

# Case Study

## Watsco, Inc. (WSO)



### High Quality Characteristics:

- Value added middleman, connecting OEMs with a fragmented customer base
- Market share leader, ~2.5x next largest player
- Reliable industry growth, driven by replacement demand
- Scale benefits – procurement, network density,
- History of market share gains
- Attractive M&A growth avenue
- Insider ownership / incentive structure

### Company Overview:

Miami, FL based Watsco, Inc. is the largest distributor of HVAC parts and equipment in the U.S. by a wide margin. It operates a 600+ branch network, predominately in the Sunbelt region. Led by the Nahmad family, WSO has established its dominant industry position through a combination of steady market growth, share gains and frequent acquisitions of smaller competitors.

### Investment Thesis:

HVAC distribution is an attractive market -- benefitting from a large and growing installed base of existing ACs that ultimately break and need to be repaired or replaced. Given the non-discretionary nature of the product, this has led to reliable industry growth for decades. And with exclusive territory rights granted by manufacturers and size/regulatory requirements that prevent sales moving online, it has insulated the industry from online competition.

As the #1 player, WSO leverages its size to drive above-average profitability and capture even more of this attractive market. For example, WSO is investing heavily in new technologies to make its customers lives easier and thereby attract new customers – spend that its competitors simply can't match. WSO compliments this with a long-successful acquisition strategy, purchasing smaller distributors at attractive rates.

Management is well-aligned with shareholders through direct stock ownership and a unique compensation structure that promotes long-term thinking, which we expect will help drive continued profit growth over time.

This case study is intended to demonstrate the analysis and thought process BFM undertakes when making an investment decision. There is no guarantee that BFM's investment decisions will be profitable. BFM's investment decisions (including Watsco) may be unprofitable and our clients can lose money as a result of those decisions.