

## Watsco Inc. (WSO)

**\$354.61** (Stock Price as of 12/12/2025)

Price Target (6-12 Months): **\$290.00**

Long Term: 6-12 Months

**Zacks Recommendation: Underperform**

(Since: 10/29/25)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**5-Strong Sell**

Zacks Style Scores:

VGM: D

Value: F

Growth: C

Momentum: B

### Summary

Watsco's third-quarter 2025 earnings and revenues missed the Zacks Consensus Estimate by 5.5% and 2.2%, respectively. Also, the metrics declined year over year by 6% and 4%, respectively, because of the ongoing market pressures from the industry-wide transition to new A2L refrigerant systems, weaker consumer spending trends, and a slowdown in housing activity. Moreover, as the transition to the new A2L system continues, the expense structure of Watsco is expected to stay elevated, at least till early 2026, with tariff-related uncertainties and other macro risks catalyzing the affecting headwinds. Although product innovation, AI incorporation and technological advancements are boding well, the market pressures are outweighing the tailwinds. Shares of Watsco have underperformed the industry in the past six months.

### Data Overview

52 Week High-Low	\$535.40 - \$323.05
20 Day Average Volume (sh)	423,603
Market Cap	\$14.4 B
YTD Price Change	-25.2%
Beta	1.01
Dividend / Div Yld	\$12.00 / 3.4%
Industry	<a href="#">Manufacturing - General Industrial</a>
Zacks Industry Rank	Bottom 35% (156 out of 243)

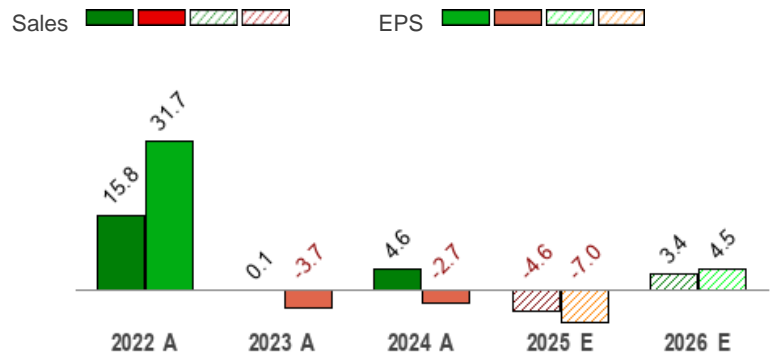
Last EPS Surprise	-5.5%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	02/17/2026
Earnings ESP	-3.6%

P/E TTM	27.7
P/E F1	28.7
PEG F1	-20.5
P/S TTM	1.9

### Price, Consensus & Surprise<sup>(1)</sup>



### Sales and EPS Growth Rates (Y/Y %)<sup>(2)</sup>



### Sales Estimates (millions of \$)<sup>(2)</sup>

	Q1	Q2	Q3	Q4	Annual*
2026	1,549 E	2,141 E	2,143 E	1,685 E	7,518 E
2025	1,531 A	2,062 A	2,067 A	1,611 E	7,271 E
2024	1,565 A	2,139 A	2,160 A	1,754 A	7,618 A

### EPS Estimates<sup>(2)</sup>

	Q1	Q2	Q3	Q4	Annual*
2026	2.00 E	4.53 E	4.27 E	2.12 E	12.93 E
2025	1.93 A	4.52 A	3.98 A	1.94 E	12.37 E
2024	2.17 A	4.49 A	4.22 A	2.37 A	13.30 A

\*Quarterly figures may not add up to annual.

(1) The data in the charts and tables, except the estimates, is as of 12/12/2025.

(2) The report's text, the analyst-provided estimates, and the price target are as of 12/03/2025.

## Overview

Incorporated in Florida in 1956, Watsco is the largest distributor of Heating, ventilation and air conditioning equipment, as well as related parts and supplies (HVAC/R) in North America. It distributes residential and commercial air conditioners; parts such as replacement compressors, evaporator coils and motors; as well as supplies such as thermostats, insulation materials, refrigerants, grills, registers, sheet metal, tools, concrete pads, tape and adhesives. Its air conditioning and heating equipment is sold to the residential replacement market, the commercial market and the residential new construction market.

As of Sept. 30, 2025, Watsco distributes products in about 700 locations across the United States, Canada, Mexico and Puerto Rico and on an export basis to Latin America and the Caribbean. Of these, no single location accounts for more than 3% of total revenues. The company sources supplies from main industry players, including Rheem, Carrier, Nordyne, Goodman, Trane, and Lennox.

Revenues are disaggregated by the company per major product lines within a single reporting segment: The HVAC equipment contributed 70% to 2024 revenues, while other HVAC products contributed 26%. Commercial refrigeration products added 4% to 2024 revenues.

Currently, Watsco has the industry's largest database of digitized product information, with more than 1.5 million SKUs being used by more than 375,000 technical contractors and technicians annually.

On Feb. 18, 2025, the company raised its quarterly dividend by 11% to \$3 per share (or \$12 per share annually), which was effective from April 2025. During the first nine months of 2025, the company paid \$352.1 million to shareholders through dividends.



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## Reasons To Sell:

▼ **Demand Softness & Pressure from Housing Market Weakness:** Watsco continues to face a broad demand slowdown, reflected in weaker equipment sales and lower contractor install activity. During the third quarter earnings call, management highlighted that aggregate demand in the fourth quarter so far remains below last year, with revenue pacing down mid-single digits. Unit volumes across the industry also remained depressed, driven by reduced installations and constrained consumer spending. This slowdown is more pronounced in regions dependent on seasonal peaks, as weather patterns were not supportive of early-season demand.

Wesak demand, increased expenses, market challenges associated with the new A2L transition and disproportionate seasonality are hurting the company's prospects.

The company highlighted ongoing macroeconomic pressures—high interest rates, low existing-home sales, weak new-construction activity, and historically low consumer confidence. New construction was cited as the largest contributor to unit declines, making the slowdown particularly impactful. With homeowners delaying discretionary HVAC upgrades due to economic uncertainty, both replacement and new-system purchases have softened, compressing volume-driven growth.

▼ **Operational Inefficiencies from the A2L Transition:** More than 55% of Watsco's product portfolio was affected by the A2L refrigerant transition, creating operational disruptions throughout the year. The higher cost and complexity of A2L systems also lifted consumer replacement costs, further slowing adoption. Watsco acknowledged ongoing inefficiencies tied to the transition, which contributed to elevated SG&A and short-term margin pressure. Although the transition is largely complete, the company continues adjusting to the resulting structural changes.

▼ **Higher Costs & Expenses:** Watsco has been affected by persisting fixed cost inflation headwind. An increase in variable operating expenses, such as freight and delivery costs, temporary labor and fixed costs (like rent) are potential headwind. Also, it has incurred incremental costs to serve customers, including higher personnel costs and other operational increases. In the first nine months of 2025, selling, general and administrative (SG&A) expenses increased 5.3% year over year to \$1.01 billion, with SG&A expenses (as a percentage of revenues) expanding 150 basis points to 17.8%.

HVAC equipment and component manufacturers, including Carrier and Rheem, source parts from China or assemble many products for residential and light-commercial applications from Mexico. Now that trade tensions have crept up, any restrictions or significant increases in tariffs related to such products sourced or assembled from Mexico and China would compel the company to raise prices. This may result in cost inflation and loss of customers and harm to business.

▼ **Seasonal Sales & Inclement Weather:** Sales of residential central air conditioners, heating equipment, and parts and supplies have historically been seasonal. Watsco's profitability will be impacted favorably or unfavorably, based on the severity or mildness of weather patterns during the summer or winter selling seasons. The company's first and fourth quarter of each calendar is disproportionately affected by seasonality due to the nature and timing of HVAC systems replacement.

Historically, demand for the residential central air conditioning replacement market is comparatively low during the first and fourth quarters. Similarly, demand for its heating equipment is generally impacted in the second and third quarters.

▼ **Customer Concentration:** Watsco's top 10 suppliers accounted for 85% of its purchases during 2024, including 62% from Carrier and 9% from Rheem. Given the significant concentration of its supply chain, particularly with Carrier and Rheem, any significant interruption by any of the key manufacturers or a termination of a relationship could temporarily disrupt the operations of certain of its subsidiaries.

▼ **Cyber Security Risks:** Given the digitized nature of its business, Watsco is vulnerable to cybersecurity risks, which can lead to intentional and unintentional misappropriation or corruption of its information technology systems, data and operational continuity. Although the company engages in conducting regular risk assessments, the chances of being a victim of cyber threats are not minimized. Any avoidance or negligence from the company's side can compromise the confidentiality of its system's data.

## Risks<sup>(2)</sup> (to the Underperform recommendation)

- **Technology Enhancement:** Watsco continues to invest in technologies to transform the customer experience. As the digital era progresses, speed, productivity and efficiency will be more critical. Consequently, the company is investing in improving customer experience through e-commerce. Watsco is deploying technology that improves order fill rates with speed and accuracy. It is using various new technologies to transform the homeowner experience, which will help the company expand its customer base. Currently, it has the industry's largest database of digitized product information, with more than 930,000 SKUs being used by 375,000-plus technical contractors and technicians annually via the Product Information Management (PIM) database. Additionally, its HVAC Pro+ Mobile app provides customers with real-time access to critical information, improving their speed and productivity. The authenticated user community grew 18% in the 12 months ending Sept. 30, 2025, reaching about 72,000 users.

In September 2024, Watsco began the strategic transition of its system offerings into new HVAC systems that incorporate A2L refrigerants, which is expected to conclude in early 2026. The new system is aimed at replacing the refrigerants used in older HVAC systems in response to the regulations that require the toning down of the global warming properties of the previously used refrigerants. This step made 2025 a revolutionary year, and to date, this initiative has incrementally affected about 55% of the products sold and influenced almost every aspect of Watsco's business. The sales mix of new A2L equipment sold domestically was approximately 25% during the first quarter and 60% during the second quarter of 2025.

Watsco continues to benefit from the increasing adoption of ductless HVAC systems in residential and commercial markets. As the largest independent distributor of ductless products in North America, the company supplies around 20 brands from leading global manufacturers. Its proven culture, customer-focused technologies, scale and access to capital provide unique advantages and opportunities. Moving forward, Watsco remains optimistic about its innovative technology and expects to survive in this unprecedented period.

- **Efforts to Drive Performance:** Despite grappling with persisting inflation and surviving the softer market conditions, the performance of Watsco continues to improve, given several initiatives taken to improve operating efficiency. Notably, its mobile platforms and e-commerce channels have boosted customer engagement, curbed attrition, created market share gains, and aided margin expansion in recent years. The company remains optimistic about enhancing operating efficiencies across its network as supply chains improve and operating conditions return to normal.

During the second quarter of 2025, Watsco launched two AI platforms, one internal and one external, to harness its data while enhancing customer experience, driving efficiency and extending its competitive advantage. The internally-focused AI engine, "Ask.Watsco", is designed to enhance productivity, decision-making and customer service. The platform integrates a robust HVAC knowledge base and streamlines processes for over 2,100 current internal users. The externally-focused AI model, "AL.watsco", helps deliver HVAC expertise directly to customers and partners. AL.watsco is trained on Watsco's extensive pools of data, enabling it to offer accurate, real-time answers and recommendations on a vast array of HVAC products and solutions.

Besides this, Watsco has also accelerated the adoption of its pricing platform, Pricefx, having the goal of reaching a 30% gross profit margin. It is currently focusing on developing a new technology-driven sales platform to capture a larger share of national customers. To be launched in 2026, this new platform is expected to be incremental to the company's core replacement business. Moreover, the company is optimistic about its new initiative (to launch in early 2026), Project WatscoOne, which highlights the company's aim to offer enterprise-wide solutions to institutional customers. The seamless experience across sales, marketing, pricing, product assortment and order management through this new initiative is expected to boost Watsco's market reach and goodwill among customers.

- **E-Commerce & Digital Sales Platform Bode Well:** Since the beginning of 2024, Watsco has been witnessing e-commerce sales outpacing overall sales growth, including revenues from recently acquired businesses that are now adopting Watsco's technology platforms. Driven by various technology platforms, in the 12 months ending Sept. 30, 2025, e-commerce sales were nearly \$2.5 billion, comprising about 34% of Watsco's total sales. Notably, several regions even had more than 60% e-commerce penetration, with order trends and the rate of improvement in customer attrition being consistent year over year. As of Sept. 30, 2025, the company boasted active users of approximately 72,000, up from 70,000 users at the end of the second quarter of 2025 and 64,000 as of 2024. One of the primary highlights during the third quarter of 2025 regarding mobile apps and e-commerce includes the addition of more than 10,000 new SKUs related to the A2L product launch, including all relevant data concerning features, dimensions, capacities, consumer literature and technical information.

Additionally, Watsco's digital sales platform for HVAC/R contractors and CreditForComfort (its companion consumer financing platform), OnCallAir, generated about \$1.72 billion in gross merchandise value (GMV) in the 12 months ending Sept. 30, 2025. In the first nine months of 2025, contractors using OnCallAir were approximately 263,000 households, generating \$1.38 billion in GMV, reflecting a 15% increase. Watsco is benefiting from the increasing adoption of its innovative technology platforms by a growing number of contractors. Its diverse range of products and brands provides a competitive edge, enabling it to cater to contractors in any environment and achieve market share growth while enhancing margins.

- **Strategic Acquisitions:** Acquisitions have been Watsco's preferred mode of solidifying its product portfolio and leveraging new business opportunities in a bid to increase its customer base and profitability. Since 2019, the company has acquired 12 companies, which currently represent \$1.6 billion in annualized sales and a stretch of 120 locations across its network. The company abides by its "buy and build" strategy, which stands on investing in new locations, new products and leveraging Watsco's technology platforms.

On May 1, 2025, Watsco acquired Southern Ice Equipment Distributors, a distributor of food service and ice machine equipment, parts and supplies, operating in seven locations in key Sunbelt markets including Louisiana, Mississippi, Arkansas, Texas, New Mexico and Arizona. Besides this, on April 1, 2025, it acquired the Hawkins HVAC Distributors, a distributor of HVAC equipment and supplies with locations in

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Charlotte, NC and Columbia, SC; and on Jan. 3, 2025, the company acquired Lashley & Associates, a distributor of commercial supplies and custom air movement products based in Houston, TX.

As of Sept. 30, 2025, through its market-leading about 701 locations across North America, Watsco's network supports more than 375,000 contractors, technicians and installers with critical technical assistance, training and other resources to enhance their daily activities.

- **Sufficient Liquidity to Drive Shareholder Value:** Watsco has been paying cash dividends for 51 consecutive years. It has consistently focused on sharing its cash flows with shareholders, along with maintaining a strong financial position. The company has increased dividends consecutively in the last 12 years. On Feb. 18, 2025, the company raised its quarterly dividend by 11% to \$3 per share (or \$12 per share annually), which was effective from April 2025. During the first nine months of 2025, the company paid \$352.1 million to shareholders through dividends.

The company ended the third quarter of 2025 with cash and cash equivalents of \$324.3 million compared with \$526.3 million at 2024-end, with no outstanding debt. It has sufficient funds to meet the short-term obligation of \$115.4 million.

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## Last Earnings Report

### Watsco Q3 Earnings & Revenues Miss Estimates, Gross Margin Up Y/Y

Watsco reported third-quarter 2025 earnings of \$3.98 per share, missing the Zacks Consensus Estimate of \$4.21 and declining 6% year over year from \$4.22 per share.

The HVAC distributor posted revenues of \$2.07 billion, falling short of the consensus estimate of \$2.11 billion and down 4% year over year. The results reflected ongoing market pressures from the industry-wide transition to new A2L refrigerant systems, weaker consumer spending and a slowdown in housing activity.

In the U.S. market, sales dipped 3%, while non-U.S. revenues declined 14%. Segment-wise, HVAC equipment (67% of sales) fell 7%, offset by a 2% rise in non-equipment HVAC products and 4% growth in commercial refrigeration sales.

### Margins and Profitability

Despite the top-line pressure, gross profit remained stable at \$569 million, with gross margin expanding 130 basis points to a record 27.5%, driven by effective pricing and product mix optimization.

However, operating income declined 6% to \$235 million, as selling, general and administrative expenses rose 5%, partly from higher labor, logistics, and transition-related costs. The operating margin came in at 11.4%, compared with 11.6% in the prior-year quarter.

### Balance Sheet and Liquidity

Watsco ended the quarter with a strong balance sheet, holding \$324 million in cash and cash equivalents and \$200 million in short-term investments, totaling \$524 million in liquidity. The company reported no long-term debt, underscoring its conservative capital structure.

Inventory levels declined sequentially to \$1.6 billion, reflecting successful working capital normalization efforts. Operating cash flow reached a record \$355 million for the quarter, highlighting solid cash generation.

### Outlook

Watsco expects continued volatility through early 2026 as the refrigerant transition progresses, but anticipates efficiency gains in 2026 as one-time costs subside. The company remains focused on expanding its technology-driven platforms and leveraging AI tools to enhance margins and customer engagement.

Management reaffirmed its long-term goal of generating operating cash flow exceeding net income, supported by a debt-free balance sheet and ongoing digital transformation initiatives.

**FY Quarter Ending** **12/31/2024**

Earnings Reporting Date	Oct 29, 2025
Sales Surprise	-2.21%
EPS Surprise	-5.46%
Quarterly EPS	3.98
Annual EPS (TTM)	12.80

## Valuation

Watsco's shares are down 23.4% in the past six months and 36.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.8% and up 5.7% in the Zacks Construction sector in the past six months. Over the past year, the Zacks sub-industry is down 3.3% and the sector is down 5.4%.

The S&P 500 index is up 17% in the past six months and 14.6% in the past year.

The stock is currently trading at 25.81X forward 12-month earnings, which compares to 21.58X for the Zacks sub-industry, 20.30X for the Zacks sector, and 23.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.59X and as low as 15.74X, with a 5-year median of 27.20X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$290 price target reflects 22X forward 12-month earnings.

The table below shows the summary valuation data for WSO.

Valuation Multiples - WSO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.81	21.58	20.30	23.41
	5-Year High	39.59	26.70	23.07	23.82
	5-Year Low	15.74	16.06	13.38	15.73
	5-Year Median	27.20	21.41	18.24	21.19
P/S F12M	Current	1.84	3.11	4.10	5.29
	5-Year High	2.92	3.43	4.21	5.50
	5-Year Low	1.22	2.24	2.32	3.83
	5-Year Median	1.89	3.09	3.16	5.04
EV/EBITDA TTM	Current	18.89	18.06	24.88	18.54
	5-Year High	32.16	38.96	28.43	22.41
	5-Year Low	12.38	14.04	14.11	13.87
	5-Year Median	22.04	18.47	18.22	17.96

As of 12/02/2025

Source: Zacks Investment Research



## Industry Analysis<sup>(1)</sup> Zacks Industry Rank: Bottom 35% (156 out of 243)



## Top Peers<sup>(1)</sup>

Company (Ticker)	Rec	Rank
Comfort Systems USA,...(FIX)	Outperform	1
TE Connectivity Ltd. (TEL)	Outperform	2
AAON, Inc. (AAON)	Neutral	3
Carrier Global Corpo...(CARR)	Neutral	3
Core & Main, Inc. (CNM)	Neutral	2
W.W. Grainger, Inc. (GWW)	Neutral	3
Tecogen Inc. (TGEN)	Neutral	4
Trane Technologies p...(TT)	Neutral	3

## Industry Comparison<sup>(1)</sup> Industry: Manufacturing - General Industrial

	WSO	X Industry	S&P 500	CARR	FIX	TT
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	1	3
VGM Score	D	-	-	F	C	B
Market Cap	14.38 B	3.91 B	39.38 B	44.59 B	34.14 B	86.74 B
# of Analysts	5	3	22	5	3	6
Dividend Yield	3.38%	0.00%	1.41%	1.70%	0.25%	0.96%
Value Score	F	-	-	C	F	C
Cash/Price	0.04	0.04	0.04	0.03	0.03	0.01
EV/EBITDA	16.86	13.17	14.60	14.06	40.78	23.20
PEG Ratio	-19.88	1.90	2.23	2.30	NA	2.25
Price/Book (P/B)	4.35	3.56	3.35	3.00	15.29	10.39
Price/Cash Flow (P/CF)	24.81	16.64	15.20	13.08	51.53	29.92
P/E (F1)	27.83	23.02	19.78	20.07	36.79	30.05
Price/Sales (P/S)	1.94	2.14	3.06	2.02	4.10	4.12
Earnings Yield	3.51%	4.34%	4.99%	4.99%	2.72%	3.33%
Debt/Equity	0.00	0.34	0.57	0.76	0.06	0.47
Cash Flow (\$/share)	14.29	2.85	8.99	4.05	18.78	13.07
Growth Score	C	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	10.32%	12.07%	8.16%	10.63%	49.57%	23.55%
Proj. EPS Growth (F1/F0)	-6.99%	9.66%	8.57%	3.13%	80.21%	16.04%
Curr. Cash Flow Growth	0.99%	2.04%	6.75%	28.76%	68.86%	20.93%
Hist. Cash Flow Growth (3-5 yrs)	16.37%	9.88%	7.43%	7.84%	32.56%	9.76%
Current Ratio	3.84	2.07	1.19	1.14	1.22	1.20
Debt/Capital	0.38%	25.86%	38.01%	43.31%	5.55%	31.96%
Net Margin	7.04%	6.92%	12.78%	18.05%	10.06%	13.93%
Return on Equity	16.48%	14.17%	17.00%	16.65%	43.59%	37.04%
Sales/Assets	1.63	0.83	0.53	0.59	1.65	1.02
Proj. Sales Growth (F1/F0)	-4.60%	0.11%	5.77%	-2.00%	24.40%	7.10%
Momentum Score	B	-	-	B	B	C
Daily Price Chg	-1.21%	-0.14%	-1.07%	-2.23%	-5.56%	-3.02%
1 Week Price Chg	1.97%	0.99%	-0.63%	-2.49%	-3.35%	-2.55%
4 Week Price Chg	3.35%	4.31%	1.39%	-2.14%	6.41%	-6.45%
12 Week Price Chg	-9.04%	2.24%	2.45%	-12.34%	21.34%	-3.79%
52 Week Price Chg	-30.43%	5.25%	12.83%	-27.49%	109.36%	-2.05%
20 Day Average Volume	423,603	106,586	2,728,366	8,254,735	558,032	1,148,616
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.57%	0.00%	0.00%	-0.08%	0.00%	-0.01%
(F1) EPS Est 12 week change	-9.63%	0.72%	0.69%	-12.72%	18.25%	-0.24%
(Q1) EPS Est Mthly Chg	-5.63%	0.00%	0.00%	0.00%	0.00%	-0.48%



## Analyst Earnings Model<sup>(2)</sup>

### Watsco, Inc. (WSO)

In \$MM, except per share data

	2022A	2023A	2024A	2025E				2026E				2027E		
	FY	FY	FY	1QA	2QA	3QA	4QE	FY	1QE	2QE	3QE	4QE	FY	FY
FY Ends December 31st	Dec-22	Dec-23	Dec-24	31-Mar-25	30-Jun-25	30-Sep-25	31-Dec-25	Dec-25	31-Mar-26	30-Jun-26	30-Sep-26	31-Dec-26	Dec-26	Dec-27
Income Statement														
Revenues	\$7,274.3	\$7,283.8	\$7,618.3	\$1,531.1	\$2,062.4	\$2,067.0	\$1,610.8	\$7,271.3	\$1,548.9	\$2,140.6	\$2,143.3	\$1,685.3	\$7,518.1	\$7,877.0
Cost of Sales	\$5,244.1	\$5,291.6	\$5,573.6	\$1,101.5	\$1,459.0	\$1,498.1	\$1,186.1	\$5,244.6	\$1,120.0	\$1,537.4	\$1,556.7	\$1,245.0	\$5,459.1	\$5,645.4
Gross Profit	\$2,030.3	\$1,992.1	\$2,044.7	\$429.6	\$603.5	\$568.9	\$424.7	\$2,026.8	\$428.9	\$603.2	\$586.6	\$440.3	\$2,059.0	\$2,231.6
Selling, General and Administrative Expenses	\$1,221.4	\$1,223.5	\$1,293.4	\$322.6	\$339.0	\$343.7	\$318.8	\$1,324.1	\$316.3	\$335.5	\$340.1	\$329.4	\$1,321.4	\$1,441.7
Other Income	\$22.7	\$26.2	\$30.5	\$5.1	\$7.4	\$9.5	\$5.9	\$28.0	\$5.3	\$7.9	\$10.1	\$6.3	\$29.5	\$30.6
EBITDA	\$863.3	\$829.9	\$822.6	\$123.0	\$282.8	\$245.8	\$121.5	\$773.0	\$129.7	\$288.4	\$267.5	\$129.0	\$814.5	\$873.9
Depreciation & Amortization	\$31.7	\$35.1	\$40.8	\$10.8	\$10.9	\$11.0	\$9.7	\$42.4	\$11.9	\$12.8	\$10.9	\$11.8	\$47.4	\$53.3
Operating Income	\$831.6	\$794.8	\$781.8	\$112.2	\$271.9	\$234.8	\$111.8	\$730.7	\$117.8	\$275.6	\$256.6	\$117.2	\$767.2	\$820.6
Interest (Income) Expense, Net	\$2.2	\$4.9	(\$20.9)	(\$5.4)	(\$2.3)	(\$3.7)	(\$2.8)	(\$14.3)	(\$2.4)	(\$1.1)	(\$2.1)	(\$3.0)	(\$8.6)	(\$9.8)
Pre-Tax Income	\$829.4	\$789.9	\$802.6	\$117.6	\$274.2	\$238.5	\$114.6	\$744.9	\$120.2	\$276.7	\$258.7	\$120.2	\$775.7	\$830.3
Income Tax	\$125.7	\$155.8	\$166.9	\$23.1	\$57.4	\$49.3	\$24.0	\$153.7	\$25.2	\$58.1	\$54.3	\$25.2	\$162.9	\$174.4
Tax Rate	15.2%	19.7%	20.8%	19.6%	20.9%	20.7%	20.9%	20.6%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Income	\$703.7	\$634.1	\$635.7	\$94.5	\$216.8	\$189.2	\$90.7	\$591.2	\$95.0	\$218.6	\$204.3	\$94.9	\$612.8	\$656.0
Non-Controlling Interests	\$102.5	\$97.8	\$99.5	\$14.5	\$33.2	\$27.7	\$12.6	\$87.9	\$12.6	\$34.5	\$30.9	\$10.4	\$88.4	\$92.6
Net Income Attributable to Watsco	\$601.2	\$536.3	\$536.3	\$80.1	\$183.6	\$161.6	\$78.0	\$503.3	\$82.3	\$184.0	\$173.5	\$84.6	\$524.4	\$563.4
Earnings Allocated to Non-Vested Restricted Common Stock	\$51.3	\$36.9	\$37.4	\$7.2	\$12.2	\$10.7	\$4.5	\$34.6	\$6.6	\$12.2	\$11.5	\$4.1	\$34.3	\$35.1
Net Income to Common Shareholders	\$549.9	\$499.4	\$498.9	\$72.9	\$171.5	\$150.9	\$73.5	\$468.7	\$75.8	\$171.9	\$162.0	\$80.5	\$490.1	\$528.3
Diluted Shares Outstanding	35.7	36.5	37.5	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9
Diluted EPS, Non-GAAP	\$14.20	\$13.67	\$13.30	\$1.93	\$4.52	\$3.98	\$1.94	\$12.37	\$2.00	\$4.53	\$4.27	\$2.12	\$12.93	\$13.93
Diluted EPS, GAAP	\$15.41	\$13.67	\$13.30	\$1.93	\$4.52	\$3.98	\$1.94	\$12.37	\$2.00	\$4.53	\$4.27	\$2.12	\$12.93	\$13.93
Dividend per Share	\$8.55	\$9.80	\$10.80	\$3.00	\$3.00	\$3.00	\$3.00	\$12.00	\$3.25	\$3.25	\$3.25	\$3.25	\$13.00	\$14.00

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

## Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

## Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>F</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>D</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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