Shares and Class B Shares Outstanding

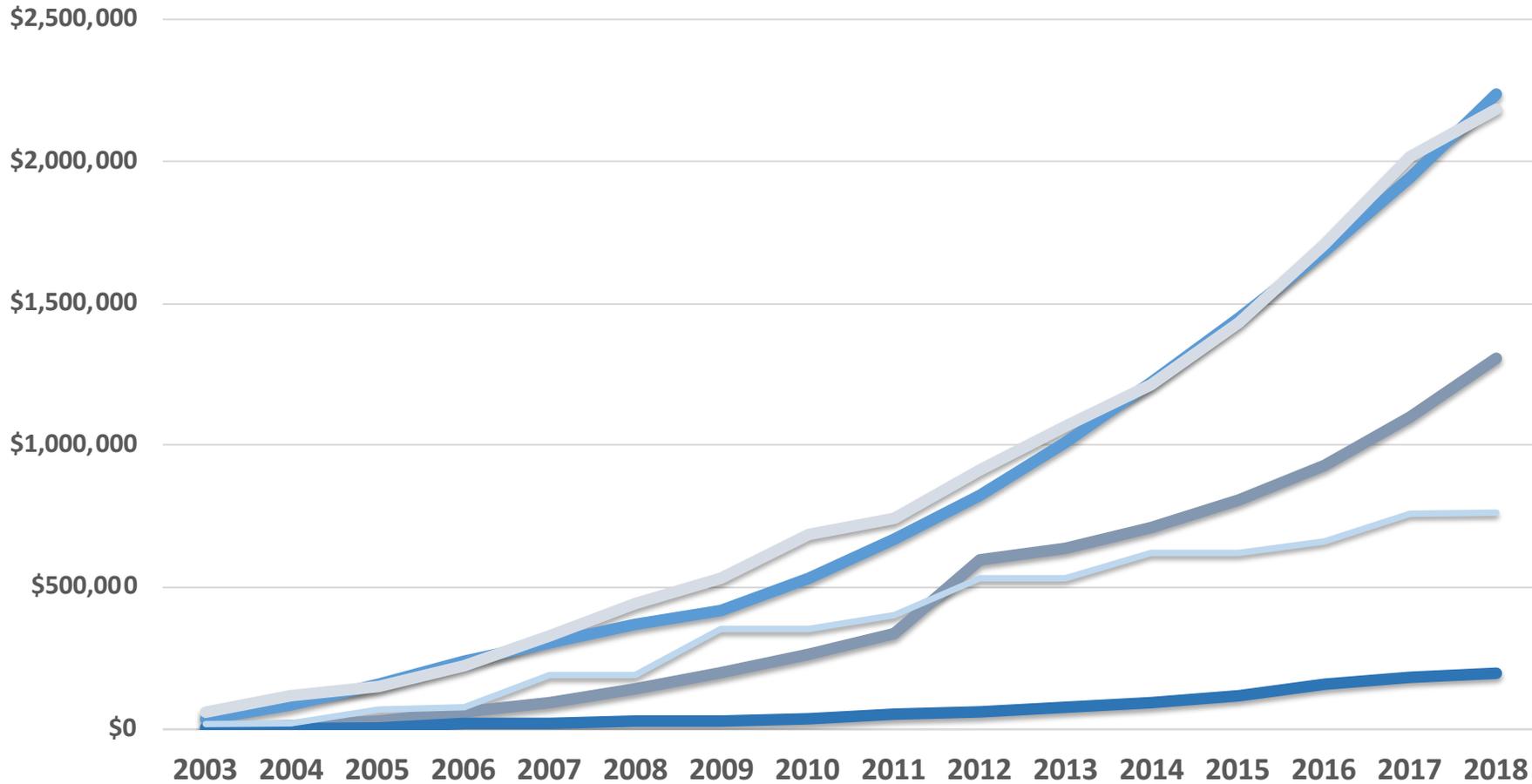
Source: Company SEC filings

	5 YEAR	10 YEAR	20 YEAR	25 YEAR	30 YEAR
Annualized Total Shareholder Return	10.6%	18.0%	14.1%	18.1%	18.2%

Source: Factset as 12/31/18



# Solid Long-Term Performance



## 15-Year Cumulative Results

Net Income: **\$2.2B**

Operating Cash flow: **\$2.2B**

Dividends: **\$1.3B**

Acquisitions: **\$763m**

Capital Expenditures, net: **\$197m**

Source: Company SEC filings



# 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 October 2018, Watsco announced an increase to its Annual Dividend Rate to \$6.40 per share, which became effective in January 2019.

	2017	2018	6/30/19
Cash & Equivalents	\$80m	\$83m	\$56m
Total Debt	\$22m	\$136m	\$220m
Shareholders Equity	\$1,551m	\$1,602m	\$1,633m
Debt to Capitalization	1%	8%	12%
EBITDA*	\$376m	\$394m	\$394m
Net Debt to EBITDA	N/A	< 1.0x	< 1.0x
Operating Cash Flow*	\$307m	\$171m	\$258m
Dividends per share**	\$4.60	\$5.60	\$6.40

Source: Company SEC filings

\* Represents Last Twelve Months

\*\* Represents current dividend rate in effect



# Delivering Exceptional Shareholder Value

Watsco is part of an elite group of companies that have returned 18+% Total Shareholder Return over the last 30 years.



Source: Factset



*“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*

Q&A

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