

NEWS RELEASE



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For Immediate Release:

Watsco Sets New Records for Earnings Per Share, Operating Margins and Sales During 2014

MIAMI, FLORIDA – (BUSINESS WIRE), February 12, 2015 – Watsco, Inc. (NYSE: WSO) today reported record results for the fourth quarter and for the year ended December 31, 2014.

Fourth Quarter Results

Key performance metrics:

- 38% jump in earnings per share to a record 69 cents
- 30% increase in operating income to a record \$52 million
- 100 basis-point expansion in operating margins to a record 5.9%
- 40 basis-point improvement in gross profit margin
- 60 basis-point reduction in SG&A as a percentage of sales to a record low
- 6% sales growth to a record \$877 million

Sales trends:

- 8% growth in HVAC equipment (65% of sales)
- 2% increase in other HVAC products (30% of sales)
- 8% increase in commercial refrigeration products (5% of sales)

Albert Nahmad, Watsco's President & Chief Executive Officer stated: "Watsco delivered another solid quarter of earnings growth from higher sales, improved selling margins and effective leveraging of operating costs, resulting in record operating margins. We saw continued strength in sales of residential HVAC systems from strong unit demand and an improved mix of higher-efficiency systems. Overall, our results represent a great finish to another excellent year."

It is important to note that the fourth quarter of each calendar year is highly seasonal due to the nature and timing of the replacement market for air conditioning systems, which is strongest in the second and third quarters. Accordingly, the Company's fourth quarter financial results are disproportionately affected by this seasonality.

Full Year Results

Key performance metrics:

- 17% increase in earnings per share to a record \$4.32
- 13% improvement in operating profit to a record \$306 million
- 60 basis-point expansion in operating margins to a record 7.8%
- 20 basis-point improvement in gross profit margin
- 30 basis-point reduction in SG&A as a percentage of sales to a record low
- 5% sales growth to a record \$3.94 billion

Sales trends:

- 7% increase in HVAC equipment (64% of sales)
- 9% growth in U.S. residential equipment
- 2% increase in other HVAC products (31% of sales)
- 7% increase in commercial refrigeration products (5% of sales)

Mr. Nahmad added: “2014 was another great year, which we believe highlights the stability and consistency of our company. This performance includes substantial investments made during 2014 to enable future growth. We added 200 employees with an emphasis on sales and market development, deployed innovative new technologies to enhance our customer-experience, expanded the Watsco network to add density to local markets and launched new products to grow and develop market share for our supplier partners.”

Results reflect a 10% greater ownership interest in Carrier Enterprise LLC, a U.S. joint venture formed with Carrier in 2009. Effective July 1, 2014, the Company increased its ownership interest in Carrier Enterprise LLC to 80% for cash consideration of \$88 million.

Dividends

Watsco has paid dividends to shareholders for 40 consecutive years. The Company’s philosophy is to share increasing amounts of cash flow through higher dividends while maintaining a conservative financial position with continued capacity to build its distribution network. For the year ended December 31, 2014, dividend payments increased 75% to \$70 million. On January 6, 2015, Watsco announced a 17% increase in its dividend to an annual rate of \$2.80 per share.

Conference Call Information

Date: February 12, 2015

Time: 10:00 a.m. (ET)

Webcast: <http://investors.watsco.com>

Dial-in number: United States (866) 652-5200 / International (412) 317-6060.

A replay of the conference call will be available on the Company's website.

About Watsco

Watsco improves indoor living and working environments with air conditioning and heating solutions that provide comfort regardless of the outdoor climate. Our solutions also promote healthier indoor spaces by removing pollutants from the indoor air that can lead to asthma, allergies and reductions in productivity. Furthermore, since heating and cooling accounts for approximately half of the energy consumed in a typical U.S. home, we offer consumers the greatest opportunity to save money on energy by replacing existing air conditioning and heating systems with more energy efficient and environmentally friendly solutions.

There are approximately 89 million central air conditioning and heating systems installed in the United States that have been in service for more than 10 years. Older systems often operate below today's government mandated energy efficiency and environmental standards. Watsco has an opportunity to accelerate the replacement of these systems at a scale greater than our competitors as the movement toward reducing energy consumption and its environmental impact continues. We operate from more than 570 locations in the United States, Canada, Mexico and Puerto Rico, with additional market coverage on an export basis to Latin America and the Caribbean. As the industry leader, significant growth potential remains given that the estimated marketplace in the Americas for HVAC/R products is approximately \$35 billion. Additional information about Watsco may be found at <http://www.watsco.com>.

This document includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in economic, business, competitive market, new housing starts and completions, capital spending in commercial construction, consumer spending and debt levels, regulatory and other factors, including, without limitation, the effects of supplier concentration, competitive conditions within Watsco's industry, seasonal nature of sales of Watsco's products, the ability of the Company to expand its business, insurance coverage risks and final GAAP adjustments. Forward-looking statements speak only as of the date the statement was made. Watsco assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Detailed information about these factors and additional important factors can be found in the documents that Watsco files with the Securities and Exchange Commission, such as Form 10-K, Form 10-Q and Form 8-K.

WATSCO, INC.
Condensed Consolidated Results of Operations
(In thousands, except per share data)
(Unaudited)

| | Quarter Ended December 31, | | Year Ended December 31, | |
|--|----------------------------|-----------------|-------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | \$876,787 | \$827,352 | \$3,944,540 | \$3,743,330 |
| Cost of sales | 662,492 | 628,822 | 2,988,138 | 2,844,077 |
| Gross profit | 214,295 | 198,530 | 956,402 | 899,253 |
| Gross profit margin | 24.4% | 24.0% | 24.2% | 24.0% |
| SG&A expenses | 162,319 | 158,415 | 650,655 | 628,044 |
| Operating income | 51,976 | 40,115 | 305,747 | 271,209 |
| Operating margin | 5.9% | 4.9% | 7.8% | 7.2% |
| Interest expense, net | 1,416 | 1,179 | 5,206 | 5,830 |
| Income before income taxes | 50,560 | 38,936 | 300,541 | 265,379 |
| Income taxes | 15,777 | 11,006 | 91,839 | 77,660 |
| Net income | 34,783 | 27,930 | 208,702 | 187,719 |
| Less: net income attributable to noncontrolling interest | 10,711 | 10,609 | 57,315 | 59,996 |
| Net income attributable to Watsco, Inc. | <u>\$24,072</u> | <u>\$17,321</u> | <u>\$151,387</u> | <u>\$127,723</u> |
| Diluted earnings per share: | | | | |
| Net income attributable to Watsco, Inc. shareholders | \$24,072 | \$17,321 | \$151,387 | \$127,723 |
| Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock | 1,818 | 1,239 | 11,435 | 9,053 |
| Earnings allocated to Watsco, Inc. shareholders | <u>\$22,254</u> | <u>\$16,082</u> | <u>\$139,952</u> | <u>\$118,670</u> |
| Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share | | | | |
| | 32,399,764 | 32,292,276 | 32,358,854 | 32,258,068 |
| Diluted earnings per share for Common and Class B common stock | <u>\$0.69</u> | <u>\$0.50</u> | <u>\$4.32</u> | <u>\$3.68</u> |

WATSCO, INC.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$24,447 | \$19,478 |
| Accounts receivable, net | 434,234 | 399,565 |
| Inventories | 677,990 | 583,154 |
| Other | 20,664 | 18,905 |
| Total current assets | 1,157,335 | 1,021,102 |
| Property and equipment, net | 53,480 | 45,418 |
| Goodwill, intangibles, net and other | 580,252 | 603,011 |
| Total assets | <u>\$1,791,067</u> | <u>\$1,669,531</u> |
| Accounts payable and accrued expenses | \$286,853 | \$243,399 |
| Current portion of long-term obligations | 169 | 107 |
| Total current liabilities | 287,022 | 243,506 |
| Borrowings under revolving credit agreement | 303,199 | 230,044 |
| Deferred income taxes and other liabilities | 68,807 | 68,589 |
| Total liabilities | 659,028 | 542,139 |
| Watsco's shareholders' equity | 883,960 | 840,396 |
| Noncontrolling interest | 248,079 | 286,996 |
| Shareholders' equity | 1,132,039 | 1,127,392 |
| Total liabilities and shareholders' equity | <u>\$1,791,067</u> | <u>\$1,669,531</u> |

Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

| | Year Ended December 31, | |
|--|-------------------------|------------------|
| | 2014 | 2013 |
| Cash flow from operating activities: | | |
| Net income | \$208,702 | \$187,719 |
| Non-cash items | 30,937 | 37,245 |
| Changes in working capital | (94,659) | (74,695) |
| Net cash provided by operating activities | <u>144,980</u> | <u>150,269</u> |
| Cash flow from investing activities: | | |
| Capital expenditures, net | (19,124) | (14,257) |
| Cash flow from financing activities: | | |
| Dividends on Common and Class B Common stock | (69,870) | (39,836) |
| Net proceeds under revolving credit agreement | 74,729 | (83,559) |
| Purchase of additional ownership from noncontrolling interest | (87,735) | -- |
| Distributions to noncontrolling interest | (43,258) | (69,494) |
| Other | 5,927 | 3,840 |
| Net cash used in by financing activities | <u>(120,207)</u> | <u>(189,049)</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | (680) | (1,255) |
| Net increase (decrease) in cash and cash equivalents | 4,969 | (54,292) |
| Cash and cash equivalents at beginning of period | 19,478 | 73,770 |
| Cash and cash equivalents at end of period | <u>\$24,447</u> | <u>\$19,478</u> |