

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2022

or

**Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5581

I.R.S. Employer Identification Number 59-0778222



**WATSCO, INC.**  
(a Florida Corporation)

2665 South Bayshore Drive, Suite 901  
Miami, Florida 33133  
Telephone: (305) 714-4100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.50 par value	WSO	New York Stock Exchange
Class B common stock, \$0.50 par value	WSOB	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The registrant's common stock outstanding as of October 31, 2022 comprised (i) 33,263,057 shares of Common stock, \$0.50 par value per share, excluding 4,823,988 treasury shares and (ii) 5,473,122 shares of Class B common stock, \$0.50 par value per share, excluding 48,263 treasury shares.

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WATSCO, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**

WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF INCOME  
(In thousands, except per share data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	<b>\$2,035,796</b>	\$1,782,569	<b>\$5,693,121</b>	\$4,768,327
Cost of sales	<b>1,484,948</b>	1,299,905	<b>4,096,382</b>	3,512,901
Gross profit	<b>550,848</b>	482,664	<b>1,596,739</b>	1,255,426
Selling, general and administrative expenses	<b>321,522</b>	281,922	<b>919,629</b>	766,231
Other income	<b>6,927</b>	6,057	<b>17,289</b>	16,267
Operating income	<b>236,253</b>	206,799	<b>694,399</b>	505,462
Interest expense, net	<b>483</b>	221	<b>2,151</b>	757
Income before income taxes	<b>235,770</b>	206,578	<b>692,248</b>	504,705
Income taxes	<b>49,600</b>	41,734	<b>145,682</b>	101,601
Net income	<b>186,170</b>	164,844	<b>546,566</b>	403,104
Less: net income attributable to non-controlling interest	<b>28,529</b>	23,979	<b>83,070</b>	63,045
Net income attributable to Watsco, Inc.	<b>\$ 157,641</b>	\$ 140,865	<b>\$ 463,496</b>	\$ 340,059
Earnings per share for Common and Class B common stock:				
Basic	<b>\$ 4.04</b>	\$ 3.64	<b>\$ 11.90</b>	\$ 8.80
Diluted	<b>\$ 4.03</b>	\$ 3.62	<b>\$ 11.86</b>	\$ 8.75

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	<b>\$186,170</b>	\$164,844	<b>\$546,566</b>	\$403,104
Other comprehensive loss, net of tax				
Foreign currency translation adjustment	<b>(19,091)</b>	(8,219)	<b>(24,091)</b>	(746)
Unrealized gain on cash flow hedging instruments	—	—	—	70
Reclassification of loss on cash flow hedging instruments into earnings	—	—	—	221
Other comprehensive loss	<b>(19,091)</b>	(8,219)	<b>(24,091)</b>	(455)
Comprehensive income	<b>167,079</b>	156,625	<b>522,475</b>	402,649
Less: comprehensive income attributable to non-controlling interest	<b>22,040</b>	21,114	<b>74,911</b>	62,821
Comprehensive income attributable to Watsco, Inc.	<b><u>\$145,039</u></b>	<b><u>\$135,511</u></b>	<b><u>\$447,564</u></b>	<b><u>\$339,828</u></b>

*See accompanying notes to condensed consolidated unaudited financial statements.*

WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEETS  
(In thousands, except per share data)

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 130,228	\$ 118,268
Accounts receivable, net	859,581	698,456
Inventories, net	1,385,191	1,115,469
Other current assets	34,876	29,207
Total current assets	<u>2,409,876</u>	<u>1,961,400</u>
Property and equipment, net	121,678	111,019
Operating lease right-of-use assets	312,397	268,528
Goodwill	430,231	434,019
Intangible assets, net	174,978	186,896
Investment in unconsolidated entity	127,420	114,808
Other assets	8,007	9,191
	<u>\$3,584,587</u>	<u>\$3,085,861</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 89,238	\$ 84,501
Accounts payable	474,268	364,185
Accrued expenses and other current liabilities	376,016	278,036
Total current liabilities	<u>939,522</u>	<u>726,722</u>
Long-term obligations:		
Borrowings under revolving credit agreement	8,800	89,000
Operating lease liabilities, net of current portion	227,564	187,024
Finance lease liabilities, net of current portion	10,764	9,189
Total long-term obligations	<u>247,128</u>	<u>285,213</u>
Deferred income taxes and other liabilities	81,784	76,511
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value	19,039	18,941
Class B common stock, \$0.50 par value	2,917	2,895
Preferred stock, \$0.50 par value	—	—
Paid-in capital	1,047,317	1,003,932
Accumulated other comprehensive loss, net of tax	(50,108)	(34,176)
Retained earnings	977,050	760,796
Treasury stock, at cost	(87,440)	(87,440)
Total Watsco, Inc. shareholders' equity	<u>1,908,775</u>	<u>1,664,948</u>
Non-controlling interest	407,378	332,467
Total shareholders' equity	<u>2,316,153</u>	<u>1,997,415</u>
	<u>\$3,584,587</u>	<u>\$3,085,861</u>

See accompanying notes to condensed consolidated unaudited financial statements.

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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(In thousands, except share and per share data)</i>	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
<b>Balance at December 31, 2021</b>	<b>38,799,632</b>	<b>\$ 21,836</b>	<b>\$ 1,003,932</b>	<b>\$ (34,176)</b>	<b>\$ 760,796</b>	<b>\$(87,440)</b>	<b>\$ 332,467</b>	<b>\$ 1,997,415</b>
Net income					113,298		21,592	134,890
Other comprehensive income				2,935			1,446	4,381
Issuances of non-vested restricted shares of common stock	105,882	53	(53)					—
Common stock contribution to 401(k) plan	21,532	11	6,726					6,737
Stock issuances from exercise of stock options and employee stock purchase plan	24,850	12	4,408					4,420
Share-based compensation			8,667					8,667
Cash dividends declared and paid on Common and Class B common stock, \$1.95 per share					(75,795)			(75,795)
<b>Balance at March 31, 2022</b>	<b>38,951,896</b>	<b>21,912</b>	<b>1,023,680</b>	<b>(31,241)</b>	<b>798,299</b>	<b>(87,440)</b>	<b>355,505</b>	<b>2,080,715</b>
Net income					192,557		32,949	225,506
Other comprehensive (loss)				(6,265)			(3,116)	(9,381)
Issuances of non-vested restricted shares of common stock	21,177	11	(11)					—
Forfeitures of non-vested restricted shares of common stock	(10,000)	(5)	5					—
Common stock contribution to 401(k) plan	28	—	9					9
Stock issuances from exercise of stock options and employee stock purchase plan	21,939	11	3,796					3,807
Retirement of common stock	(8,181)	(4)	(2,175)					(2,179)
Share-based compensation			6,987					6,987
Cash dividends declared and paid on Common and Class B common stock, \$2.20 per share					(85,689)			(85,689)
<b>Balance at June 30, 2022</b>	<b>38,976,859</b>	<b>21,925</b>	<b>1,032,291</b>	<b>(37,506)</b>	<b>905,167</b>	<b>(87,440)</b>	<b>385,338</b>	<b>2,219,775</b>
Net income					157,641		28,529	186,170
Other comprehensive (loss)				(12,602)			(6,489)	(19,091)
Issuances of non-vested restricted shares of common stock	13,000	7	(7)					—
Stock issuances from exercise of stock options and employee stock purchase plan	51,407	25	8,639					8,664
Retirement of common stock	(1,932)	(1)	(548)					(549)
Share-based compensation			6,942					6,942
Cash dividends declared and paid on Common and Class B common stock, \$2.20 per share					(85,758)			(85,758)
<b>Balance at September 30, 2022</b>	<b>39,039,334</b>	<b>\$ 21,956</b>	<b>\$ 1,047,317</b>	<b>\$ (50,108)</b>	<b>\$ 977,050</b>	<b>\$(87,440)</b>	<b>\$ 407,378</b>	<b>\$ 2,316,153</b>

Continued on next page.

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<i>(In thousands, except share and per share data)</i>	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
<b>Balance at December 31, 2020</b>	<b>38,521,694</b>	<b>\$ 21,697</b>	<b>\$950,915</b>	<b>\$ (34,867)</b>	<b>\$636,373</b>	<b>\$(87,440)</b>	<b>\$ 293,083</b>	<b>\$1,779,761</b>
Net income					55,092		11,035	66,127
Other comprehensive income				2,474			1,302	3,776
Issuances of non-vested restricted shares of common stock	121,934	61	(61)					—
Forfeitures of non-vested restricted shares of common stock	(43,000)	(21)	21					—
Common stock contribution to 401(k) plan	22,752	11	5,143					5,154
Stock issuances from exercise of stock options and employee stock purchase plan	24,735	12	3,862					3,874
Share-based compensation			6,656					6,656
Cash dividends declared and paid on Common and Class B common stock, \$1.775 per share					(68,521)			(68,521)
<b>Balance at March 31, 2021</b>	<b>38,648,115</b>	<b>21,760</b>	<b>966,536</b>	<b>(32,393)</b>	<b>622,944</b>	<b>(87,440)</b>	<b>305,420</b>	<b>1,796,827</b>
Net income					144,102		28,031	172,133
Other comprehensive income				2,649			1,339	3,988
Issuances of non-vested restricted shares of common stock	44,881	22	(22)					—
Forfeitures of non-vested restricted shares of common stock	(7,589)	(4)	4					—
Stock issuances from exercise of stock options and employee stock purchase plan	34,311	18	5,658					5,676
Retirement of common stock	(2,965)	(1)	(862)					(863)
Share-based compensation			5,569					5,569
Common stock issued for Acme Refrigeration of Baton Rouge LLC	8,492	4	2,547					2,551
Investment in TEC Distribution LLC							21,040	21,040
Cash dividends declared and paid on Common and Class B common stock, \$1.95 per share					(75,388)			(75,388)
<b>Balance at June 30, 2021</b>	<b>38,725,245</b>	<b>21,799</b>	<b>979,430</b>	<b>(29,744)</b>	<b>691,658</b>	<b>(87,440)</b>	<b>355,830</b>	<b>1,931,533</b>
Net income					140,865		23,979	164,844
Other comprehensive (loss)				(5,354)			(2,865)	(8,219)
Issuances of non-vested restricted shares of common stock	21,828	11	(11)					—
Stock issuances from exercise of stock options and employee stock purchase plan	14,413	7	2,480					2,487
Retirement of common stock	(3,250)	(2)	(892)					(894)
Share-based compensation			6,308					6,308
Common stock issued for Makdad Industrial Supply Co., Inc.	3,627	2	995					997
Cash dividends declared and paid on Common and Class B common stock, \$1.95 per share					(75,531)			(75,531)
<b>Balance at September 30, 2021</b>	<b>38,761,863</b>	<b>\$ 21,817</b>	<b>\$988,310</b>	<b>\$ (35,098)</b>	<b>\$756,992</b>	<b>\$(87,440)</b>	<b>\$ 376,944</b>	<b>\$2,021,525</b>

See accompanying notes to condensed consolidated unaudited financial statements.



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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS  
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income	<b>\$ 546,566</b>	\$ 403,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	<b>23,440</b>	20,874
Share-based compensation	<b>22,017</b>	18,659
Non-cash contribution to 401(k) plan	<b>6,746</b>	5,154
Deferred income tax provision	<b>6,311</b>	3,966
Other income from investment in unconsolidated entity	<b>(17,289)</b>	(16,267)
Other, net	<b>5,672</b>	1,969
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	<b>(170,746)</b>	(198,011)
Inventories, net	<b>(276,653)</b>	(170,662)
Accounts payable and other liabilities	<b>212,829</b>	263,752
Other, net	<b>(13)</b>	(12,866)
<b>Net cash provided by operating activities</b>	<b><u>358,880</u></b>	<u>319,672</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	<b>(26,526)</b>	(16,770)
Business acquisitions, net of cash acquired	<b>(47)</b>	(129,462)
Proceeds from sale of equity securities	<b>—</b>	5,993
Proceeds from sale of property and equipment	<b>167</b>	108
<b>Net cash used in investing activities</b>	<b><u>(26,406)</u></b>	<u>(140,131)</u>
<b>Cash flows from financing activities:</b>		
Dividends on Common and Class B common stock	<b>(247,242)</b>	(219,440)
Net (repayments) proceeds under revolving credit agreement	<b>(80,200)</b>	1,724
Repurchases of common stock to satisfy employee withholding tax obligations	<b>(2,471)</b>	(894)
Net repayments of finance lease liabilities	<b>(2,206)</b>	(1,482)
Payment of fees related to revolving credit agreement	<b>—</b>	(22)
Proceeds from non-controlling interest for investment in TEC Distribution LLC	<b>—</b>	21,040
Net proceeds from issuances of common stock	<b>16,635</b>	11,173
<b>Net cash used in financing activities</b>	<b><u>(315,484)</u></b>	<u>(187,901)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<b>(5,030)</b>	(506)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>11,960</b>	(8,866)
<b>Cash and cash equivalents at beginning of period</b>	<b>118,268</b>	146,067
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 130,228</u></b>	<u>\$ 137,201</u>
<b>Supplemental cash flow information:</b>		
Common stock issued for Acme Refrigeration of Baton Rouge LLC	<b>—</b>	\$ 2,551
Common stock issued for Makdad Industrial Supply Co., Inc.	<b>—</b>	\$ 997

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS  
September 30, 2022  
(In thousands, except share and per share data)

## 1. BASIS OF PRESENTATION

### Basis of Consolidation

Watsco, Inc. (collectively with its subsidiaries, “Watsco,” “we,” “us,” or “our”) was incorporated in Florida in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies (“HVAC/R”) in the HVAC/R distribution industry in North America. The accompanying September 30, 2022 interim condensed consolidated unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, but we believe the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation have been included in the condensed consolidated unaudited financial statements included herein. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2021 Annual Report on Form 10-K.

The condensed consolidated unaudited financial statements include the accounts of Watsco, all of its wholly owned subsidiaries, the accounts of four joint ventures with Carrier Global Corporation, which we refer to as Carrier, the accounts of Carrier InterAmerica Corporation, of which we have an 80% controlling interest, and Carrier has a 20% non-controlling interest, and our 38.1% investment in Russell Sigler, Inc., which is accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the quarter and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022. Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly during the Summer and Winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the first and fourth quarters. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

### Equity Method Investments

Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are included in investment in unconsolidated entity in our condensed consolidated unaudited balance sheets. Under this method of accounting, our proportionate share of the net income or loss of the investee is included in other income in our condensed consolidated unaudited statements of income. The excess, if any, of the carrying amount of our investment over our ownership percentage in the underlying net assets of the investee is attributed to certain fair value adjustments with the remaining portion recognized as goodwill.

### Use of Estimates

The preparation of condensed consolidated unaudited financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated unaudited financial statements and the reported amounts of revenues and expenses for the reporting period. Significant estimates include valuation reserves for accounts receivable, net realizable value adjustments to inventories, income taxes, reserves related to loss contingencies and the valuation of goodwill, indefinite-lived intangible assets and long-lived assets. While we believe that these estimates are reasonable, actual results could differ from such estimates.

### Impact of the COVID-19 Pandemic and Economic and Marketplace Dynamics

Since COVID-19 was declared a pandemic in March 2020, it has had widespread impacts on global financial markets and business practices. Although we learned to navigate COVID-19 while maintaining our operations in all material respects, the pandemic impacted our operations, and the operations of our customers and suppliers, throughout 2020 and into 2021. However, as the effects of the pandemic have continued to lessen, the impact of the pandemic on our business has been more reflective of greater economic and marketplace dynamics, which include inflation, supply chain disruptions, and labor shortages, rather than pandemic-related issues, such as quarantines, location closures, mandated restrictions, employee illnesses, and travel restrictions. The extent to which these macro-economic and marketplace dynamics impact our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, therefore, we cannot reasonably estimate the future impact of such dynamics at this time.

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The following table presents our revenues disaggregated by primary geographical regions and major product lines within our single reporting segment:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Primary Geographical Regions:</b>				
United States	<b>\$1,851,071</b>	\$1,615,319	<b>\$5,156,846</b>	\$4,291,838
Canada	<b>100,567</b>	102,491	<b>303,149</b>	290,863
Latin America and the Caribbean	<b>84,158</b>	64,759	<b>233,126</b>	185,626
	<b><u>\$2,035,796</u></b>	<b><u>\$1,782,569</u></b>	<b><u>\$5,693,121</u></b>	<b><u>\$4,768,327</u></b>
<b>Major Product Lines:</b>				
HVAC equipment	<b>69%</b>	69%	<b>69%</b>	69%
Other HVAC products	<b>27%</b>	27%	<b>27%</b>	27%
Commercial refrigeration products	<b>4%</b>	4%	<b>4%</b>	4%
	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

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### 3. EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per share for our Common and Class B common stock:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Basic Earnings per Share:</b>				
Net income attributable to Watsco, Inc. shareholders	\$ 157,641	\$ 140,865	\$ 463,496	\$ 340,059
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	14,387	12,590	42,293	30,182
Earnings allocated to Watsco, Inc. shareholders	\$ 143,254	\$ 128,275	\$ 421,203	\$ 309,877
Weighted-average common shares outstanding - Basic	35,450,277	35,260,126	35,401,179	35,222,865
Basic earnings per share for Common and Class B common stock	\$ 4.04	\$ 3.64	\$ 11.90	\$ 8.80
Allocation of earnings for Basic:				
Common stock	\$ 132,846	\$ 118,905	\$ 390,557	\$ 287,217
Class B common stock	10,408	9,370	30,646	22,660
	\$ 143,254	\$ 128,275	\$ 421,203	\$ 309,877
<b>Diluted Earnings per Share:</b>				
Net income attributable to Watsco, Inc. shareholders	\$ 157,641	\$ 140,865	\$ 463,496	\$ 340,059
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	14,368	12,563	42,228	30,132
Earnings allocated to Watsco, Inc. shareholders	\$ 143,273	\$ 128,302	\$ 421,268	\$ 309,927
Weighted-average common shares outstanding - Basic	35,450,277	35,260,126	35,401,179	35,222,865
Effect of dilutive stock options	112,008	181,852	128,309	177,389
Weighted-average common shares outstanding - Diluted	35,562,285	35,441,978	35,529,488	35,400,254
Diluted earnings per share for Common and Class B common stock	\$ 4.03	\$ 3.62	\$ 11.86	\$ 8.75
Anti-dilutive stock options not included above	208,610	63,959	181,115	27,513

Diluted earnings per share for our Common stock assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the fiscal year; therefore, no allocation of earnings to Class B common stock is required. At September 30, 2022 and 2021, our outstanding Class B common stock was convertible into 2,575,725 and 2,575,698 shares of our Common stock, respectively.

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### 4. OTHER COMPREHENSIVE LOSS

Other comprehensive loss consists of the foreign currency translation adjustment associated with our Canadian operations' use of the Canadian dollar as their functional currency and changes in the unrealized gains on cash flow hedging instruments. The tax effects allocated to each component of other comprehensive loss were as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Foreign currency translation adjustment	<u><b>\$(19,091)</b></u>	<u><b>\$(8,219)</b></u>	<u><b>\$(24,091)</b></u>	<u><b>\$(746)</b></u>
Unrealized gain on cash flow hedging instruments	—	—	—	97
Income tax expense	—	—	—	(27)
Unrealized gain on cash flow hedging instruments, net of tax	—	—	—	70
Reclassification of loss on cash flow hedging instruments into earnings	—	—	—	305
Income tax benefit	—	—	—	(84)
Reclassification of loss on cash flow hedging instruments into earnings, net of tax	—	—	—	221
Other comprehensive loss	<u><b>\$(19,091)</b></u>	<u><b>\$(8,219)</b></u>	<u><b>\$(24,091)</b></u>	<u><b>\$(455)</b></u>

The changes in each component of accumulated other comprehensive loss, net of tax, were as follows:

<i>Nine Months Ended September 30,</i>	2022	2021
Foreign currency translation adjustment:		
Beginning balance	<b>\$(34,176)</b>	\$(34,694)
Current period other comprehensive loss	<b>(15,932)</b>	(406)
Ending balance	<b>(50,108)</b>	(35,100)
Cash flow hedging instruments:		
Beginning balance	—	(173)
Current period other comprehensive income	—	43
Reclassification adjustment	—	132
Ending balance	—	2
Accumulated other comprehensive loss, net of tax	<b>\$(50,108)</b>	\$(35,098)

### 5. ACQUISITIONS

#### **Makdad Industrial Supply Co., Inc.**

On August 20, 2021, one of our wholly owned subsidiaries acquired Makdad Industrial Supply Co., Inc., a distributor of air conditioning and heating products operating from six locations in Pennsylvania. Consideration for the purchase consisted of \$3,164 in cash and the issuance of 3,627 shares of Common stock having a fair value of \$997, net of cash acquired of \$204. The purchase price resulted in the recognition of \$1,041 in goodwill and intangibles. The fair value of the identified intangible assets was \$596 and consisted of \$423 in trade names and distribution rights, and \$173 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

#### **Acme Refrigeration of Baton Rouge LLC**

On May 7, 2021, we acquired certain assets and assumed certain liabilities of Acme Refrigeration of Baton Rouge LLC, a distributor of air conditioning, heating, and refrigeration products, operating from 18 locations in Louisiana and Mississippi, for \$22,855 less certain average revolving indebtedness. We formed a new, wholly owned subsidiary, Acme Refrigeration LLC, which operates this business. Consideration for the purchase consisted of \$18,051 in cash, 8,492 shares of Common stock having a fair value of \$2,551, and \$3,141 for repayment of indebtedness, net of cash acquired of \$1,340. The purchase price resulted in the recognition of \$3,710 in goodwill and intangibles. The fair value of the identified intangible assets was \$2,124 and consisted of \$1,508 in trade names and distribution rights, and \$616 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

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### Temperature Equipment Corporation

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC Distribution LLC (“TEC”), that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest. Consideration for the purchase was paid in cash, consisting of \$105,200 paid to Temperature Equipment Corporation (Carrier contributed \$21,040 and we contributed \$84,160) and \$1,497 for repayment of indebtedness.

The purchase price resulted in the recognition of \$38,624 in goodwill and intangibles. The fair value of the identified intangible assets was \$19,900 and consisted of \$15,700 in trade names and distribution rights, and \$4,200 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

The table below presents the allocation of the total consideration to tangible and intangible assets acquired and liabilities assumed from the acquisition of our 80% controlling interest in TEC based on their respective fair values as of April 9, 2021:

Accounts receivable	\$ 33,315
Inventories	71,325
Other current assets	962
Property and equipment	2,590
Operating lease ROU assets	53,829
Goodwill	18,724
Intangibles	19,900
Accounts payable	(25,393)
Accrued expenses and other current liabilities	(20,509)
Operating lease liabilities, net of current portion	(48,046)
Total	<u>\$ 106,697</u>

The results of operations of these acquisitions have been included in the consolidated financial statements from their respective dates of acquisition. The pro forma effect of these acquisitions was not deemed significant to the consolidated financial statements.

## 6. DERIVATIVES

We enter into foreign currency forward and option contracts intended to offset the earnings impact that foreign exchange rate fluctuations would otherwise have on certain monetary liabilities that are denominated in nonfunctional currencies.

### Cash Flow Hedging Instruments

We enter into foreign currency forward contracts that are designated as cash flow hedges. The settlement of these derivatives results in reclassifications from accumulated other comprehensive loss to earnings for the period in which the settlement of these instruments occurs. The maximum period for which we hedge our cash flow using these instruments is 12 months. At September 30, 2022, no foreign currency forward contracts were designated as cash flow hedges.

The impact from foreign exchange derivative instruments designated as cash flow hedges was as follows:

	Quarter Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Gain recorded in accumulated other comprehensive loss	\$—	\$—	\$ —	\$ 97
Loss reclassified from accumulated other comprehensive loss into earnings	\$—	\$—	\$ —	\$ 305

### Derivatives Not Designated as Hedging Instruments

We have also entered into foreign currency forward and option contracts that are either not designated as hedges or did not qualify for hedge accounting. These derivative instruments were effective economic hedges for all of the periods presented. The fair value gains and losses on these contracts are recognized in earnings as a component of selling, general and administrative expenses. We had only one foreign currency exchange contract not designated as a hedging instrument at September 30, 2022, the total notional value of which was \$7,500, and such contract subsequently expired in October 2022.

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We recognized (losses) gains of \$(149) and \$83 from foreign currency forward and option contracts not designated as hedging instruments in our condensed consolidated unaudited statements of income for the quarters ended September 30, 2022 and 2021, respectively. We recognized losses of \$524 and \$101 from foreign currency forward and option contracts not designated as hedging instruments in our condensed consolidated unaudited statements of income for the nine months ended September 30, 2022 and 2021, respectively.

The following table summarizes the fair value of derivative instruments, which consist solely of foreign exchange contracts, included in accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheets. See Note 7.

	Asset Derivatives		Liability Derivatives	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Derivatives designated as hedging instruments	\$ —	\$ —	\$ —	\$ —
Derivatives not designated as hedging instruments	—	—	13	5
<b>Total derivative instruments</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 13</b>	<b>\$ 5</b>

## 7. FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities carried at fair value that are measured on a recurring basis:

	Balance Sheet Location	Total	Fair Value Measurements at September 30, 2022 Using		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Equity securities	Other assets	\$ 596	\$ 596	—	—
Private equities	Other assets	\$1,000	—	—	\$1,000
<b>Liabilities:</b>					
Derivative financial instruments	Accrued expenses and other current liabilities	\$ 13	—	\$ 13	—

	Balance Sheet Location	Total	Fair Value Measurements at December 31, 2021 Using		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Equity securities	Other assets	\$1,790	\$1,790	—	—
Private equities	Other assets	\$1,000	—	—	\$1,000
<b>Liabilities:</b>					
Derivative financial instruments	Accrued expenses and other current liabilities	\$ 5	—	\$ 5	—

The following is a description of the valuation techniques used for these assets and liabilities, as well as the level of input used to measure fair value:

*Equity securities* – these investments are exchange-traded equity securities. Fair values for these investments are based on closing stock prices from active markets and are therefore classified within Level 1 of the fair value hierarchy.

*Private equities* – other investment in which fair value inputs are unobservable.

*Derivative financial instruments* – these derivatives are foreign currency forward and option contracts. See Note 6. Fair value is based on observable market inputs, such as forward rates in active markets; therefore, we classify these derivatives within Level 2 of the valuation hierarchy.

During the nine months ended September 30, 2021, we recognized a realized gain of \$3,815 recorded in our condensed consolidated unaudited statement of income attributable to the sale of certain equity securities.

## 8. SHAREHOLDERS' EQUITY

### At-the-Market Offering Program

On August 6, 2021, we entered into a sales agreement with Robert W. Baird & Co. Inc. ("Baird"), which enables the Company to issue and sell shares of Common stock in one or more negotiated transactions or transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), for a maximum aggregate offering amount of up to \$300,000 (the "ATM Program"). The offer and sale of our Common stock pursuant to the ATM Program has been registered under the Securities Act pursuant to our automatically effective shelf registration statement on Form S-3 (File No. 333-260758). On February 25, 2022, we entered into an amended and restated sales agreement, together with Baird and Goldman Sachs & Co. LLC ("GS"), for the purpose of adding GS as an additional sales agent and making necessary conforming changes. The amended and restated sales agreement otherwise retains all material terms of the original sales agreement.

As of September 30, 2022, no shares of Common stock had been sold under the ATM Program.

### Common Stock Dividends

We paid cash dividends of \$2.20, \$1.95, \$6.35, and \$5.675 per share of both Common stock and Class B common stock during the quarters and nine months ended September 30, 2022 and 2021, respectively.

### Non-Vested Restricted Stock

During the quarter and nine months ended September 30, 2022, 879 shares of Class B common stock with an aggregate fair market value of \$252, and 9,060 shares of Class B common stock with an aggregate fair market value of \$2,431, respectively, were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested restricted stock. These shares were retired upon delivery. During both the quarter and nine months ended September 30, 2021, 3,250 shares of Class B common stock with an aggregate fair market value of \$894 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested restricted stock. These shares were retired upon delivery.

### Exercise of Stock Options

Cash received from Common stock issued as a result of stock options exercised during the quarters and nine months ended September 30, 2022 and 2021, was \$7,929, \$2,094, \$15,151, and \$9,940, respectively.

During both the quarter and nine months ended September 30, 2022, 1,053 shares of Common stock with an aggregate fair market value of \$298 were withheld as payment in lieu of cash for stock option exercises. These shares were retired upon delivery. During the nine months ended September 30, 2021, 2,965 shares of Common stock with an aggregate fair market value of \$863 were withheld as payment in lieu of cash for stock option exercises. These shares were retired upon delivery.

### Employee Stock Purchase Plan

During the quarters ended September 30, 2022 and 2021, we received net proceeds of \$478 and \$392, respectively, for shares of our Common stock purchased under our employee stock purchase plan. During the nine months ended September 30, 2022 and 2021, we received net proceeds of \$1,484 and \$1,233, respectively, for shares of our Common stock purchased under our employee stock purchase plan.

## 9. COMMITMENTS AND CONTINGENCIES

### Litigation, Claims and Assessments

We are involved in litigation incidental to the operation of our business. We vigorously defend all matters in which we or our subsidiaries are named defendants and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect us. Although the adequacy of existing insurance coverage and the outcome of any legal proceedings cannot be predicted with certainty, based on the current information available, we do not believe the ultimate liability associated with any known claims or litigation will have a material adverse effect on our financial condition or results of operations.

### Self-Insurance

Self-insurance reserves are maintained relative to company-wide casualty insurance and health benefit programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors, and valuations provided by independent third-party actuaries. Management reviews its assumptions with its independent third-party actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occur and exceed these estimates, additional reserves may be required. Reserves in the amounts of \$10,715 and \$7,253 at September 30, 2022 and December 31, 2021, respectively, were established related to such programs and are included in accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheets.



## **10. RELATED PARTY TRANSACTIONS**

Purchases from Carrier and its affiliates comprised 63% and 59% of all inventory purchases made during the quarters ended September 30, 2022 and 2021, respectively. Purchases from Carrier and its affiliates comprised 60% and 64% of all inventory purchases made during the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, approximately \$167,000 and \$90,000, respectively, was payable to Carrier and its affiliates, net of receivables. We also sell HVAC products to Carrier and its affiliates. Revenues in our condensed consolidated unaudited statements of income for the quarters and nine months ended September 30, 2022 and 2021 included approximately \$26,000, \$30,000, \$76,000, and \$86,000, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted on terms equivalent to an arm's-length basis in the ordinary course of business.

A member of our Board of Directors is the Senior Chairman of Greenberg Traurig, P.A., which serves as our principal outside counsel for compliance and acquisition-related legal services. During the quarters and nine months ended September 30, 2022 and 2021, fees to this firm for services performed were \$40, \$83, \$169, and \$181, respectively. At September 30, 2022 and December 31, 2021, \$37 and \$34, respectively, was payable to this firm.

## **11. SUBSEQUENT EVENTS**

On October 15, 2022, 975,622 shares of Class B restricted stock held by an affiliate of our Chief Executive Officer ("CEO") vested. The vested shares had a value of \$265,106 based on the closing price of Watsco's Class B common stock as of that date. This vested value was treated as taxable compensation to our CEO for income tax purposes and was subject to statutory withholding. Upon vesting, we funded \$104,319 in statutory withholding, which, in turn, was satisfied by the CEO through a cash payment of \$19,700 and by surrendering of 311,408 shares of Watsco Class B common stock. Accordingly, 664,214 shares of Watsco Class B common stock were retained by the affiliate of our CEO, and we retired the surrendered shares. The value of the vested shares will be deducted on our 2022 income tax return and our provision for income taxes will reflect an income tax benefit and related reduction in our effective tax rate.

On October 18, 2022, our Board of Directors approved an increase to the quarterly cash dividend per share of Common and Class B common stock to \$2.45 per share from \$2.20 per share, beginning with the dividend that will be paid in January 2023.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

This Quarterly Report on Form 10-Q 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," "designed," 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 United States and in the international markets we serve;
- competitive factors within the HVAC/R industry;
- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- the continued impact of the COVID-19 pandemic;
- new housing starts and completions;
- capital spending in the commercial construction market;

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- 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;
- the effect of inflation;
- foreign currency exchange rate fluctuations;
- international 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 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 below under Impact of COVID-19 Pandemic and Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021, 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.

The following information should be read in conjunction with the condensed consolidated unaudited financial statements, including the notes thereto, included under Part I, Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited consolidated financial statements and notes thereto, and related Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2021.

### **Company Overview**

Watsco, Inc. was incorporated in Florida in 1956, and, together with its subsidiaries (collectively, “Watsco,” or “we,” “us,” or “our”) is the largest distributor of air conditioning, heating, and refrigeration equipment, and related parts and supplies (“HVAC/R”) in the HVAC/R distribution industry in North America. At September 30, 2022, we operated from 675 locations in 42 U.S. States, Canada, Mexico, and Puerto Rico with additional market coverage on an export basis to portions of Latin America and the Caribbean.

Revenues primarily consist of sales of air conditioning, heating, and refrigeration equipment, and related parts and supplies. Selling, general and administrative expenses primarily consist of selling expenses, the largest components of which are salaries, commissions, and marketing expenses that are variable and correlate to changes in sales. Other significant selling, general and administrative expenses relate to the operation of warehouse facilities, including a fleet of trucks and forklifts, and facility rent, a majority of which we operate under non-cancelable operating leases.

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly during the Summer and Winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the first and fourth quarters. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

### **Impact of the COVID-19 Pandemic and Economic and Marketplace Dynamics**

Since COVID-19 was declared a pandemic in March 2020, it has had widespread impacts on global financial markets and business practices. Although we learned to navigate COVID-19 while maintaining our operations in all material respects, the pandemic impacted our operations, and the operations of our customers and suppliers throughout 2020 and into 2021. However, as the effects of the pandemic have continued to lessen, the impact of the pandemic on our business has been more reflective of greater economic and marketplace dynamics, which include inflation, supply chain disruptions, and labor shortages, rather than pandemic-related issues, such as quarantines, location closures, mandated restrictions, employee illnesses, and travel restrictions.

Certain of our manufacturers and suppliers continue to experience some level of supply chain disruptions caused by component availability, labor shortages, transportation delays, and other logistical challenges, resulting in longer lead times and constrained availability of HVAC/R products. These supply chain disruptions impacted our ability to fulfill contractor demand at various points

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during the first nine months of 2022 and we estimate the impact was approximately 3% to 4% of lost revenues. We cannot reasonably estimate the future impact of supply chain disruptions to the extent that these disruptions become more pronounced than current conditions. Despite these disruptions, we experienced growth in sales of residential units during the first nine months of 2022. We intend to continue to actively monitor the situation and may take further actions that alter our business.

### **Climate Change and Reductions in CO<sub>2</sub>e Emissions**

We believe that our business plays an important and significant role in the drive to lower CO<sub>2</sub>e emissions. According to the United States Department of Energy, heating and air conditioning accounts for roughly half of household energy consumption in the United States. As such, replacing older, less efficient HVAC systems with higher efficiency systems is one of the most meaningful steps homeowners can take to reduce their electricity costs and carbon footprint.

The overwhelming majority of new HVAC systems that we sell replace systems that likely operate below current minimum efficiency standards in the United States and may use more harmful refrigerants that have been, or are being, phased-out. As consumers replace HVAC systems with new, higher-efficiency systems, homeowners will consume less energy, save costs and reduce their carbon footprint.

The sale of high-efficiency systems has long been a focus of ours, and we have invested in tools and technology intended to capture an increasingly richer sales mix over time. In addition, regulatory mandates will periodically increase the required minimum Seasonal Energy Efficiency Ratio rating, referred to as SEER, thus providing a catalyst for greater sales of higher-efficiency systems. Recently enacted regulations will increase the current minimum SEER beginning in 2023 (in general terms, to 14 SEER from 13 SEER in the Northern U.S. and to 15 SEER from 14 SEER for the Southern U.S.).

We offer a broad variety of systems that operate above the minimum SEER standards, ranging from base-level efficiency to systems that exceed 20 SEER. Our sales of higher-efficiency residential HVAC systems (those above base-level efficiency) grew 23% organically during the nine months ended September 30, 2022, outpacing the overall growth rate of 17% for residential HVAC equipment in the United States. Based on estimates validated by independent sources, we averted an estimated 14.2 million metric tons of CO<sub>2</sub>e emissions during the period January 1, 2020 to September 30, 2022 through the sale of replacement residential HVAC systems at higher-efficiency standards.

### **Joint Ventures with Carrier Global Corporation**

In 2009, we formed a joint venture with Carrier, which we refer to as Carrier Enterprise I, in which Carrier contributed company-owned locations in the Sun Belt states and Puerto Rico, and its export division in Miami, Florida, and we contributed certain locations that distributed Carrier products. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. The export division, Carrier InterAmerica Corporation, redomesticated from the U.S. Virgin Islands to Delaware effective December 31, 2019, following which Carrier InterAmerica Corporation became a separate operating entity in which we have an 80% controlling interest and Carrier has a 20% non-controlling interest. On August 1, 2019, Carrier Enterprise I acquired substantially all of the HVAC assets and assumed certain of the liabilities of Peirce-Phelps, Inc., an HVAC distributor operating in Pennsylvania, New Jersey, and Delaware.

In 2011, we formed a second joint venture with Carrier, which we refer to as Carrier Enterprise II, in which Carrier contributed company-owned locations in the Northeast U.S., and we contributed certain locations operating as Homans Associates LLC (“Homans”), a Watsco subsidiary, in the Northeast U.S. Subsequently, Carrier Enterprise II purchased Carrier’s distribution operations in Mexico. We have an 80% controlling interest in Carrier Enterprise II, and Carrier has a 20% non-controlling interest. Effective May 31, 2019, we repurchased the 20% ownership interest in Homans from Carrier Enterprise II, following which we own 100% of Homans. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company.

In 2012, we formed a third joint venture with Carrier, which we refer to as Carrier Enterprise III. Carrier contributed 35 of its company-owned locations in Canada to Carrier Enterprise III. We have a 60% controlling interest in Carrier Enterprise III, and Carrier has a 40% non-controlling interest.

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC Distribution LLC (“TEC”), that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest.

### **Critical Accounting Estimates**

Management’s discussion and analysis of financial condition and results of operations is based upon the condensed consolidated unaudited financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these condensed consolidated unaudited financial statements requires

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management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated unaudited financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. At least quarterly, management reevaluates its judgments and estimates, which are based on historical experience, current trends, and various other assumptions that are believed to be reasonable under the circumstances.

Our critical accounting estimates are included in our 2021 Annual Report on Form 10-K, as filed with the SEC on February 25, 2022. We believe that there have been no significant changes during the quarter ended September 30, 2022 to the critical accounting estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

### Results of Operations

The following table summarizes information derived from our condensed consolidated unaudited statements of income, expressed as a percentage of revenues, for the quarters and nine months ended September 30, 2022 and 2021:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
Cost of sales	<b>72.9</b>	72.9	<b>72.0</b>	73.7
Gross profit	<b>27.1</b>	27.1	<b>28.0</b>	26.3
Selling, general and administrative expenses	<b>15.8</b>	15.8	<b>16.2</b>	16.1
Other income	<b>0.3</b>	0.3	<b>0.3</b>	0.3
Operating income	<b>11.6</b>	11.6	<b>12.2</b>	10.6
Interest expense, net	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Income before income taxes	<b>11.6</b>	11.6	<b>12.2</b>	10.6
Income taxes	<b>2.4</b>	2.3	<b>2.6</b>	2.1
Net income	<b>9.1</b>	9.2	<b>9.6</b>	8.5
Less: net income attributable to non-controlling interest	<b>1.4</b>	1.3	<b>1.5</b>	1.3
Net income attributable to Watsco, Inc.	<b>7.7%</b>	7.9%	<b>8.1%</b>	7.1%

Note: Due to rounding, percentages may not add up to 100.

The following narratives reflect our acquisitions of Makdad Industrial Supply Co., Inc. (“MIS”) in August 2021, Acme Refrigeration of Baton Rouge LLC (“ACME”) in May 2021, and Temperature Equipment Corporation in April 2021. We did not acquire any businesses during the quarter or nine months ended September 30, 2022.

In the following narratives, computations and other information referring to “same-store basis” exclude the effects of locations closed, acquired, or locations opened, in each case during the immediately preceding 12 months, unless such locations are within close geographical proximity to existing locations. At September 30, 2022 and 2021, eleven and zero locations, respectively, that we opened during the immediately preceding 12 months were near existing locations and were therefore included in “same-store basis” information.

The table below summarizes the changes in our locations for the 12 months ended September 30, 2022:

	Number of Locations
September 30, 2021	673
Opened	4
Closed	(6)
December 31, 2021	671
Opened	10
Closed	(6)
September 30, 2022	<b>675</b>

### **Third Quarter of 2022 Compared to Third Quarter of 2021**

#### *Revenues*

Revenues for the third quarter of 2022 increased \$253.2 million, or 14%, including \$2.1 million attributable to new locations acquired and \$6.6 million from other locations opened during the preceding 12 months, offset by \$4.0 million from locations closed. Sales of HVAC equipment (69% of sales) increased 13%, which included 14% growth in U.S. markets (13% increase in sales of residential HVAC equipment and a 20% increase in sales of commercial HVAC equipment), sales of other HVAC products (27% of sales) increased 15% and sales of commercial refrigeration products (4% of sales) increased 18%. For HVAC equipment, the increase in revenues was primarily due to the realization of price increases and a higher mix of high-efficiency air conditioning and heating systems, which sell at higher unit prices, resulting in a 14% increase in the average selling price and a 1% decrease in volume, as well as higher sales of commercial HVAC equipment. On a same-store basis, revenues increased \$248.5 million, or 14%, as compared to the same period in 2021. Hurricane Ian interrupted sales and operations in several of our markets in Florida, our largest U.S. market, during the last week of September 2022. The materiality of the disruptions was not significant to the third quarter results of operations. All Florida locations impacted by the storm are open and operational as of the date of this filing.

#### *Gross Profit*

Gross profit for the third quarter of 2022 increased \$68.2 million, or 14%, primarily as a result of increased revenues. Gross profit margin for the quarter ended September 30, 2022 remained consistent with the same period in 2021 at 27.1%.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the third quarter of 2022 increased \$39.6 million, or 14%, primarily due to increased revenues. On a same-store basis, selling, general and administrative expenses increased 14% as compared to the same period in 2021. Selling, general and administrative expenses as a percent of revenues for the third quarter of 2022 remained consistent with the same period in 2021 at 15.8%.

#### *Other Income*

Other income of \$6.9 million and \$6.1 million for the third quarters of 2022 and 2021, respectively, represented our share of the net income of Russell Sigler, Inc. ("RSI"), in which we have a 38.1% equity interest.

#### *Interest Expense, Net*

Interest expense, net for the third quarter of 2022 increased \$0.3 million, or 119%, primarily as a result of an increase in average outstanding borrowings and a higher effective interest rate, in each case under our revolving credit facility, as compared to the same period in 2021.

#### *Income Taxes*

Income taxes increased to \$49.6 million for the third quarter of 2022, as compared to \$41.7 million for the third quarter of 2021 and represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to the Carrier joint ventures, which are primarily taxed as partnerships for income tax purposes; therefore, Carrier is responsible for its proportionate share of income taxes attributable to its share of earnings from these joint ventures. The effective income tax rates attributable to us were 23.8% and 22.8% for the quarters ended September 30, 2022 and 2021, respectively. The increase was primarily due to higher state income taxes and proportionately higher income in the third quarter of 2022 as compared to tax credits and share-based compensation deductions in the third quarter of 2021.

#### *Net Income Attributable to Watsco, Inc.*

Net income attributable to Watsco for the quarter ended September 30, 2022 increased \$16.8 million, or 12%, compared to the same period in 2021. The increase was primarily driven by higher revenues, partially offset by higher income taxes and an increase in the net income attributable to the non-controlling interest.

### **Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021**

#### *Revenues*

Revenues for the nine months ended September 30, 2022 increased \$924.8 million, or 19%, including \$104.2 million attributable to new locations acquired and \$30.4 million from other locations opened during the preceding 12 months, offset by \$11.2 million from locations closed. Sales of HVAC equipment (69% of sales) increased 18%, sales of other HVAC products (27% of sales) increased 20% and sales of commercial refrigeration products (4% of sales) increased 25%. On a same-store basis, revenues increased \$801.4 million, or 17%, as compared to the same period in 2021, reflecting a 16% increase in sales of HVAC equipment (69% of sales),

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which included 17% growth in U.S. markets for both residential and commercial HVAC equipment, an 18% increase in sales of other HVAC products (27% of sales) and a 25% increase in commercial refrigeration products (4% of sales). For HVAC equipment, the increase in revenues was primarily due to the realization of price increases and a higher mix of high-efficiency air conditioning and heating systems, which sell at higher unit prices, resulting in a 15% increase in the average selling price and a 2% increase in volume, as well as higher sales of commercial HVAC equipment.

### *Gross Profit*

Gross profit for the nine months ended September 30, 2022 increased \$341.3 million, or 27%, primarily as a result of increased revenues. Gross profit margin for the nine months ended September 30, 2022 improved 170 basis-points to 28.0% versus 26.3% for the same period in 2021, primarily due to the impact of pricing and sales mix for residential HVAC equipment.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the nine months ended September 30, 2022 increased \$153.4 million, or 20%, primarily due to increased revenues and newly acquired locations. Selling, general and administrative expenses as a percentage of revenues increased to 16.2% for the nine months ended September 30, 2022 as compared to 16.1% for the same period in 2021. On a same-store basis, selling, general and administrative expenses increased 16% as compared to the same period in 2021, primarily due to increased higher variable selling costs driven by the increase in revenues, investments in employee headcount, technology, and new locations opened in 2022.

### *Other Income*

Other income of \$17.3 million and \$16.3 million for the nine months ended September 30, 2022 and 2021, respectively, represented our share of the net income of RSI, in which we have a 38.1% equity interest.

### *Interest Expense, Net*

Interest expense, net for the nine months ended September 30, 2022 increased \$1.4 million, or 184%, primarily as a result of an increase in average outstanding borrowings and a higher effective interest rate, in each case under our revolving credit facility, as compared to the same period in 2021.

### *Income Taxes*

Income taxes increased to \$145.7 million for the nine months ended September 30, 2022, as compared to \$101.6 million for the nine months ended September 30, 2021 and represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to the Carrier joint ventures, which are primarily taxed as partnerships for income tax purposes; therefore, Carrier is responsible for its proportionate share of income taxes attributable to its share of earnings from these joint ventures. The effective income tax rates attributable to us were 23.8% and 22.9% for the nine months ended September 30, 2022 and 2021, respectively. The increase was primarily due to higher state income taxes and proportionately higher income in 2022 as compared to tax credits and share-based compensation deductions in 2021.

### *Net Income Attributable to Watsco, Inc.*

Net income attributable to Watsco for the nine months ended September 30, 2022 increased \$123.4 million, or 36%, compared to the same period in 2021. The increase was primarily driven by higher revenues and expanded profit margins, partially offset by higher income taxes and an increase in the net income attributable to the non-controlling interest.

## **Liquidity and Capital Resources**

We assess our liquidity in terms of our ability to generate cash to execute our business strategy and fund operating and investing activities, taking into consideration the seasonal demand for HVAC/R products, which peaks in the months of May through August. Significant factors that could affect our liquidity include the following:

- cash needed to fund our business (primarily working capital requirements);
- borrowing capacity under our revolving credit facility;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions, including joint ventures and investments in unconsolidated entities;
- dividend payments;
- capital expenditures; and
- the timing and extent of common stock repurchases.

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### [Sources and Uses of Cash](#)

We rely on cash flows from operations and borrowing capacity under our revolving credit agreement to fund seasonal working capital needs and for other general corporate purposes in the short-term and the long-term, including dividend payments (if and as declared by our Board of Directors), capital expenditures, business acquisitions, and development of our long-term operating and technology strategies. Additionally, we may also generate cash through the issuance and sale of our Common stock.

As of September 30, 2022, we had \$130.2 million of cash and cash equivalents, of which \$103.3 million was held by foreign subsidiaries. The repatriation of cash balances from our foreign subsidiaries could have adverse tax impacts or be subject to capital controls; however, these balances are generally available to fund the ordinary business operations of our foreign subsidiaries without legal restrictions.

We believe that our operating cash flows, cash on hand, funds available for borrowing under our revolving credit agreement, and funds available from sales of our Common stock under our ATM Program (as defined below), each of which is described below, will be sufficient to meet our liquidity needs for the foreseeable future. However, there can be no assurance that our current sources of available funds will be sufficient to meet our cash requirements.

Our access to funds under our revolving credit agreement depends on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the credit and capital markets could adversely affect our ability to draw on our revolving credit agreement and may also adversely affect the determination of interest rates, particularly rates based on LIBOR, which is one of the base rates under our revolving credit agreement. On March 5, 2021, the United Kingdom Financial Conduct Authority, which regulates LIBOR, confirmed that LIBOR will either cease to be provided by any administrator or will no longer be representative after June 30, 2023 for USD LIBOR reference rates. Our revolving credit agreement provides that it may be amended to replace LIBOR with an alternate benchmark rate. The impact of such an amendment cannot be entirely predicted but could result in an increase in the cost of our debt. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs and/or reduced borrowing capacity under our revolving credit agreement.

### [Working Capital](#)

Working capital increased to \$1,470.4 million at September 30, 2022 from \$1,234.7 million at December 31, 2021, due to (i) higher inventory balances primarily due to the general impact of inflation, greater inventory requirements resulting from strong business conditions, and more extensive inventories in response to various supply chain disruptions and (ii) higher accounts receivable consistent with overall increased sales, which were offset by an increase in accounts payable and accrued liabilities.

### [Cash Flows](#)

The following table summarizes our cash flow activity for the nine months ended September 30, 2022 and 2021 (in millions):

	2022	2021	Change
Cash flows provided by operating activities	\$ 358.9	\$ 319.7	\$ 39.2
Cash flows used in investing activities	\$ (26.4)	\$ (140.1)	\$ 113.7
Cash flows used in financing activities	\$ (315.5)	\$ (187.9)	\$ (127.6)

The individual items contributing to cash flow changes for the periods presented are detailed in the condensed consolidated unaudited statements of cash flows contained in this Quarterly Report on Form 10-Q.

### [Operating Activities](#)

The increase in net cash provided by operating activities was primarily due to higher net income, partially offset by increases in the level of inventory and timing of vendor payments in 2022 as compared to 2021.

### [Investing Activities](#)

Net cash used in investing activities was lower in 2022 primarily due to cash consideration paid for businesses acquired in 2021.

### [Financing Activities](#)

The increase in net cash used in financing activities was primarily attributable to higher borrowings under our revolving credit agreement and an increase in dividends paid in 2022, as well as \$21.0 million in proceeds from the non-controlling interest for its contribution to the acquisition of TEC in 2021.



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### [Revolving Credit Agreement](#)

We maintain an unsecured, \$560.0 million syndicated multicurrency revolving credit agreement, which we use to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), capital expenditures, stock repurchases and issuances of letters of credit. The credit facility has a seasonal component from October 1 to March 31, during which the borrowing capacity may be reduced to \$460.0 million at our discretion (which effectively reduces fees payable in respect of the unused portion of the commitment), and we effected this reduction in 2021. Included in the credit facility are a \$100.0 million swingline subfacility, a \$10.0 million letter of credit subfacility, a \$75.0 million alternative currency borrowing sublimit and an \$8.0 million Mexican borrowing sublimit. The credit agreement matures on December 5, 2023.

At September 30, 2022 and December 31, 2021, \$8.8 million and \$89.0 million, respectively, were outstanding under the revolving credit agreement. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at September 30, 2022.

### [At-the-Market Offering Program](#)

On August 6, 2021, we entered into a sales agreement with Robert W. Baird & Co. Inc. (“Baird”), which enables the Company to issue and sell shares of Common stock in one or more negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), for a maximum aggregate offering amount of up to \$300.0 million (the “ATM Program”). The offer and sale of our Common stock pursuant to the ATM Program has been registered under the Securities Act pursuant to our automatically effective shelf registration statement on Form S-3 (File No. 333-260758). On February 25, 2022, we entered into an amended and restated sales agreement, together with Baird and Goldman Sachs & Co. LLC (“GS”), for the purpose of adding GS as an additional sales agent and making necessary conforming changes. The amended and restated sales agreement otherwise retains all material terms of the original sales agreement.

As of September 30, 2022, no shares of Common stock had been sold under the ATM Program.

### [Contractual Obligations](#)

On October 15, 2022, 975,622 shares of Class B restricted stock held by an affiliate of our Chief Executive Officer (“CEO”) vested. The vested shares had a value of \$265.1 million based on the closing price of Watsco’s Class B common stock as of that date. This vested value was treated as taxable compensation to our CEO for income tax purposes and was subject to statutory withholding. Upon vesting, we funded \$104.3 million in statutory withholding, using a combination of cash on hand and borrowing availability under our revolving credit agreement described above, and such amount was satisfied by the CEO through a cash payment of \$19.7 million and by surrendering of 311,408 shares of Watsco Class B common stock. Accordingly, 664,214 shares of Watsco Class B common stock were retained by the affiliate of our CEO, and we retired the surrendered shares. The value of the vested shares will be deducted on our 2022 income tax return and our provision for income taxes will reflect an income tax benefit and related reduction in our effective tax rate.

### [Investment in Unconsolidated Entity](#)

Carrier Enterprise I has a 38.1% ownership interest in RSI, an HVAC distributor operating from 35 locations in the Western U.S. Our proportionate share of the net income of RSI is included in other income in our condensed consolidated unaudited statements of income.

Carrier Enterprise I is a party to a shareholders’ agreement (the “Shareholders’ Agreement”) with RSI and its shareholders. Pursuant to the Shareholders’ Agreement, RSI’s shareholders have the right to sell, and Carrier Enterprise I has the obligation to purchase, their respective shares of RSI for a purchase price determined based on either book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price paid for its investment in RSI. RSI’s shareholders may transfer their respective shares of RSI common stock only to members of the Sigler family or to Carrier Enterprise I, and, at any time from and after the date on which Carrier Enterprise I owns 85% or more of RSI’s outstanding common stock, it has the right, but not the obligation, to purchase from RSI’s shareholders the remaining outstanding shares of RSI common stock. At September 30, 2022, the estimated purchase amount we would be contingently liable for was approximately \$324.0 million. We believe that our operating cash flows, cash on hand, and funds available for borrowing under our revolving credit agreement would be sufficient to purchase any additional ownership interests in RSI.

### [Acquisitions](#)

On August 20, 2021, one of our wholly owned subsidiaries acquired MIS, a distributor of air conditioning and heating products operating from six locations in Pennsylvania. Consideration for the purchase consisted of \$3.2 million in cash and the issuance of 3,627 shares of Common stock having a fair value of \$1.0 million, net of cash acquired of \$0.2 million.

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On May 7, 2021, we acquired certain assets and assumed certain liabilities of ACME, a distributor of air conditioning, heating, and refrigeration products, operating from 18 locations in Louisiana and Mississippi, for \$22.9 million less certain average revolving indebtedness. Consideration for the purchase consisted of \$18.1 million in cash, 8,492 shares of Common stock having a fair value of \$2.6 million, and \$3.1 million repayment of indebtedness, net of cash acquired of \$1.3 million.

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC, which operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest. Consideration for the purchase was paid in cash, consisting of \$105.2 million paid to Temperature Equipment Corporation (Carrier contributed \$21.0 million and we contributed \$84.2 million) and \$1.5 million for repayment of indebtedness.

We continually evaluate potential acquisitions and/or joint ventures and investments in unconsolidated entities. We routinely hold discussions with several acquisition candidates. Should suitable acquisition opportunities arise that would require additional financing, we believe our financial position and earnings history provide a sufficient basis for us to either obtain additional debt financing at competitive rates and on reasonable terms or raise capital through the issuance of equity securities.

### Common Stock Dividends

We paid cash dividends of \$6.35 and \$5.675 per share of Common stock and Class B common stock during the nine months ended September 30, 2022 and 2021, respectively. On October 3, 2022, our Board of Directors declared a regular quarterly cash dividend of \$2.20 per share of both Common and Class B common stock that was paid on October 31, 2022 to shareholders of record as of October 17, 2022. On October 18, 2022, our Board of Directors approved an increase to the annual cash dividend per share of Common and Class B common stock to \$9.80 per share from \$8.80 per share, effective with the quarterly dividend that will be paid in January 2023. Future dividends and/or changes in dividend rates are at the sole discretion of the Board of Directors and depend upon factors including, but not limited to, cash flow generated by operations, profitability, financial condition, cash requirements, and future prospects.

### Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. We last repurchased shares under this plan in 2008. In aggregate, 6,370,913 shares of Common and Class B common stock have been repurchased at a cost of \$114.4 million since the inception of the program. At September 30, 2022, there were 1,129,087 shares remaining authorized for repurchase under the program.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to the information regarding market risk provided in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2021.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are, among other things, designed to ensure that information required to be disclosed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer ("CEO"), Executive Vice President ("EVP") and Chief Financial Officer ("CFO"), to allow for timely decisions regarding required disclosure and appropriate SEC filings.

Our management, with the participation of our CEO, EVP and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on that evaluation, our CEO, EVP and CFO concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, at and as of such date.

### **Changes in Internal Control over Financial Reporting**

We are continuously seeking to improve the efficiency and effectiveness of our operations and of our internal controls. This results in refinements to processes throughout the Company. However, there were no changes in internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

Information with respect to this item may be found in Note 9 to our condensed consolidated unaudited financial statements contained in this Quarterly Report on Form 10-Q under the caption "Litigation, Claims and Assessments," which information is incorporated by reference in this Item 1 of Part II of this Quarterly Report on Form 10-Q.

#### **ITEM 1A. RISK FACTORS**

Information about risk factors for the quarter ended September 30, 2022 does not differ materially from that set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021.

#### **ITEM 6. EXHIBITS**

31.1 #	<a href="#">Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2 #	<a href="#">Certification of Executive Vice President pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.3 #	<a href="#">Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1 +	<a href="#">Certification of Chief Executive Officer, Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS #	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH #	Inline XBRL Taxonomy Extension Schema Document.
101.CAL #	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF #	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB #	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE #	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL.

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# filed herewith.

+ furnished herewith.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 3, 2022

WATSCO, INC.  
(Registrant)

By: /s/ Ana M. Menendez  
Ana M. Menendez  
Chief Financial Officer (on behalf of the Registrant and  
as Principal Financial Officer)

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Albert H. Nahmad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Albert H. Nahmad

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Albert H. Nahmad  
Chief Executive Officer

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barry S. Logan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Barry S. Logan

Barry S. Logan

Executive Vice President

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ana M. Menendez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Ana M. Menendez

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Ana M. Menendez  
Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Watsco, Inc. (“Watsco”) for the quarter and nine months ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Executive Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Watsco.

/s/ Albert H. Nahmad

Albert H. Nahmad  
Chief Executive Officer  
November 3, 2022

/s/ Barry S. Logan

Barry S. Logan  
Executive Vice President  
November 3, 2022

/s/ Ana M. Menendez

Ana M. Menendez  
Chief Financial Officer  
November 3, 2022

A signed original of this written statement required by Section 906 has been provided to Watsco and will be retained by Watsco and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by Watsco for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.