

Watsco, Inc. (WSO)

1Q13: Industry Improvement Continues...Gradually

BAIRD

Maintain Neutral rating with new \$90 price target. 1Q13 EPS was above expectations and initial 2013 guidance was in line, as industry trends continue to improve only gradually. We have a favorable view of WSO and secular HVAC/R industry trends, but continue to believe consistently stronger organic growth is necessary to demonstrate an accelerated shift from repair to replacement, without which, we see in-line performance from current levels.

- **Maintain Neutral rating with new \$90 price target** based on just over 12x EV/2014E EBITDA.
- **Estimate changes.** Adjusting our 2013 and 2014 EPS estimates to \$3.65 and \$4.07, respectively.
- **1Q13 results solid.** Better gross margin more than offset weaker sales growth, driving EPS above expectations in the seasonally less significant first quarter.
- **Initial 2013 guidance in line.** Management issued initial 2013 EPS guidance of \$3.60-\$3.75, just above our prior \$3.58 estimate (before the current-quarter EPS beat) and bracketing \$3.64 consensus. Management inferred that guidance assumes same-store revenue growth similar to the +8% daily same-store sales growth seen in residential equipment this quarter.
- **Industry trends continue to improve only gradually.** Underlying improvement appears to remain gradual based on almost every key metric, including the release of pent-up demand (better, but still below expected levels), efficiency trends (uptick limited to mid-tier 13-SEER) and new construction trends (other HVAC product sales growth decelerated sequentially). While we continue to believe pent-up demand is significant, we would expect stronger organic growth to signal an accelerated shift from repair to replacement.
- **Acquisition enthusiasm dampened, although one CE option remains.** Acquisition prospects appear to be limited near term, especially for large transactions, marking a change in tone. An accretive 10% option does remain on the original Carrier Enterprise JV, however, which the company plans to exercise in mid-2014 (included in our 2H14 estimates).
- **Dividend uncertainty lingers.** While the company again pledged to reevaluate the dividend before year-end, the focus remains on debt reduction near term, with the magnitude of any potential increases unclear at this time.
- **1Q13 results.** EPS \$0.39 vs. \$0.32 estimate. Sales \$713.6 million vs. \$724.9 million estimate. Same-store sales +3% vs. +4.9% estimate. Gross margin 24.6% vs. 23.8% estimate. EBIT margin 4.3% vs. 3.9% estimate.

Watsco is the leading independent US distributor of heating, ventilating, air conditioning and refrigeration (HVAC/R) equipment and related products.

RAISING PRICE TARGET

1-Year Price Chart



Stock Data

Rating:	Neutral
Suitability:	Average Risk
Price Target/Previous:	▲\$90/\$85
Price (4/18/13):	\$80.31
Market Cap (mil):	\$2,586
Shares Out (mil):	32.2
Average Daily Vol (mil):	0.23
Dividend Yield:	1.2%

Estimates

FY Dec	2012A	2013E	2014E
Q1	0.24 A	0.39 A	
Q2	1.15 A	1.37 E	
Q3	1.19 A	1.32 E	
Q4	0.41 A	0.56 E	
Fiscal EPS	3.00 A	3.65 E	4.07 E
Previous (FY)		3.58 E	4.26 E
Fiscal P/E	26.8x	22.0x	19.7x

Chart/Table Sources: Bloomberg and Baird Data

**Please refer to Appendix
- Important Disclosures
and Analyst Certification**

Details

Watsco, Inc. (WSO - NYSE)								
Quarterly Results and Variance Sheet								
	Quarterly Results					Percent of Revenue		
	1Q13	1Q12	Change	Baird/	Variance	1Q13	1Q12	Baird/
Net Sales	\$ 713.6	\$ 633.5	13%	\$ 724.9	(2%)			
Cost of Sales	538.2	482.9	11%	552.1	(3%)			
Gross Profit	175.4	150.6	16%	172.8	2%	24.6%	23.8%	23.8%
SG&A	144.9	130.4	11%	144.3	0%	20.3%	20.6%	19.9%
Operating Income	30.6	20.2	51%	28.5	7%	4.3%	3.2%	3.9%
Other Exp (Inc)	1.2	0.9	33%	1.7	(31%)			
Pretax Income	29.4	19.3	52%	26.8	10%	4.1%	3.1%	3.7%
Taxes	8.3	5.6	47%	7.6	9%	28.2%	29.1%	28.3%
Net Income	21.1	0.0	-	19.2	10%			
Minority Interest	7.7	0.0	-	7.3	6%			
Restricted Stock	0.9	1.4		1.5	(38%)			
Net Income - WSO	\$ 12.4	\$ 7.3	71%	\$ 10.4	19%	1.7%	1.1%	1.4%
Diluted EPS	\$ 0.39	\$ 0.24		\$ 0.32				
Diluted Shares	32.2	30.8		32.3				

Source: Company reports, Robert W. Baird & Co. estimates

1Q13 results

- **EPS.** EPS was \$0.39 vs. \$0.24 y/y, above our \$0.32 estimate (\$0.33 consensus).
- **Sales.** Sales were \$713.6 million vs. \$633.5 million y/y, below our \$724.9 million estimate (\$722.8 million consensus).
- **Same-store sales.** Overall same-store sales were +3% vs. our +4.9% estimate. HVAC equipment was +3% (residential +6%, commercial -5%) vs. our +4% estimate, other HVAC products were +1% vs. our +6% estimate, and commercial refrigeration was +7% vs. our +8% estimate.
- **Gross margin.** Gross margin of 24.6% (+80bps y/y) was above our 23.8% estimate. We suspect mix of other HVAC products was favorable due to stronger residential construction, with better selling margins also likely.
- **SG&A.** SG&A as a percentage of sales was 20.3% (-30bps y/y) vs. our 19.9% estimate, although SG&A dollars were roughly in line. Excluding new locations, SG&A was -1% vs. same-store sales +3%.
- **EBIT margin.** Resulting EBIT margin of 4.3% (+110bps y/y) was above our 3.9% estimate, as better gross margin more than offset softer sales and higher SG&A.

Management outlook

- **Formal guidance issued.** Given the early-season trends noted above, the company issued initial 2013 EPS guidance of \$3.60-\$3.75, just above our prior \$3.58 estimate -- excluding the current-quarter EPS beat -- and bracketing \$3.64 consensus. While specific sales guidance was not provided, management did note that the +8% daily same-store sales growth in residential equipment seen in 1Q13 gives inference the assumption underlying guidance.
- **Gross margin.** Gross margin gains are expected to be more moderate over the balance of the year, as the positive impact from pricing (estimated to be 20-30% of the +80bps improvement) fades.
- **Operating leverage.** No specific guidance was given, other than that SG&A will be tightly managed to drive operating efficiencies and adapt to weather variances.
- **Dividend policy.** The company reiterated its plans to reduce debt near-term and evaluate increasing the dividend (likely commensurate with growth in cash flow) before year-end (likely following 3Q13 earnings).

Our outlook

- **EPS.** Adjusting our 2013 and 2014 EPS estimates to \$3.65 (+22%) and \$4.07 (+12%), respectively.
- **Sales.** We forecast an acceleration to high-single-digit (roughly +7-8%) same-store sales growth over the remainder of 2013, consistent with management commentary that the +8% daily same-store sales growth in residential equipment seen in 1Q13 gives inference to the same-store growth assumed in guidance. We see same-store sales growth as relatively consistent across all three product lines going forward.
- **Pricing.** Consistent with the takeaways of our recent Distribution Survey (more on this below), we are modeling price +1% over the balance of 2013.
- **Gross margin.** We expect 2013 gross margin to increase approximately 50bps vs. 2012, consistent with management commentary that the gains seen in 1Q13 (+80bps y/y) should moderate through the year.
- **SG&A / Contribution margins.** We are modeling modest expense leverage overall in 2013 (operating expenses +7.8% vs. +9.4% sales growth), which translates to contribution margins in the low- to mid-teens.

Industry trends

- **“Repair vs. replace” continues to unwind slowly.** The release of pent-up demand was characterized as better than the previous year, but still below expected levels.
- **Efficiency mix sees modest improvement.** Positively, management noted an uptick in mid-tier 13-SEER equipment vs. low-tier 13-SEER equipment, reversing a price/mix headwind seen in recent quarters. The company has not seen a mix shift to 14-SEER and higher equipment, however, which is believed to be tied to consumer confidence.
- **Dry-ship R22 impact continues to fade.** Consistent with the findings of our 1Q13 distribution survey, the mix of dry-ship R22 sales continues to decline, with management characterizing the current level of sales as “not even a blip on the map” despite recently increased supply of virgin R22.
- **Residential construction tailwind.** While new residential construction trends were cited as lifting residential equipment trends during the quarter, sales growth of other HVAC product sales (residential construction = 5x revenue opportunity vs. replacement) unexpectedly decelerated sequentially.
- **Pricing positive.** Management noted positive pricing on equipment, consistent with our 1Q13 Distribution Survey, which indicated that low-single-digit pricing is expected to stick on HVAC equipment.

Carrier Enterprise/Acquisitions

- **CE profitability remains solid.** It appears that overall profitability at Carrier Enterprise was again very solid this quarter based on the minority interest and estimated revenues, with estimated operating margins again coming in above the corporate average.
- **CE catalysts largely played out.** Since early 2011, Watsco has agreed to three additions to its original Carrier Enterprise joint venture (CE Northeast, CE Mexico, and CE Canada), while also exercising a 10% option on the original joint venture. This catalyst appears to have largely played out, however, with another 10% option on the original joint venture in mid-2014 seemingly the only catalyst on the horizon.
- **Non-CE acquisition opportunities limited?** Management reversed their recently optimistic tone regarding potential larger transactions, noting a lack of enthusiasm over current acquisition prospects.

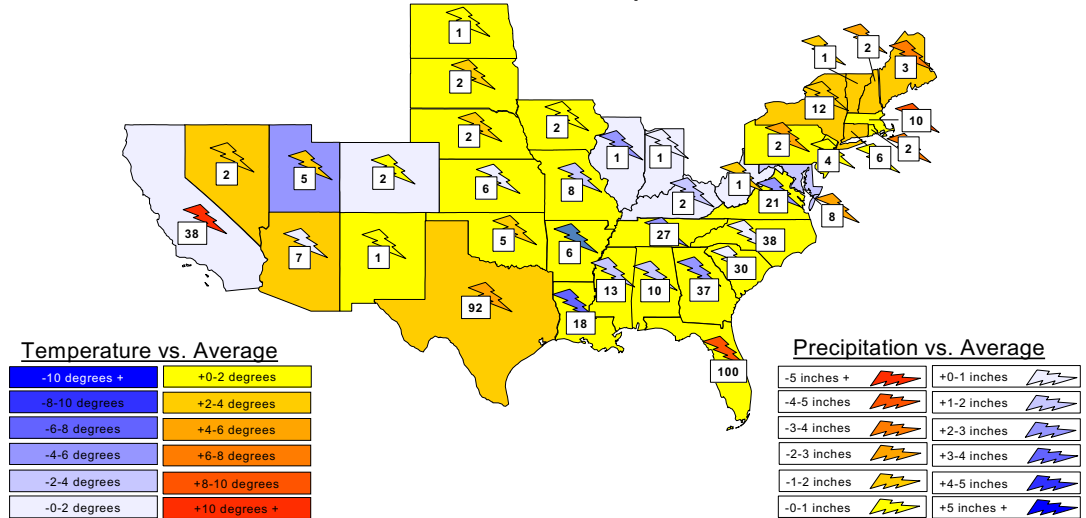
1Q13 weather

- **Temperature.** Temperatures during 1Q13 were roughly in line with historical averages across WSO’s US footprint, with key states Florida, Texas, Georgia and the Carolinas slightly above average and California slightly below. This stands in stark contrast to 1Q12, when temperatures were well above average across the board, especially in Northern markets, driving an earlier start to

Spring.

- **Precipitation.** Much of the Sunbelt was sogrier than normal in 1Q13 including the key states of Georgia and the Carolinas. The exception to this was Florida and Texas, which were both dryer than normal, while similarly dry trends were also seen in California.

Watsco (WSO) 1Q13 Weather Update



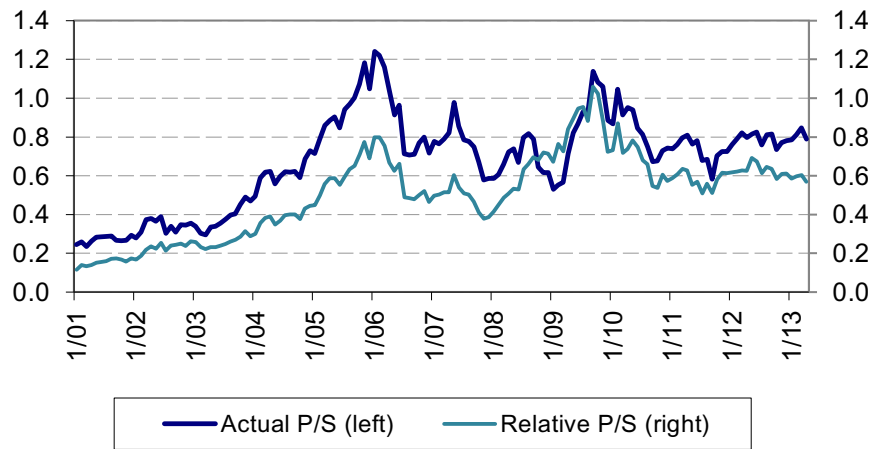
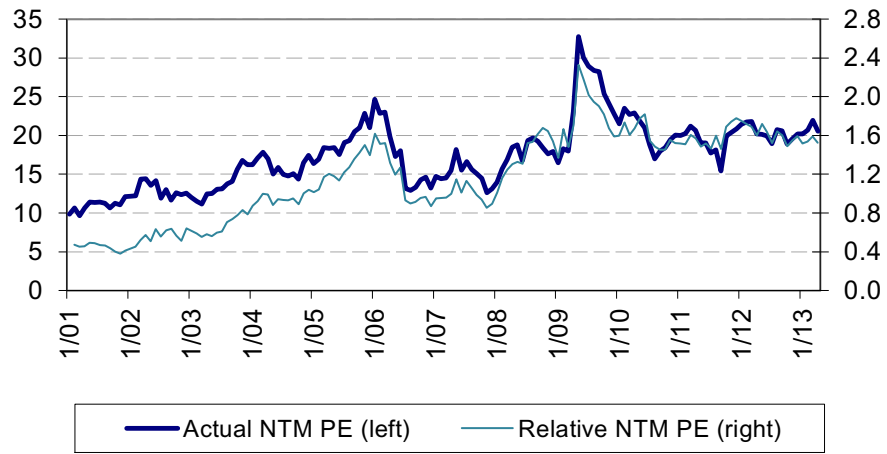
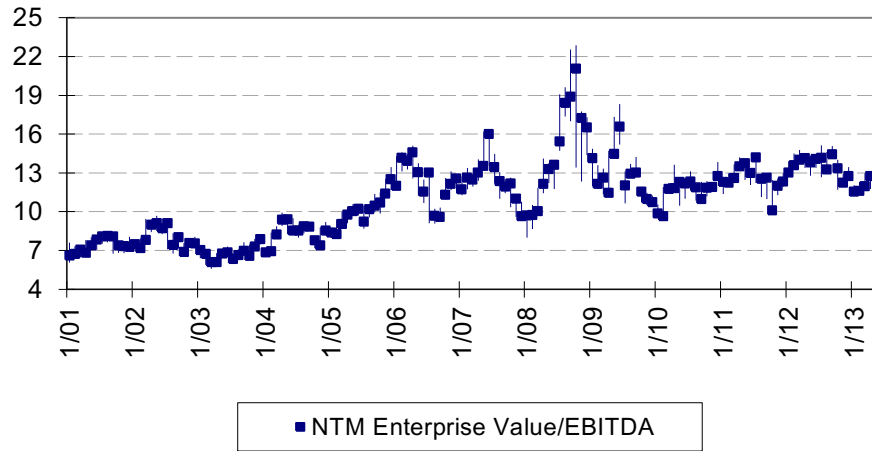
Source: NOAA, Robert W. Baird & Co.

Balance sheet remains strong

- **Turns/Conversion ratios.** Turns and cash conversion ratios continue to be difficult to judge with the addition of Carrier Enterprise(s).
- **Inventory.** Total inventory was +22% y/y during the quarter, outpacing overall y/y sales growth of +13%, as comparisons remain difficult due to recent Carrier JVs.
- **Net debt.** Watsco has net debt of approximately of \$300.0 million, representing net debt/cap of 27.7%.
- **ROE.** ROE was 20.0% vs. 17.7% y/y and 18.9% q/q.
- **EBITDA ROIC.** EBITDA ROIC was 10.7% vs. 11.5% y/y and 10.5% q/q.

Watsco, Inc. (WSO - NYSE)			
Estimate Changes			
2Q13E	New	Old	Change
Sales (millions)	\$1,119.6	\$1,124.2	(\$4.6)
Sales Growth	10.7%	11.1%	(0.5%)
Gross Profit Margin	23.9%	23.8%	15bp
Operating Exp.	\$167.9	\$167.2	\$0.8
Op Ex. % of Sales	15.0%	14.9%	13bp
EBIT Margin	8.9%	8.9%	2bp
Diluted EPS	\$1.37	\$1.36	\$0.01
2013E	New	Old	Change
Sales (millions)	\$3,755.6	\$3,774.5	(\$18.9)
Sales Growth	9.4%	10.0%	(0.6%)
Gross Profit Margin	24.2%	23.9%	28bp
Operating Exp.	\$635.3	\$628.6	\$6.7
Op Ex. % of Sales	16.9%	16.7%	26bp
EBIT Margin	7.2%	7.2%	2bp
Diluted EPS	\$3.65	\$3.58	\$0.07
2014E	New	Old	Change
Sales (millions)	\$3,999.3	\$4,089.8	(\$90.5)
Sales Growth	6.5%	8.4%	(1.9%)
Gross Profit Margin	24.2%	24.0%	20bp
Operating Exp.	\$671.6	\$661.1	\$10.5
Op Ex. % of Sales	16.8%	16.2%	63bp
EBIT Margin	7.4%	7.8%	(43bp)
Diluted EPS	\$4.07	\$4.26	(\$0.19)

Source: Robert W. Baird & Co. estimates



Source: FactSet, Robert W. Baird & Co. estimates

Investment Thesis

The call. We rate WSO Neutral. Our \$90 price target is based on just over 12x EV/2014E EBITDA, in line with the five-year NTM average. Fundamentally, we are encouraged by continued improvement in replacement trends (albeit gradual), early-stage construction uptick and favorable medium-term industry outlook. With only moderate upside to our price target and a reduced dividend going forward, however, we see in-line performance from current levels, even during what has historically been a favorable seasonal period (through May).

Market share gains. We believe Watsco will continue to take market share from the fragmented group of 1,300+ HVAC distributors in the US given benefits of scale (higher rebates, better sourcing, management resources, breadth of products, etc.). Sales of parts and supplies via the Carrier Enterprise JV should also lead to share gains and outsized growth in these categories.

Higher ASPs. Several developments in the cooling market should drive higher average selling prices over the long-term including secular proliferation of environmentally friendly R410-A refrigerant and higher-efficiency products.

Cyclical thesis. With ASP pressure due to R22 "dry-ship" and lower efficiency (13-SEER units) units abating, gradual shift from replacement to repair thus far, and early-stage improvement in new residential construction trends, we believe fundamentals in the HVAC market remain near a bottom and augment the company's relatively defensive characteristics. Furthermore, we estimate that 3+ million units of "pent-up demand" was already generated in the most recent economic downturn, which, in our view, represents a significant opportunity to drive years of above-trendline growth (5.5 million unitary shipments in 2011 and an estimated low single digit percentage more in 2012).

Private label. The company currently sells private-label unitary HVAC under the Whirlpool brand which has historically driven 10bp range gross margin improvement on an annual basis. There are also additional opportunities to sell parts and supplies under the GemTech name.

Acquisition and JV opportunities. Historically acquisitive, the company is focused on acquisitions of \$50 million, but with few potential targets at that level, the company may need to increase new branch openings to drive increased organic growth. WSO is a disciplined acquirer, rarely paying above 4-7x EBITDA. The company has plenty of borrowing capacity to consummate additional transactions.

Risks to our Neutral thesis. Pent-up demand driving above-average growth, additional joint ventures/acquisitions, positive impact of looming regional-SEER standards (driving higher ASPs), incremental new home construction, and/or volume driving EBIT margins to 8% target and beyond.

Risks & Caveats

Seasonality. Sales of Watsco's HVAC/R equipment and parts are seasonal, with sales strongest in the second and third quarters. These periods coincide with construction activity, and, more importantly for Watsco, high usage of air-conditioning equipment resulting in greater servicing needs.

Weather influence. Given that 85-90% of Watsco's HVAC/R product sales are of a replacement nature, the company's sales and profits can be impacted by changes in temperature. Unusually hot weather can lead to greater air conditioning usage and higher repair and replacement demand, although focus on the US Sunbelt mitigates the impact of weather significantly.

Ownership concentration. Albert Nahmad, CEO, controls more than 50% of the aggregate voting power across both classes of common stock and has the power to elect six of nine board members.

Manufacturer's terms and conditions. Watsco purchases nearly three-fourths of its product from just a handful of manufacturers (Carrier, Rheem, Goodman and Nordyne). Watsco feels that its relationship with these manufacturers is in good standing and has long-term distribution agreements that provide a degree of exclusive distribution rights for each vendor. If there were an interruption in the production or delivery from any of these manufacturers, it could materially impact Watsco's performance.

Company Description

Watsco is the leading independent US distributor of heating, ventilating, air conditioning and refrigeration (HVAC/R) equipment and related products, with over 575 branches and annual run rate sales of approximately \$3.5 billion. Watsco primarily distributes residential central air conditioning products to over 50,000 US contractors. Watsco has been the most active consolidator in this highly fragmented industry, having completed over 50 acquisitions since 1989. Watsco's focus on the replacement market in the US Sunbelt, where air conditioning is a necessity rather than a luxury, allows for a more stable, predictable demand curve (presently it is estimated that 85% of HVAC sales are replacement in nature). The company also has leading market positions in the key air conditioning states of Florida, Texas, California, Georgia and the Carolinas.



Watsco, Inc.

(WSO - NYSE)

(\$ in thousands, except per share)

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Recent Price \$80.31
Fiscal Year End December
Date Printed April 18, 2013

Fiscal Year	Revenue		Gross Profit			Operating Expense			EBITDA		Operating Profit			Other Exp (Inc)	Pretax Income			Income Taxes		Income - Cont Ops	Minority Interest	Rstrctd Stock	Net Income			Diluted EPS		Comm Div	Avg Shares	
	\$	Chg	\$	%	Chg	\$	%	Chg	\$	%	\$	%	Chg		\$	%	\$	%	\$				%	\$	%	\$	%			\$
1994	260,133		55,380	21.3%		42,588	16.4%		15,137	5.8%	12,792	4.9%		2,906	9,886	3.8%		3,805	38.5%	4,445				4,445	1.7%		0.30		14,954	
1995	308,257	18.5%	66,330	21.5%	19.8%	49,567	16.1%	16.4%	19,757	6.4%	16,763	5.4%	31.0%	3,843	12,920	4.2%	30.7%	4,806	37.2%	6,528				6,528	2.1%	46.9%	0.42	40.0%	0.09	15,684
1996	399,970	29.8%	87,317	21.8%	31.6%	64,731	16.2%	30.6%	25,130	6.3%	22,586	5.6%	34.7%	2,901	19,685	4.9%	52.4%	7,524	38.2%	12,045				12,045	3.0%	84.5%	0.57	35.9%	0.09	21,288
1997	679,931	70.0%	152,788	22.5%	75.0%	117,995	17.4%	82.3%	40,090	5.9%	34,793	5.1%	54.0%	3,301	31,492	4.6%	60.0%	12,124	38.5%	19,368				19,368	2.8%	60.8%	0.72	27.8%	0.09	26,780
1998	1,062,265	56.2%	241,924	22.8%	58.3%	187,858	17.7%	59.2%	63,047	5.9%	54,066	5.1%	55.4%	11,253	42,813	4.0%	35.9%	15,841	37.0%	26,972				26,972	2.5%	39.3%	0.94	30.0%	0.09	28,690
1999	1,246,272	17.3%	291,838	23.4%	20.6%	232,399	18.6%	23.7%	70,330	5.6%	59,439	4.8%	9.9%	12,643	46,796	3.8%	9.3%	17,315	37.0%	29,481				29,481	2.4%	9.3%	1.00	6.3%	0.10	29,283
2000	1,307,732	4.9%	309,403	23.7%	6.0%	252,588	19.3%	8.7%	68,687	5.3%	56,815	4.3%	(4.4%)	13,211	43,604	3.3%	(6.8%)	16,327	37.4%	27,385				27,385	2.1%	(7.1%)	0.99	(1.4%)	0.10	27,793
2001	1,238,646	(5.3%)	300,054	24.2%	(3.0%)	245,708	19.8%	(2.7%)	65,833	5.3%	54,346	4.4%	(4.3%)	9,955	44,391	3.6%	1.8%	16,156	36.4%	28,235				28,235	2.3%	3.1%	1.04	5.2%	0.10	27,251
2002	1,147,561	(7.4%)	279,952	24.4%	(6.7%)	227,289	19.8%	(7.5%)	59,958	5.2%	52,663	4.6%	(3.1%)	7,190	45,473	4.0%	2.4%	15,807	34.8%	29,666				29,666	2.6%	5.1%	1.11	6.9%	0.12	26,793
2003	1,206,526	5.1%	299,169	24.8%	6.9%	236,712	19.6%	4.1%	68,956	5.7%	62,457	5.2%	18.6%	5,509	56,948	4.7%	25.2%	21,259	37.3%	35,689				35,689	3.0%	20.3%	1.37	23.8%	0.24	26,037
2004	1,294,715	7.3%	333,619	25.8%	11.5%	249,525	19.3%	5.4%	90,859	7.0%	84,094	6.5%	34.6%	4,413	79,681	6.2%	39.9%	30,311	38.0%	49,370				49,370	3.8%	38.3%	1.83	33.7%	0.42	26,931
2005	1,658,249	28.1%	418,479	25.2%	25.4%	301,196	18.2%	20.7%	123,472	7.4%	117,283	7.1%	39.5%	3,342	113,941	6.9%	43.0%	43,413	38.1%	70,528				70,528	4.3%	42.9%	2.54	38.5%	0.56	27,769
2006	1,771,214	6.8%	457,270	25.8%	9.3%	321,876	18.2%	6.9%	141,180	8.0%	135,394	7.6%	15.4%	3,820	131,574	7.4%	15.5%	49,341	37.5%	82,233				82,233	4.6%	16.6%	2.95	16.3%	0.95	27,829
2007	1,758,022	(0.7%)	446,985	25.4%	(2.2%)	335,831	19.1%	4.3%	117,574	6.7%	111,154	6.3%	(17.9%)	3,172	107,982	6.1%	(17.9%)	40,493	37.5%	67,489				67,489	3.8%	(17.9%)	2.43	(17.9%)	1.46	27,824
2008	1,700,237	(3.3%)	441,994	26.0%	(1.1%)	343,386	20.2%	2.2%	105,679	6.2%	98,608	5.8%	(11.3%)	2,018	96,590	5.7%	(10.5%)	36,221	37.5%	60,369				60,369	3.6%	(10.5%)	2.18	(10.3%)	1.75	27,736
2009	2,001,815	17.7%	480,832	24.0%	8.8%	397,734	19.9%	15.8%	191,631	4.6%	83,098	4.2%	(15.7%)	2,731	80,367	4.0%	(16.8%)	26,069	32.4%	54,298		9,421		44,877	2.2%	(25.7%)	1.56	(28.6%)	1.92	28,860
2010	2,844,595	42.1%	673,241	23.7%	40.0%	507,669	17.8%	27.6%	176,343	6.2%	165,572	5.8%	99.2%	3,490	162,082	5.7%	101.7%	50,360	31.1%	111,722		30,962	5,844	74,916	2.6%	66.9%	2.45	57.7%	2.04	30,544
2011	2,977,759	4.7%	728,294	24.5%	8.2%	529,244	17.8%	4.2%	210,775	7.1%	199,050	6.7%	20.2%	4,458	194,592	6.5%	20.1%	56,850	29.2%	137,742		47,292	7,190	83,260	2.8%	11.1%	2.71	10.4%	2.28	30,753
Q1	633,512	18.6%	150,622	23.8%	11.6%	130,405	20.6%	10.3%	23,298	3.7%	20,217	3.2%	21.0%	888	19,329	3.1%	21.7%	5,619	29.1%	13,711		5,026	1,408	7,277	1.1%	14.6%	0.24	14.1%	0.62	30,834
Q2	1,011,801	14.5%	238,475	23.6%	11.9%	152,604	15.1%	10.9%	89,647	8.9%	85,871	8.5%	13.7%	1,350	84,521	8.4%	13.4%	23,620	27.9%	60,901		21,798	2,702	36,401	3.6%	8.4%	1.15	5.0%	0.62	31,784
Q3	1,020,859	11.7%	242,505	23.8%	10.5%	156,808	15.4%	8.1%	90,116	8.8%	85,697	8.4%	15.3%	1,185	84,512	8.3%	15.8%	24,981	29.6%	59,531		18,526	2,820	38,185	3.7%	22.2%	1.19	16.8%	0.62	32,168
Q4	765,540	18.5%	182,793	23.9%	13.7%	149,362	19.5%	16.5%	38,066	5.0%	33,431	4.4%	2.9%	1,242	32,189	4.2%	3.1%	8,512	26.4%	23,677		8,917	1,472	13,288	1.7%	9.9%	0.41	5.2%	5.62	32,182
2012	3,431,712	15.2%	814,395	23.7%	11.8%	589,179	17.2%	11.3%	241,127	7.0%	225,216	6.6%	13.1%	4,665	220,551	6.4%	13.3%	62,732	28.4%	157,820		54,267	8,402	95,151	2.8%	14.3%	3.00	10.7%	7.48	31,742
Q1	713,633	12.6%	175,446	24.6%	16.5%	144,892	20.3%	11.1%	35,189	4.9%	30,554	4.3%	51.1%	1,182	29,372	4.1%	52.0%	8,283	28.2%	21,089		7,704	937	12,448	1.7%	71.1%	0.39	63.7%	0.25	32,213
Q2E	1,119,572	10.7%	268,098	23.9%	12.4%	167,926	15.0%	10.0%	104,807	9.4%	100,172	8.9%	16.7%	1,610	98,562	8.8%	16.6%	29,176	29.6%	69,387		22,140	3,000	44,247	4.0%	21.6%	1.37	19.9%	0.25	32,213
Q3E	1,096,865	7.4%	263,708	24.0%	8.7%	166,739	15.2%	6.3%	101,604	9.3%	96,969	8.8%	13.2%	1,841	95,128	8.7%	12.6%	28,203	29.6%	66,926		21,316	3,000	42,610	3.9%	11.6%	1.32	11.4%	0.25	32,213
Q4E	825,498	7.8%	199,727	24.2%	9.3%	155,742	18.9%	4.3%	48,620	5.9%	43,985	5.3%	31.6%	1,230	42,755	5.2%	32.8%	12,181	28.5%	30,574		10,909	1,500	18,165	2.2%	36.7%	0.56	36.6%	0.25	32,213
2013E	3,755,568	9.4%	906,979	24.2%	11.4%	635,299	16.9%	7.8%	290,220	7.7%	271,680	7.2%	20.6%	5,862	265,818	7.1%	20.5%	77,842	29.3%	187,976		62,069	8,437	117,470	3.1%	23.5%	3.65	21.7%	1.00	32,213
2014E	3,999,269	6.5%	966,527	24.2%	6.6%	671,633	16.8%	5.7%	312,294	7.8%	294,894	7.4%	8.5%	4,530	290,364	7.3%	9.2%	87,426	30.1%	202,939		61,239	10,500	131,199	3.3%	11.7%	4.07	11.6%	1.20	32,250

Note: All figures exclude non-recurring items.
Reflects adoption of SFAS 123R as of 1Q06. Historical figures have not been restated.

Source: Company reports, Robert W. Baird & Co. estimates

Please refer to Appendix - Important Disclosures and Analyst Certification



Watsco, Inc.

(WSO - NYSE)

(\$ in thousands, except per share)

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Recent Price \$80.31
Fiscal Year End December
Date Printed April 18, 2013

Balance Sheet	2005	2006	2007	2008	2009	2010	2011	2012	1Q13
ASSETS									
Cash & Equivalents	27,261	33,800	9,405	41,444	58,093	126,498	15,673	73,770	22,775
Receivables	188,913	177,646	178,415	151,317	266,284	305,088	327,664	377,655	380,917
Inventory	266,543	291,024	288,149	250,914	410,078	391,925	465,349	546,093	647,078
Other	8,051	11,476	11,259	13,028	20,843	14,493	19,491	17,943	16,872
Total Current	490,768	513,946	487,228	456,703	755,298	838,004	828,177	1,015,451	1,067,643
Fixed Assets	17,244	21,476	26,904	24,209	33,118	31,221	39,455	42,842	42,255
Intangibles	163,686	161,107	217,129	219,810	303,257	303,703	319,440	397,262	394,945
Other Assets	7,033	14,842	16,908	15,339	68,940	64,299	81,076	226,500	222,442
Total Assets	678,731	711,371	748,169	716,061	1,160,613	1,237,227	1,268,148	1,682,055	1,727,283
LIABILITIES & EQUITY									
Current Debt	10,079	10,084	275	268	151	72	20,019	4	4
Payables	100,829	103,210	88,596	63,850	145,825	182,185	127,359	184,957	216,859
Other	68,390	43,015	41,535	44,489	78,616	83,764	75,661	97,411	92,794
Total Current	179,298	156,309	130,406	108,607	224,592	266,021	223,039	282,372	309,657
L. T. Debt & Lease	40,189	30,000	54,000	20,000	12,763	10,000	-	316,182	322,004
Deferred Taxes	8,594	8,676	13,806	16,794	28,450	32,310	43,399	61,461	61,461
Preferred Stock	-	-	-	-	-	-	-	-	-
Common Equity	450,650	516,386	549,957	570,660	894,808	928,896	1,001,710	1,022,040	1,034,161
Total Liabilities & Equity	678,731	711,371	748,169	716,061	1,160,613	1,237,227	1,268,148	1,682,055	1,727,283

Ratios	2005	2006	2007	2008	2009	2010	2011	2012	1Q13
Days In Inventory	71	77	81	103	79	67	70	71	101
Days Sales Outstanding (DSO)	36	38	37	47	38	37	39	38	48
Days Payables Outstanding (DPO)	(28)	(28)	(27)	(38)	(23)	(28)	(24)	(21)	(29)
Cash Conversion Days	80	87	91	112	95	76	84	87	121
Current Ratio	2.7	3.3	3.8	4.2	3.4	3.2	3.7	3.6	3.4
Quick Ratio	1.2	1.4	1.5	1.8	1.4	1.6	1.5	1.6	1.3
Inv Turns	5.1	4.7	4.5	3.5	4.6	5.4	5.2	5.2	3.6
TTM Return on Assets	11.0%	11.8%	9.2%	7.8%	5.8%	9.3%	11.0%	10.7%	9.8%
TD/Cap	10.0%	7.2%	9.0%	3.4%	1.4%	1.1%	2.0%	23.6%	29.8%
TTM EBITDA Int Cov	36.9	37.0	37.1	52.4	33.6	50.5	47.3	51.7	51.0
TTM EBITDA/TD	2.5	3.5	2.2	2.8	7.1	17.5	10.5	0.8	1.1

Du Pont Formula	2005	2006	2007	2008	2009	2010	2011	2012	LTM
Net Margins (NS)	4.3%	4.6%	3.8%	3.6%	2.7%	3.9%	4.6%	4.6%	4.7%
Asset Turnover (S/A)	2.6	2.5	2.4	2.2	2.1	2.4	2.4	2.3	2.1
Leverage (A/E)	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.5	2.0
Return On Equity	16.5%	17.0%	12.7%	10.7%	7.4%	12.3%	14.3%	15.6%	20.0%

Market Capitalization (MM)	\$2,587.1
Insider Ownership	15%
Institutional Ownership	85%
Average Daily Volume	198,229

*Pro forma for Carrier acquisition

Cash Flow Statement	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Net Income	70,019	82,233	67,489	60,369	51,573	111,722	137,742	157,601	187,976	202,939
D&A	6,189	5,786	6,420	7,071	8,533	10,771	11,725	15,911	18,540	17,400
Inventory	(33,271)	(18,026)	46,416	37,153	1,204	21,447	(22,489)	(26,652)	(22,799)	(36,851)
A/R	(26,000)	10,181	23,519	23,416	67,243	(41,250)	11,987	(5,752)	(36,418)	(34,317)
A/P	4,716	(10,193)	(48,390)	(23,020)	(46,386)	28,088	(98,611)	11,873	21,283	19,664
Other	14,129	(1,440)	12,544	8,484	6,120	22,021	21,098	20,362	(24,703)	(9,910)
Operating Cash Flow	35,782	68,541	107,998	113,473	88,287	152,799	61,452	173,343	143,879	158,925
Capital Expenditures	(5,407)	(9,883)	(5,643)	(3,973)	(5,912)	(8,421)	(13,925)	(12,317)	(9,731)	(10,844)
Dividends	(16,978)	(26,372)	(36,745)	(49,351)	(57,085)	(66,028)	(73,276)	(256,219)	(32,213)	(38,700)
Free Cash Flow	13,397	32,286	65,610	60,149	25,290	78,350	(25,749)	(95,193)	101,935	109,381

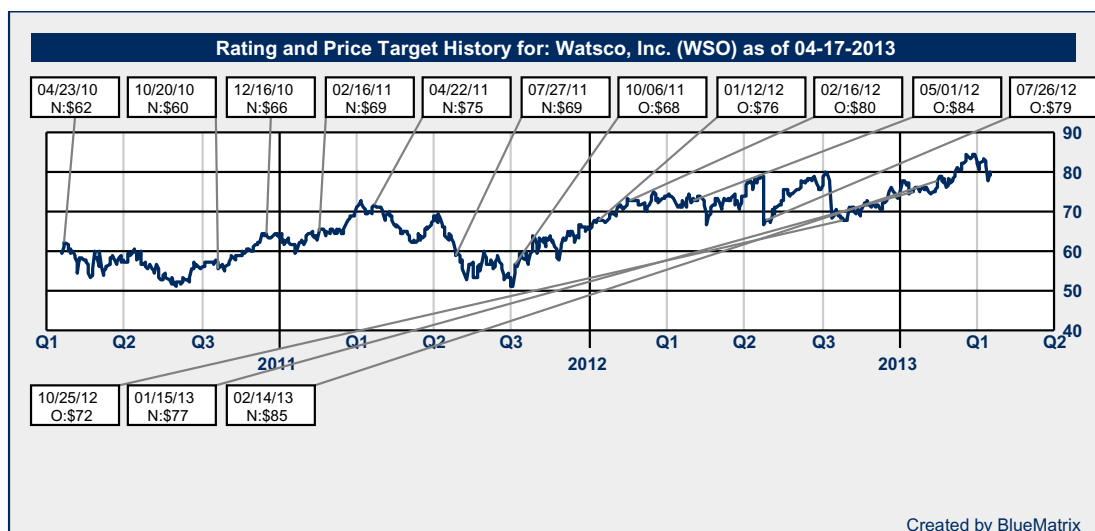
Per Share Data	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Diluted Average Shares	27,769	27,829	27,824	27,736	28,860	30,544	30,753	31,742	32,213	32,250
EPS	2.54	2.95	2.43	2.18	1.56	2.45	2.71	3.00	3.65	4.07
Free Cash Flow (FCF)	0.48	1.16	2.36	2.17	0.88	2.57	(0.84)	(3.00)	3.16	3.39
EBITDA	4.45	5.07	4.23	3.81	3.18	5.77	6.85	7.60	9.01	9.68
Cash	0.98	1.21	0.34	1.49	2.01	4.14	0.51	2.32	2.35	2.95
Book Value	16.23	18.56	19.77	20.57	31.01	30.41	32.57	32.20	36.53	41.59
Tangible Book Value	10.33	12.77	11.96	12.65	20.50	20.47	22.19	19.68	24.49	29.82

Valuation Measures	2005	2006	2007	2008	2009	2010	2011	2012	PT/13E	PT/14E
Price - High	\$67.65	\$73.60	\$64.46	\$61.08	\$57.63	\$65.71	\$70.22	\$76.20		
Price - Low	\$33.30	\$41.50	\$35.05	\$29.34	\$30.89	\$47.34	\$51.10	\$61.57		
Price - Average	\$46.40	\$49.81	\$49.02	\$41.70	\$45.97	\$56.75	\$62.64	\$70.72		
TTM P/E - High	26.6	24.9	26.6	28.1	37.1	26.8	25.9	25.4		
TTM P/E - Low	13.1	14.0	14.5	13.5	19.9	19.3	18.9	20.5		
TTM P/E - Average	18.3	16.9	20.2	19.2	29.6	23.1	23.1	23.6	24.7	22.1
FTM P/E - High	22.9	30.3	29.6	39.3	23.5	24.3	23.4	20.9		
FTM P/E - Low	11.3	17.1	16.1	18.9	12.6	17.5	17.0	16.9		
FTM P/E - Average	15.7	20.5	22.5	26.8	18.7	21.0	20.9	19.4		
FCF Yield - Average	1.0%	2.3%	4.8%	5.2%	1.9%	4.5%	-1.3%	-4.2%	3.5%	3.8%
EV/TTM Sales - Average	0.79	0.79	0.80	0.67	0.64	0.57	0.65	0.72	0.81	0.73
Price / TTM Sales - Average	0.78	0.78	0.78	0.68	0.66	0.61	0.65	0.65	0.77	0.73
Price / TTM TBV - Average	4.5	3.9	4.1	3.3	2.2	2.8	2.8	3.6	3.7	3.0
Dividend Yield - Average	1.2%	1.9%	3.0%	4.2%	4.2%	3.6%	3.6%	10.6%	1.1%	1.3%

Enterprise Value	2005	2006	2007	2008	2009	2010	2011	2012	PT/13E	PT/14E
Market Value	1,288,538	1,386,222	1,363,965	1,156,608	1,326,789	1,733,361	1,926,228	2,244,793	2,899,210	2,902,500
Preferred Stock	-	-	-	-	-	-	-	-	-	-
Total Debt	50,268	40,084	54,275	20,268	12,914	10,072	20,019	316,186	217,008	127,004
Other Long-Term Liabilities	-	118	1,042	783	666	16	-	14	15	16
Cash & Equivalents	(27,261)	(33,800)	(9,405)	(41,444)	(58,093)	(126,498)	(15,673)	(73,770)	(75,612)	(94,989)
EV	1,311,545	1,392,624	1,409,877	1,136,215	1,282,276	1,616,951	1,930,574	2,487,223	3,040,621	2,934,531
Adjusted EBITDA	123,472	141,180	117,574	105,679	81,349	143,376	160,803	183,400	223,942	240,130
EV/Adjusted EBITDA	10.6x	9.9x	12.0x	10.8x	15.8x	11.3x	12.0x	13.6x	13.6x	12.2x

Source: Company reports, Robert W. Baird & Co. estimates

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