

---

---

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

---

**FORM 10-K**

---

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

For the Fiscal Year Ended December 31, 2023

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

---

**watsco**

**WATSCO, INC.**

(Exact name of registrant as specified in its charter)

---

**FLORIDA**  
(State or other jurisdiction of  
incorporation or organization)

**59-0778222**  
(I.R.S. Employer  
Identification No.)

**2665 South Bayshore Drive, Suite 901**  
**Miami, FL 33133**  
(Address of principal executive offices, including zip code)

**(305) 714-4100**  
(Registrant's telephone number, including area code)

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

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

**Securities registered pursuant to section 12(g) of the Act: None**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and 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 an 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

Auditor Firm Id: 34

Auditor Name: Deloitte & Touche LLP

Auditor Location: Miami, FL

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant as of June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$12,929 million, based on the closing sale price of the registrant's common stock on that date. For purposes of determining this number, all named executive officers and directors of the registrant as of June 30, 2023 were considered affiliates of the registrant. This number is provided only for the purposes of this Annual Report on Form 10-K and does not represent an admission by either the registrant or any such person as to the affiliate status of such person.

The registrant's common stock outstanding as of February 20, 2024 composed (i) 33,934,349 shares of Common stock, excluding 4,778,988 treasury shares, and (ii) 5,562,249 shares of Class B common stock, excluding 48,263 treasury shares.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required by Part II is incorporated by reference from the registrant's 2023 Annual Report, attached hereto as Exhibit 13. The information required by Part III (Items 10, 11, 12, 13, and 14) is incorporated herein by reference from the registrant's definitive proxy statement for the 2024 annual meeting of shareholders (to be filed pursuant to Regulation 14A).

---

---

WATSCO, INC. AND SUBSIDIARIES

---

Form 10-K  
For the Fiscal Year Ended December 31, 2023

INDEX

	<u>Page</u>
PART I	
Item 1. <a href="#">Business</a>	3
Item 1A. <a href="#">Risk Factors</a>	13
Item 1B. <a href="#">Unresolved Staff Comments</a>	18
Item 1C. <a href="#">Cybersecurity</a>	18
Item 2. <a href="#">Properties</a>	18
Item 3. <a href="#">Legal Proceedings</a>	19
Item 4. <a href="#">Mine Safety Disclosures</a>	19
PART II	
Item 5. <a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	19
Item 6. <a href="#">[Reserved]</a>	21
Item 7. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	21
Item 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	21
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	21
Item 9. <a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	21
Item 9A. <a href="#">Controls and Procedures</a>	21
Item 9B. <a href="#">Other Information</a>	22
Item 9C. <a href="#">Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>	22
PART III	
PART IV	
Item 15. <a href="#">Exhibits, Financial Statement Schedules</a>	22
Item 16. <a href="#">Form 10-K Summary</a>	25
<a href="#">SIGNATURES</a>	26

## PART I

### Forward-Looking Statements

*This Annual Report on Form 10-K 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, including conditions that impact the supply chain;*
- *fluctuations in certain commodity costs;*
- *consumer spending;*
- *consumer debt levels;*
- *new housing starts and completions;*
- *capital spending in the commercial construction market;*
- *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 included in Item 1A “Risk Factors” of this Annual Report on Form 10-K, 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.*

### ITEM 1. BUSINESS

#### General

Watsco, Inc. and its subsidiaries (collectively, “Watsco,” the “Company”, or “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. At December 31, 2023, we operated from 690 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, through which we serve more than 125,000 active contractors and dealers that service the replacement and new construction markets. Our revenues in HVAC/R distribution have increased from \$64.1 million in 1989 to \$7.3 billion in 2023, resulting from our strategic acquisition of companies with established market positions and subsequent building of revenues and profit through a combination of additional locations, introduction of new products, and other initiatives.

Our principal executive office is located at 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133, and our telephone number is (305) 714-4100. Our website address on the Internet is [www.watsco.com](http://www.watsco.com) and e-mails may be sent to [info@watsco.com](mailto:info@watsco.com). Our website address is included in this report only as an inactive textual reference. Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

### **Air Conditioning, Heating and Refrigeration Industry**

The HVAC/R distribution industry is highly fragmented. According to data published in the December 2023 IBIS World Industry Report for Heating and Air Conditioning Wholesaling in the U.S., the HVAC/R distribution industry has approximately 2,200 distribution companies with an aggregate estimated annual market size of \$64.0 billion. The estimated annual market on an installed basis, which adds the contractor's value to the market size, for residential HVAC/R products is approximately \$126.0 billion according to the November 2023 IBIS World Industry Report for Heating and Air Conditioning Contractors in the U.S. The industry in the United States and Canada is well-established, having had its primary period of growth during the post-World War II era with the advent of affordable central air conditioning and heating systems for both residential and commercial applications. The advent of HVAC/R products in Latin America and the Caribbean is also well-established but has emerged in more recent years as those economies have grown and products have become more affordable and have matured from luxury to necessity.

Air conditioning and heating equipment is manufactured primarily by eight major companies that together account for approximately 90% of all units shipped in the United States each year. These companies are Carrier Global Corporation ("Carrier"); Daikin Comfort Technologies North America, Inc. ("Daikin"), a subsidiary of Daikin Industries, Ltd.; Rheem Manufacturing Company ("Rheem"); Trane Technologies plc ("Trane"); York International Corporation, a subsidiary of Johnson Controls International plc; Lennox International Inc. ("Lennox"); Mitsubishi Electric Trane HVAC US LLC ("Mitsubishi"); and Nortek Global HVAC, LLC, a subsidiary of Nortek, Inc. These manufacturers distribute their products through a combination of factory-owned locations and independent distributors who, in turn, supply the equipment and related parts and supplies to contractors and dealers that sell to and install the products for consumers, businesses, and other end-users.

Air conditioning and heating equipment is sold to the replacement and new construction markets for both residential and commercial applications. The residential replacement market has increased in size and importance over the past several years as a result of the aging of the installed base of residential central air conditioners and furnaces, the introduction of new higher energy efficient models to address both regulatory mandates as well as consumer optionality, the remodeling and expansion of existing homes, the addition of central air conditioning to homes that previously had only heating products, and consumers' overall unwillingness to live without air conditioning or heating products. The mechanical life of central air conditioning and furnaces varies by geographical region due to usage and ranges from approximately 8 to 20 years. According to data published by the Energy Information Administration in March 2023, there are approximately 102 million central air conditioning and heating systems installed in the United States that have been in service for more than 10 years. Many installed units operate well below current minimum efficiency standards and are currently reaching the end of their useful lives, which we believe long-term provides a growing and stable replacement market.

Additionally, we sell a variety of non-equipment products including parts, ductwork, air movement products, insulation, tools, installation supplies, thermostats, and air quality products. We distribute products manufactured by Flexible Technologies, Inc. ("Flexible Technologies"), Resideo Technologies, Inc. ("Resideo"), Southwark Metal Mfg. Co. ("Southwark"), Johns Manville ("Johns Manville"), and Owens Corning Insulating Systems, LLC ("Owens Corning"), among others.

We also sell products to the commercial refrigeration market. These products include condensing units, compressors, evaporators, valves, refrigerant, walk-in coolers, and ice machines for industrial and commercial applications. We distribute products manufactured by Copeland Corporation, LLC, a subsidiary of Emerson Electric Co. ("Emerson"), The Chemours Company ("Chemours"), Mueller Industries, Inc. ("Mueller"), and Welbilt, Inc. ("Welbilt"), among others.

## **Culture and Business Strategy**

Watsco began its HVAC/R distribution strategy in 1989 and has grown by using a “buy and build” philosophy, resulting in substantial long-term growth in revenues and profits. The “buy” component of the strategy has focused on acquiring or investing in market leaders to either expand into new geographic areas or gain additional market share in existing markets. We have employed a disciplined and conservative approach, which seeks opportunities that fit well-defined financial and strategic criteria. The “build” component of the strategy has focused on encouraging growth at acquired companies, by adding products and locations to better serve customers, investing in scalable technologies, and exchanging ideas and business concepts amongst leadership teams. Newly acquired businesses have access to our capital resources and established vendor relationships to provide their customers with an expanded array of product lines on favorable terms and conditions with an intensified commitment to service. We have also developed a culture whereby leaders, managers and employees are provided the opportunity to own shares of Watsco through a variety of stock-based equity plans. We believe that this culture instills a performance-driven, long-term focus on the part of our employees and aligns their interests with the interests of other Watsco shareholders.

### Culture of Innovation & Technology Strategy

We have established a strong culture of innovation, whereby people, processes and technology have evolved to modernize and digitize our business. With this digital evolution in mind, our efforts have addressed how customers are served, how internal processes and practices can be improved, and how data and analytics can be created and used to enhance long-term performance. Investments include the addition of approximately 300 technology employees along with investments in our locations and infrastructure to enable these technologies.

To that end, several scalable technology platforms have been launched with the largest focus on customer-focused technologies, which are improving and transforming the customer experience at all of our locations. Specific initiatives include: (i) mobile applications for iOS and Android devices to help customers operate more efficiently and interact with our locations more easily; (ii) e-commerce between our customers and our subsidiaries; (iii) supply chain optimization; (iv) building and maintaining product information management, which is our leading repository of digitized HVAC/R product information used in our mobile applications and e-commerce platform; and (v) the development of business intelligence systems and related data sets, which provide enhanced management tools. In addition, through our subsidiary Watsco Ventures, LLC (“Watsco Ventures”), we have developed (internally and through external collaboration) a variety of early-stage technologies with the goal of helping contractor customers grow and become more profitable, and otherwise compliment the initiatives set forth above. These initiatives include OnCall Air<sup>®</sup>, our digital sales platform and OnCall Air Finance+, its companion consumer financing platform, among others.

### Strategy in Existing Markets

Our strategy for growth in existing markets focuses on customer service, product expansion, and the implementation of technology to satisfy the needs of the higher growth, higher margin replacement market, in which customers generally demand immediate, convenient, and reliable service. We respond to this need by: (i) offering a broad range of product lines, including the necessary equipment at an array of price-points, parts, and supplies to enable a contractor to install or repair a central air conditioner, furnace, or refrigeration system; (ii) maintaining a strong density of warehouse locations for increased customer convenience; (iii) maintaining well-stocked inventories to ensure that customer orders are filled in a timely manner; (iv) providing a high degree of technical expertise at the point of sale; (v) collaborating with customers to advertise and market their business and services in local markets; and (vi) developing and implementing technology to further enhance customer service capabilities. We believe these concepts provide a competitive advantage over smaller, less-capitalized competitors that are unable to commit resources to open and maintain additional locations, implement technological business solutions, provide the same range of products, maintain the same inventory levels, or attract the wide range of expertise that is required to support a diverse product offering. In some geographic areas, we believe we have a competitive advantage over factory-operated distribution networks, which typically do not maintain inventories of parts and supplies that are as diversified as ours and which have fewer warehouse locations than we do, making it more difficult for these competitors to meet the time-sensitive demands of the replacement market.

In addition to the replacement market, we sell to the new construction market, including new homes and commercial construction. We believe our reputation for reliable, high-quality service, and relationships with contractors, who may serve both the replacement and new construction markets, allows us to compete effectively in these markets.

### Product Line Expansion

We actively seek new and expanded territories of distribution from our key equipment suppliers. We continually evaluate new parts and supply products to support equipment sales and further enhance service to our customers. This initiative includes increasing our product offering with existing vendors and identifying new product opportunities through traditional and non-traditional supply channels. We have also introduced private-label products to obtain market share and grow revenues. We believe that our private-label branded products complement our existing product offerings at selected locations, based on customer needs and the particular market position and price of these products.

### Acquisition Strategy

We focus on acquiring and investing in businesses that either complement our presence in existing markets or establish a presence in new geographic markets. Since 1989, we have acquired 69 HVAC/R distribution businesses, some of which are now primary operating subsidiaries. Other smaller acquired distributors have been integrated into or are under the management of our primary operating subsidiaries. Through a combination of sales and market share growth, opening of new locations, tuck-in acquisitions, expansion of product lines, improved pricing, and programs that have resulted in higher gross profit, performance incentives, and a culture of equity value for key leadership, we have produced substantial sales and earnings growth in our acquired businesses. We continue to pursue additional strategic acquisitions, investments and joint ventures to allow further penetration in existing markets and expansion into new geographic markets.

### Operating Philosophy

We encourage our local leadership to operate in a manner that builds upon the long-term relationships they have established with their suppliers and customers. Typically, we maintain the identity of businesses by retaining their historical trade names, management teams and sales organizations, and continuity of their product brand-name offerings. We believe this strategy allows us to build on the value of the acquired operations by creating additional sales opportunities while providing an attractive exit strategy for the former owners of these companies.

We maintain a specialized staff at our corporate headquarters that provides functional support for our subsidiaries' growth strategies in their respective markets. Such functional support staff includes specialists in finance, accounting, product procurement, information technology, treasury and working capital management, tax planning, risk management, legal, and safety. Certain general and administrative expenses are targeted for cost savings by leveraging the overall business volume and improving operating efficiencies.

### Human Capital Management

#### *Employee Population and Turnover*

As the largest distributor of HVAC/R equipment and related parts and supplies in North America, we have a wide variety of employees. Given the breadth of our employee base, we tailor our human capital management policies with a view to specific employee populations.

As of December 31, 2023, we employed approximately 7,350 full-time and 75 part-time employees (approximately 7,425 total employees), substantially all of whom were non-union employees. Of these employees, approximately 8% were located in Canada and Mexico. Additionally, we use independent contractors and temporary personnel in the normal course of business to supplement our workforce.

We closely monitor employee turnover, utilizing exit interviews to gather pertinent information that we use to refine our retention strategies. The voluntary turnover rate for our U.S. employees in 2023, 2022, and 2021 was approximately 19%, 20%, and 19%, respectively. We believe this rate is typical for a company of our size that employs a large hourly workforce such as ours.

#### *Diversity and Inclusion*

We value and foster the diversity and inclusion of the people with whom we work. Our commitment includes providing equal access to, and participation in, employment and advancement opportunities without regard to race, color, religion, national origin, age, disability, veteran or military status, pregnancy status, sex, gender identity, sexual orientation, or marital status. Diverse teams facilitate contributions from people of different backgrounds, experiences, and varied points of view. Furthermore, we believe that diverse teams make better decisions faster and outperform similarly situated less diverse teams. Additionally, we believe that employees who feel valued, understood, and inspired benefit the Company as a whole. Inclusive leadership leads to innovative solutions, and an inclusive environment is a critical foundation for us, as high-performing, engaged teams join together to help us implement our strategies. As of December 31, 2023, approximately 21% of our employees and 22% of our managers in the U.S. and Puerto Rico were women.

#### *Compensation and Benefits*

We focus on attracting and retaining employees by providing compensation and benefits programs that are competitive within our industry, taking into account each job position's location and responsibilities. In addition to salaries, commission programs, cash incentives, and stock-based equity plans, we also provide a 401(k) retirement plan with a company match, an employee stock purchase plan in which most of our employees may purchase our stock at a discount, healthcare and insurance benefits, health savings accounts, paid time off, and various services and tools to support our employees' health and wellness.

## Table of Contents

### *Pay-for-Performance and Ownership Culture*

We maintain a culture that rewards performance of key leaders through stock-based equity plans, which include the granting of stock options and restricted stock based on individual merit and measures of performance. Approximately 130 employees received such equity awards in 2023. Our equity compensation plans are designed to promote long-term performance, as well as to create long-term employee retention, continuity of leadership, and an ownership culture whereby management and employees think and act as owners of the Company. We believe that our restricted stock program is unique because an employee's restricted share grants generally vest entirely and only at the end of his or her career (age 62 or later) and, prior to retirement, these grants remain subject to significant risk of forfeiture.

### *Talent Development*

Our culture celebrates talent sharing, career development, and agility across the Company. We provide a wide variety of opportunities for professional growth and talent development for all employees, including online trainings, on-the-job experience, and education tuition assistance.

### *Health and Safety*

We continuously strive to improve all aspects of our work practices. We actively support a culture of safety and wellness for the benefit of our employees and their families along with our customers. Providing a safe and healthy work environment is a business priority and is core to our values. Health and safety are an essential part of a broader workforce strategy that reduces the risk of harm to employees and helps them remain healthy, engaged and productive.

To build and sustain a culture based on these principles, our commitment to safety and wellness is incorporated into the incentive structure of our key operational leaders. For wellness, we measure employee engagement in completing annual physicals and health assessments to help ensure that our philosophical values are put into action. For safety, we measure and carefully evaluate incidents related to workers compensation, vehicle accidents and injuries to third-parties, and we continuously seek to improve safety measures intended to reduce the number of such incidents.

## **DESCRIPTION OF BUSINESS**

### Products

We sell an expansive line of products and maintain a diverse mix of inventory to meet our customers' immediate needs, and we seek to provide products a contractor would generally require when installing or repairing a central air conditioner, furnace, or refrigeration system on short notice. The cooling capacity of air conditioning units is measured in tons. One ton of cooling capacity is equivalent to 12,000 British Thermal Units ("BTUs") and is generally adequate to air condition approximately 500 square feet of residential space. The products we distribute consist of: (i) equipment, including residential ducted and ductless air conditioners ranging from 1 to 5 tons, gas, electric, and oil furnaces ranging from 50,000 to 150,000 BTUs, commercial air conditioning and heating equipment systems ranging from 1-1/2 to 25 tons, and other specialized equipment; (ii) parts, including replacement compressors, evaporator coils, motors, and other component parts; (iii) supplies, including thermostats, insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives, and other ancillary supplies; and (iv) plumbing and bathroom remodeling supplies in a limited number of stores.

Sales of HVAC equipment, which we currently source from approximately 20 vendors, accounted for 69% and 68% of our revenues in 2023 and 2022, respectively. Sales of other HVAC products, which we currently source from approximately 1,400 vendors, comprised 27% and 28% of our revenues in 2023 and 2022, respectively. Sales of commercial refrigeration products, which we currently source from approximately 150 vendors, accounted for 4% of our revenues in both 2023 and 2022.

### Distribution and Sales

At December 31, 2023, we operated from 690 locations, a vast majority of which are located in regions that we believe have demographic trends favorable to our business. We maintain large inventories at each of our warehouse locations and either deliver products to customers using our trucks or third-party logistics providers, or we make products available for pick-up at the location nearest to the particular customer. We have approximately 1,200 salespeople, averaging 11 years of experience in the HVAC/R distribution industry.



[Table of Contents](#)

<u>The markets we serve are as follows:</u>	<u>% of Revenues for the Year Ended December 31, 2023</u>	<u>Number of Locations as of December 31, 2023</u>
United States	90%	628
Canada	5%	36
Latin America and the Caribbean	5%	26
<b>Total</b>	<b>100%</b>	<b>690</b>

The largest market we serve is the United States, in which the most significant markets for HVAC/R products are in the Sun Belt states. Accordingly, most of our distribution locations are in the Sun Belt, with the highest concentration in Florida and Texas. These markets have been a strategic focus of ours given their size, the reliance by homeowners and businesses on HVAC/R products to maintain a comfortable indoor environment, and the population growth in these areas over the last 40 years, which has led to a substantial installed base requiring replacement, a shorter useful life for equipment given the significant hours of operation, and the focus by electrical utilities on consumer incentives designed to promote replacement of HVAC/R equipment in an effort to improve energy efficiency.

[Table of Contents](#)Markets

The table below identifies the number of our stores by location as of December 31, 2023:

Florida	104
Texas	87
North Carolina	50
South Carolina	48
California	36
Georgia	34
Louisiana	34
Virginia	26
Tennessee	23
Pennsylvania	20
New York	19
Illinois	17
New Jersey	15
Alabama	10
Arizona	9
Massachusetts	9
Mississippi	9
Missouri	9
Connecticut	7
Kansas	7
Maryland	6
Indiana	5
Oklahoma	5
Utah	5
Arkansas	4
Minnesota	3
Nevada	3
West Virginia	3
Iowa	2
Kentucky	2
Maine	2
Nebraska	2
New Hampshire	2
South Dakota	2
Wisconsin	2
Colorado	1
Delaware	1
Michigan	1
New Mexico	1
North Dakota	1
Rhode Island	1
Vermont	1
United States	<u>628</u>
Canada	36
Mexico	11
Puerto Rico	15
<b>Total</b>	<b><u>690</u></b>

### 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. In 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. The export division, Carrier InterAmerica Corporation (“CIAC”), redomesticated from the U.S. Virgin Islands to Delaware in 2019, following which CIAC became a separate operating entity in which we have an 80% controlling interest and Carrier has a 20% non-controlling interest.

Carrier Enterprise I has a 38.4% ownership interest in Russell Sigler, Inc. (“RSI”), an HVAC distributor operating from 34 locations in the Western U.S. RSI is Carrier’s second largest independent North American distributor and had sales of approximately \$1.2 billion in 2023.

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. In 2019, we repurchased the 20% ownership interest in Homans from Carrier Enterprise II and have since solely owned and operated Homans.

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

In 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, one of Carrier’s independent distributors with locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new joint venture with Carrier, TEC Distribution LLC (“TEC”), that owns and operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest.

Combined, the joint ventures with Carrier represented 55% of our revenues in 2023. See *Supplier Concentration and Supply Chain Risks* in “Business Risk Factors” in Item 1A.

The business and affairs of the joint ventures are controlled, directed, and managed exclusively by Carrier Enterprise I’s, Carrier Enterprise II’s, Carrier Enterprise III’s, CIAC’s, and TEC’s respective boards of directors (the “Boards”) pursuant to related operating agreements. The Boards have full, complete and exclusive authority, power, and discretion to manage and control the business, property, and affairs of their respective joint ventures, and to make all decisions regarding those matters and to perform activities customary or incident to the management of such joint ventures, including approval of distributions to us and Carrier. The Boards are each composed of five directors, of whom three directors represent our controlling interest and two directors represent Carrier’s non-controlling interest. Matters presented to the Boards for vote are considered approved or consented to upon the receipt of the affirmative vote of at least a majority of all directors entitled to vote with the exception of certain governance matters, which require joint approval.

### Customers and Customer Service

Air conditioning and heating contractors and dealers that install HVAC/R products in homes and businesses must be licensed given the highly regulated nature of the products, refrigerant, natural gas, and building and zoning requirements. We currently serve more than 125,000 active contractors and dealers who service the replacement and new construction markets for residential and commercial central air conditioning, heating, and refrigeration systems. No single customer in 2023, 2022, or 2021 represented more than 2% of our consolidated revenues. We focus on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at our locations. Increased customer convenience is also provided through mobile applications and e-commerce, which allows customers to access information online 24 hours a day, seven days a week to search for desired products, verify inventory availability, obtain pricing, place orders, check order status, schedule pickup or delivery times, and make payments. We believe we compete successfully with other distributors primarily based on an experienced sales organization, strong service support, maintenance of well-stocked inventories, density of warehouse locations, high quality reputation, broad product lines, and the ability to foresee customer demand for new products.

### Key Supplier Relationships

Given our leadership position, Watsco represents a strategic business relationship to many of the leading manufacturers in our industry. Significant relationships with HVAC/R equipment manufacturers include Carrier, Rheem, Daikin, Mitsubishi, Gree Electric Appliances, Inc., Welbilt, Bosch Global, Trane, Lennox, and Midea Group. In addition, we have substantial relationships with manufacturers of non-equipment HVAC/R products, including Mueller, Flexible Technologies, Southwark, Resideo, DiversiTech Corp., Emerson, Johns Manville, Chemours, and Owens Corning.

We believe the diversity of products that we sell, along with the manufacturers' current product offerings, quality, marketability, and brand-name recognition, allow us to operate favorably relative to our competitors. To maintain brand-name recognition, HVAC/R equipment manufacturers provide national advertising and participate with us in cooperative advertising programs and promotional incentives that are targeted to both dealers and end-users. We estimate that the replacement market for residential air conditioning equipment is approximately 85%-90% of industry unit sales in the United States, and we expect this percentage to increase as units installed in the past 20 years wear out or otherwise become practical to replace sooner with newer, more energy-efficient models.

The Company's top ten suppliers accounted for 86% of our purchases, including 65% from Carrier, and 8% from Rheem. Given the significant concentration of our suppliers, particularly with Carrier and Rheem, any material interruption with these suppliers, including limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the products we sell, or to meet delivery requirements and commitments, whether due to supply chain disruptions, labor shortages or otherwise, could temporarily disrupt the operations of certain of our subsidiaries, impact current inventory levels, and could adversely affect our financial results. If any restrictions or significant increase in tariffs under existing trade agreements are imposed on products that our top ten suppliers import or assemble outside of the United States, particularly from Mexico and China, we could be required to raise our prices, which may result in the loss of customers and harm to our business. Future financial results are also materially dependent upon the continued market acceptance of these manufacturers' respective products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards. However, the Company believes that alternative or substitute products would be readily available in the event of disruption of current supplier relationships given the Company's prominence in the marketplace, including the number of locations, sales personnel, support structure, marketing and sales expertise, financial position, and established market share. See "Business Risk Factors" in Item 1A of this Annual Report on Form 10-K for further discussion.

### Distribution Agreements

We maintain trade name and distribution agreements with Carrier, Rheem, and Mitsubishi that provide us distribution rights on an exclusive basis in specified territories and are not subject to a stated term or expiration date. We also maintain distribution agreements with various other suppliers, either on an exclusive or non-exclusive basis, for various terms ranging from one to ten years. Certain distribution agreements for particular branded products contain provisions that restrict or limit the sale of competitive products in the locations that sell such branded products. Other than where such location-level restrictions apply, we may distribute the lines of other manufacturers' air conditioning or heating equipment in other locations in the same territories.

See *Supplier Concentration and Supply Chain Risks* in "Business Risk Factors" in Item 1A of this Annual Report on Form 10-K.

### Seasonality

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 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.

### Competition

We operate in highly competitive environments. We compete with a number of distributors and also with several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations in certain markets. Competition within any given geographic market is based upon product availability, customer service, price, and quality. Competitive pressures or other factors could cause our products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on our results of operations, cash flows, and liquidity.

## **Order Backlog**

Order backlog is not a material aspect of our business, and no material portion of our business is subject to government contracts.

## **Government Regulations, Environmental, and Health and Safety Matters**

Our business is subject to federal, state and local laws, and regulations relating to the storage, handling, transportation, and release of hazardous materials into the environment. These laws and regulations include the Clean Air Act, relating to minimum energy efficiency standards of HVAC systems, and the production, servicing, and disposal of more environmentally friendly refrigerants used in such systems, including those established by the Kigali Amendment to the Montreal Protocol concerning the phase-down of the production of HFC-based refrigerants for use in new equipment. We are also subject to regulations concerning the transport of hazardous materials, including regulations adopted pursuant to the Motor Carrier Safety Act of 1990. Our operations are also subject to health and safety requirements including, but not limited to, the Occupational, Safety and Health Act.

These laws and regulations are continuously changing, and compliance is costly and can require changes to our business practices and significant management time and effort. However, it is our opinion that the costs related to compliance requirements for government, environmental, or other regulations will not have a material adverse impact on our business, financial condition, and results of operations. We believe that we operate our business in substantial compliance with all applicable federal, state and local laws, and regulations.

Our industry and business are also subject to United States Department of Energy (“DOE”) standards related to the minimum required efficiency levels of residential central air conditioning systems and heat pumps. For purposes of establishing these energy conservation standards, the DOE divides the United States into three regions (the North, the Southeast, and the Southwest) according to the number of hours that an air conditioner operates to cool a home during the hotter months. The seasonal energy efficiency rating, or SEER, is the metric used to measure HVAC energy efficiency. The higher the SEER, the more efficient the HVAC equipment.

Beginning in 2023, the minimum efficiency level for residential HVAC systems under 45,000 BTUs became 14 SEER in the North and 15 SEER in the Southeast and Southwest. For systems over 45,000 BTUs, the minimum efficiency level is 14 SEER in the North and 14.5 SEER in the Southeast and Southwest. Heat pump efficiency levels, which are measured by the equipment’s heating seasonal performance factor (“HSPF”), became 8.8 HSPF compared with the 8.2 HSPF that had been required by the prior standard for all three regions. We completed the transition of our inventory to the higher SEER products during 2023.

In December 2020, the American Innovation and Manufacturing Act of 2020 (the “AIM Act”) was enacted, which gave the United States Environmental Protection Agency (“EPA”) regulatory authority to address hydrofluorocarbon (“HFC”) refrigerants. HFCs were developed to replace certain refrigerants, such as chlorofluorocarbons and hydrochlorofluorocarbons that were harmful to the ozone layer, but are considered potent greenhouse gases as a result of their global warming potential (“GWP”). The Aim Act directed the EPA to administer an 85% phasedown down of the production and consumption of HFCs over a 15-year timeframe beginning on January 1, 2022 and put in place restrictions on HVAC equipment that require them to have refrigerants with less than 750 GWP by January 1, 2025. We are planning for the transition of our inventory to HVAC equipment with refrigerants that comply with the new standard, and we believe we will complete this transition in accordance with the required timeline. As a result of this transition, we expect to benefit from selling units that contain more environmentally friendly refrigerants, which sell at higher prices, as historically these changes have increased the cost to service and repair existing systems, which in turn influences a consumer’s decision to replace them.

## **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 DOE, 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 footprints.

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 footprints.

## Table of Contents

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 likely periodically increase the required minimum SEER, thus providing a catalyst for greater sales of higher-efficiency systems.

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. Based on estimates validated by independent sources, we averted an estimated 19.2 million metric tons of CO<sub>2</sub>e emissions from January 1, 2020 to December 31, 2023 through the sale of replacement residential HVAC systems at higher-efficiency standards – the equivalent of nearly 4.3 million gas powered vehicles driven over the course of one year. More information, including sources and assumptions used to support our estimates, can be found at [www.watsco.com/environment](http://www.watsco.com/environment). Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

### Federal Tax Credits and State Incentives

Demand for higher-efficiency products, such as variable-speed systems and heat pumps, is expected to increase due to the passage of the U.S. Inflation Reduction Act of 2022 (the “IRA”) in August 2022. This legislation is intended, in part, to promote the replacement of existing systems in favor of high-efficiency heat pump systems that reduce greenhouse gas emissions, as compared to older systems, and thereby combat climate change. Programs under the IRA include enhanced tax credits for homeowners who install qualifying HVAC equipment and tax deductions for owners of commercial buildings that are upgraded to achieve defined energy savings. The IRA also sets aside \$4.3 billion for state-administered consumer rebate programs designed to promote energy savings for low and medium-income households, including HVAC systems. IRA details, including qualifying products, specific programs, states participating, and other regulatory requirements are still being finalized.

### **Available Information**

Our website is at [www.watsco.com](http://www.watsco.com). Our investor relations website is located at <https://investors.watsco.com>. We make available, free of charge, on our investor relations website under the heading “SEC Filings” our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website address is included in this report only as an inactive textual reference. Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

### Code of Ethics and Conduct

The Board of Directors has adopted codes of ethics and conduct that are designed to ensure that our directors, officers, and employees are aware of their ethical responsibilities and avoid conduct that may pose risks to the Company. We maintain (i) an Employee Code of Business Ethics and Conduct that is applicable to all employees, and (ii) a Code of Conduct for Executives that is applicable to members of our Board of Directors, our executive officers, and other senior operating and financial personnel. Amendments to either code of conduct or any grant of a waiver requiring disclosure under applicable SEC rules will be disclosed on our website, [www.watsco.com](http://www.watsco.com). There were no amendments to or waivers from either code of conduct in 2023. Oversight of investigations of known or potential violations under either code of conduct is the responsibility of the Audit Committee of the Board of Directors (the “Audit Committee”). To obtain copies of our Codes of Ethics and Conduct, please visit our investor relations website at <https://investors.watsco.com> under the section captioned “Governance.”

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

### **Business Risk Factors**

#### Supplier Concentration and Supply Chain Risks

The Company’s top ten suppliers accounted for 86% of our purchases during 2023, including 65% from Carrier and 8% from Rheem. Carrier provides a diverse variety of brands of HVAC systems including, Carrier, Bryant, Payne, Tempstar, Heil, Comfortmaker and Grandaire, along with complimentary replacement parts. Rheem provides Rheem-brand HVAC systems along with complimentary replacement parts. Given the significant concentration of our supply chain, particularly with Carrier and Rheem, any significant interruption by any of the key manufacturers or a termination of a relationship could temporarily disrupt the operations of certain of our subsidiaries. Additionally, our operations are materially dependent upon the continued market acceptance and quality of these manufacturers’ products and their ability to continue to manufacture products that are competitive, that comply with laws relating to environmental and efficiency standards, and that keep up with shifting consumer preferences. Our inability to obtain products from one or more of these manufacturers or a decline in market acceptance of these manufacturers’ products could have a material adverse effect on our results of operations, cash flows, and liquidity.

## Table of Contents

Many HVAC equipment and component manufacturers, including Carrier and Rheem, source component parts from China and/or assemble a significant number of products for residential and light-commercial applications from Mexico. If any restrictions, including overall trade relations, a potential increase in tariffs, are imposed related to such products sourced or assembled from Mexico and China, including as a result of amendments to existing trade agreements, and our product costs consequently increase, we would be required to raise our prices, which may result in cost inflation, the loss of customers, and harm to our business.

We maintain trade name and distribution agreements with Carrier and Rheem that provide us distribution rights on an exclusive basis in specified territories. Such agreements are not subject to a stated term or expiration date.

We also maintain other distribution agreements with various other suppliers, either on an exclusive or non-exclusive basis, for various terms ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the locations that sell such branded products. Other than where such location-level restrictions apply, we may distribute other manufacturers' lines of air conditioning or heating equipment in other locations in the same territories.

### Risks Inherent in Acquisitions

As part of our strategy, we intend to pursue additional acquisitions of complementary businesses, including through joint ventures and investments in unconsolidated entities. If we complete future acquisitions, including investments in unconsolidated entities, or enter into new joint ventures, we may be required to incur or assume additional debt and/or issue additional shares of our common stock as consideration, which will dilute our existing shareholders' ownership interest and may affect our results of operations. Growth through acquisitions involves a number of risks, including, but not limited to, the following:

- the ability to identify and consummate transactions with complementary acquisition candidates;
- the successful operation and/or integration of acquired companies;
- the efficiency and effectiveness of the acquired companies internal control environment;
- diversion of management's attention from other daily functions;
- issuance by us of equity securities that would dilute ownership of our existing shareholders;
- incurrence and/or assumption of significant debt and contingent liabilities; and
- possible loss of key employees and/or customer relationships of the acquired companies.

In addition, acquired companies and investments made in unconsolidated entities may have liabilities that we failed or were unable to discover while performing due diligence investigations. We cannot assure you that the indemnification, if any, granted to us by sellers of acquired companies or by joint venture partners will be sufficient in amount, scope, or duration to offset the possible liabilities associated with businesses or properties that we assume upon consummation of an acquisition or joint venture. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business.

Failure to successfully manage the operational challenges and risks associated with, or resulting from, acquisitions could adversely affect our results of operations, cash flows, and liquidity.

### Competition

We operate in highly competitive environments. We compete with other distributors and several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations in certain markets. Competition within any given geographic market is based upon product availability, customer service, price, and quality. Competitive pressures or other factors could cause our products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on our results of operations, cash flows, and liquidity.

### Cybersecurity Risks

In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation

## Table of Contents

or corruption of our information technology systems and information and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by hackers and other persons obtaining unauthorized access, malicious software, ransomware, computer viruses, undetected intrusion, hardware failures or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experiences any similar events that disrupt their business operations or damage their reputation.

Failure to successfully manage the operational challenges and risks associated with, or resulting from, upgrades and conversions to newer versions of our information technology systems core to our operations could adversely affect our results of operations, cash flows, and liquidity.

We maintain change management processes, monitoring practices, and protections of our information technology to reduce these risks and test our systems on an ongoing basis for potential threats. The Audit Committee is briefed on information security matters at least once a year. We carry cybersecurity insurance to help mitigate the financial exposure and related notification procedures in the event of intentional intrusion. There can be no assurance, however, that our efforts will prevent the risk of a security breach of our databases or systems that could adversely affect our business.

### Foreign Currency Exchange Rate Fluctuations

The functional currency of our operations in Canada is the Canadian dollar, and the functional currency of our operations in Mexico is the U.S. dollar because the majority of our Mexican transactions are denominated in U.S. dollars. Foreign currency exchange rates and fluctuations may have an impact on transactions denominated in Canadian dollars and Mexican Pesos, and, therefore, could adversely affect our financial performance. Although we use foreign currency forward contracts to mitigate the impact of currency exchange rate movements, we do not currently hold any derivative contracts that hedge our foreign currency translational exposure.

### Seasonality

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal, resulting in fluctuations in our revenue from quarter to quarter. Furthermore, profitability can be impacted favorably or unfavorably based on the severity or mildness of weather patterns during Summer or 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 is fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

### Dependence on Key Personnel

Much of our success has depended on the skills and experience of senior management personnel. The loss of any of our executive officers or other key senior management personnel could harm our business. We must continuously recruit, retain, and motivate management and other employees to both maintain our current business and to execute our strategic initiatives. Our success has also depended on the contributions and abilities of our store employees upon whom we rely on to give customers a superior in-store experience. Accordingly, our performance depends on our ability to recruit and retain high quality employees to work in and manage our stores. If we are unable to adequately recruit, retain, and motivate employees our projected growth and expansion, and our business and financial performance may be adversely affected.

### Decline in Economic Conditions

We rely predominantly on the credit markets and, to a lesser extent, on the capital markets to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Access to funds under our line of credit is dependent 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. 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. Any long-term disruption could require us to take measures to conserve cash until the markets stabilize, or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include reducing or eliminating dividend payments, deferring capital expenditures, and reducing or eliminating other discretionary uses of cash.



A decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business and results of operations. Any capital or credit market disruption could cause broader economic downturns, which may lead to reduced demand for our products and an increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur increased levels of bad debt expense. Also, our suppliers may be negatively impacted by deteriorating economic conditions, causing disruption or delay of product availability. These events would adversely impact our results of operations, cash flows, and financial position. Additionally, if the conditions of the capital and credit markets adversely affect the financial institutions that have committed to extend us credit, they may be unable to fund borrowings under such commitments, which could have an adverse impact on our financial condition, liquidity, and our ability to borrow funds for working capital, acquisitions, capital expenditures, and other corporate purposes.

#### International Risk

Our international sales and operations, as well as sourcing of products from suppliers with international operations, are subject to various risks associated with changes in local laws, regulations, and policies, including those related to tariffs, trade restrictions and trade agreements, investments, taxation, capital controls, employment regulations, different liability standards, and limitations on the repatriation of funds due to foreign currency controls. Our international sales and operations, as well as sourcing of products from suppliers with international operations, are also sensitive to changes in foreign national priorities, including government budgets, as well as political and economic instability. In addition, post-pandemic delays and closures in China may disrupt the operations of certain of our suppliers, which could negatively impact our business. Unfavorable changes in any of the foregoing could adversely affect our results of operations or could cause a disruption in our supply chain for products sourced internationally. Additionally, failure to comply with the United States Foreign Corrupt Practices Act could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition, and results of operations.

#### Goodwill, Intangibles and Long-Lived Assets

At December 31, 2023, goodwill, intangibles, and long-lived assets represented approximately 36% of our total assets. The recoverability of goodwill, indefinite lived intangibles, and long-lived assets is evaluated at least annually and when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimates of fair value of our reporting unit, indefinite lived intangibles, and long-lived assets are based on the best information available as of the date of the assessment and incorporates management's assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment, or market conditions. We cannot assure you that we will not suffer material impairments to goodwill, intangibles, or long-lived assets in the future.

#### Risks Related to Loss Contingencies

We carry general liability, comprehensive property damage, workers' compensation, health benefits, cybersecurity, and other insurance coverage that management considers adequate for the protection of its assets and operations at reasonable premiums. There can be no assurance that the coverage limits and related premiums of such policies will be adequate to cover claims, losses and expenses for lawsuits which have been, or may be, brought against us. A loss in excess of insurance coverage could have a material adverse effect on our financial position and/or profitability. Certain self-insurance risks for casualty insurance programs and health benefits are retained and reserves are established based on claims filed and estimates of claims incurred but not yet reported. Assurance cannot be provided that actual claims will not exceed present estimates. Exposure to catastrophic losses has been limited by maintaining excess and aggregate liability coverage and implementing stop-loss control programs. However, more frequent catastrophic weather events may impact the availability and cost of property and casualty insurance.

#### Risks Related to Natural Disasters, Epidemics, or Other Unexpected Events

The occurrence of one or more natural disasters, including those linked to climate change, power outages, or other unexpected events, including hurricanes, fires, earthquakes, volcanic eruptions, tsunamis, floods and other forms of severe weather, health epidemics, pandemics or other contagious outbreaks, conflicts, wars or terrorist acts, in the U.S. or in other countries in which we or our suppliers or customers operate could adversely affect our operations and financial performance. Natural disasters, power outages or other unexpected events could damage or close one or more of our locations or disrupt our operations temporarily or long-term, such as by causing business interruptions or by affecting the availability products we sell. Existing insurance arrangements may not cover all of the costs or lost cash flows that may arise from such events. The occurrence of any of these events could also increase our insurance and other operating costs or impact our sales. Moreover, litigation related to sustainability practices could result in potential operating expenses arising from fines, settlements, and legal costs, as well as reputational impacts.

## **Risks Related to our Common Stock**

### Class B Common Stock and Insider Ownership

As of December 31, 2023, our directors and executive officers and entities affiliated with them owned: (i) Common stock representing 1% of the outstanding shares of Common stock and (ii) Class B common stock representing 89% of the outstanding shares of Class B common stock. These interests represent 55% of the aggregate combined voting power (including 53% beneficially owned by Albert H. Nahmad, Chairman and Chief Executive Officer (“CEO”), Aaron J. Nahmad, President (the son of our Chairman and CEO), and Valerie Schimel, Director (the daughter of our Chairman and CEO), through shares owned by them and shares held by affiliated limited partnerships, various family trusts, and a charitable foundation. Accordingly, our directors and executive officers collectively have the voting power to elect six members of our nine-person Board of Directors.

Our Class B common stock is substantially identical to our Common stock except: (i) Common stock is entitled to one vote on all matters submitted to a vote of our shareholders, and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of our Board of Directors (rounded up to the nearest whole number), and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock, and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock; and (iv) Class B common stock is convertible at any time into Common stock on a one-for-one basis at the option of the shareholder.

### Future Sales

We are not restricted from issuing additional shares of our Common stock or Class B common stock (which we refer to together as common stock), including securities that are convertible into or exchangeable for, or that represent the right to receive, our common stock or any substantially similar securities in the future. We may issue shares of our common stock or other securities in one or more registered or unregistered offerings, and we may also issue our securities in connection with investments or acquisitions. The number of shares of our common stock issued in connection with any of the foregoing may result in dilution to holders of our common stock.

### Volatility

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock despite our operating performance. The trading price of our common stock may be adversely affected due to many factors, most of which we cannot predict or control, such as the following:

- fluctuations in our operating results;
- a decision by the Board of Directors to reduce or eliminate cash dividends on our common stock;
- changes in recommendations or earnings estimates by securities analysts;
- general market conditions in our industry or in the economy as a whole; and
- political instability, natural disasters, war and/or events of terrorism.

### Payment of Dividends

The amount of any future dividends that we will pay, if any, will depend upon a number of factors. Future dividends will be declared and paid at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, prospects, and other factors deemed relevant by our Board of Directors. The right of our Board of Directors to declare dividends, however, is subject to the availability of sufficient funds under Florida law to pay dividends. In addition, our ability to pay dividends depends on certain restrictions in our credit agreement.

### Securities Analyst Research and Reports

The trading markets for our common stock rely in part on the research and reports that industry or financial analysts publish about us or our business or industry. If one or more of the analysts who cover us downgrade our stock or our industry, or the stock of Carrier or any of our competitors, publish negative or unfavorable research about our business, the price of our stock could decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 1C. CYBERSECURITY**

Risk Management and Strategy

We have established security practices and safeguards designed to help identify and protect against intentional and unintentional misappropriation or corruption of our information technology systems, data, and operational continuity. We regularly conduct risk assessments to identify potential cybersecurity threats, which include evaluating the likelihood and potential impact of these threats, identifying system and network vulnerabilities, and assessing the effectiveness of our existing controls. As part of our overall cybersecurity program, we engage specialized third-party vendors for certain cybersecurity functions including, but not limited to, incident response, penetration testing, and security operations center monitoring of our information technology environment. Identified risks are documented and communicated to the relevant stakeholders. Upon identification and assessment of risks, we develop and implement what we believe are appropriate measures to manage these risks, which may involve enhancing security controls, implementing new technologies, training employees, or changing business processes. We maintain change management processes, monitoring practices, and data protection measures to mitigate cybersecurity risks and continuously test our systems for potential threats. Such processes and practices to assess, identify, and manage cybersecurity incidents are integrated into our overall enterprise risk assessment process.

Governance

A dedicated management team at our corporate headquarters, which is led by our Director of Data Security (“DDS”) and composed of the Chief Technology Officer (“CTO”) and representatives from risk management, legal, internal audit, and finance departments, is responsible for assessing and managing our cybersecurity risks and data protection practices. The Audit Committee oversees the measures taken by this management team to monitor material risks associated with cybersecurity threats, a role crucial to maintaining a robust and effective cybersecurity risk management approach. The DDS and CTO provide formal briefings to the Audit Committee on various cybersecurity matters, including risk assessments, mitigation strategies, areas of emerging risks, and other areas of importance at least once a year, with the Board of Directors receiving updates periodically. Regular discussions on enterprise risks are held between the Audit Committee, Board of Directors, and senior management.

Our DDS has more than 20 years of expertise in the information technology sector, with 10 years specifically dedicated to cybersecurity. This experience has fostered a thorough comprehension of cyber threat landscapes, defense strategies, and security technologies.

**ITEM 2. PROPERTIES**

Our main properties include warehousing and distribution facilities, trucks, and administrative office space.

Warehousing and Distribution Facilities

At December 31, 2023, we operated 690 warehousing and distribution facilities across 42 U.S. states, Canada, Mexico, and Puerto Rico, having an aggregate of approximately 16.4 million square feet of space, of which approximately 16.2 million square feet is leased. The majority of these leases are for terms of three to five years. We believe that our facilities are sufficient to meet our present operating needs.

Trucks

At December 31, 2023, we operated 821 ground transport vehicles, including delivery and pick-up trucks, vans, and tractors. Of this number, 596 trucks were leased and the others were owned. We believe that the present size of our truck fleet is adequate to support our operations.

Administrative Facilities

Senior management and support staff are located at various administrative offices in approximately 0.3 million square feet of space.

**ITEM 3. LEGAL PROCEEDINGS**

Information with respect to this item may be found in Note 18 to our audited consolidated financial statements included in this Annual Report on Form 10-K under the caption “Litigation, Claims, and Assessments,” which information is incorporated by reference in this Item 3 of Part I of this Annual Report on Form 10-K.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

Our Common stock is listed on the New York Stock Exchange under the ticker symbol WSO, and our Class B common stock is listed on the New York Stock Exchange under the ticker symbol WSOB.

**Holders**

At February 20, 2024, there were 300 registered holders of our Common stock and 145 registered holders of our Class B common stock.

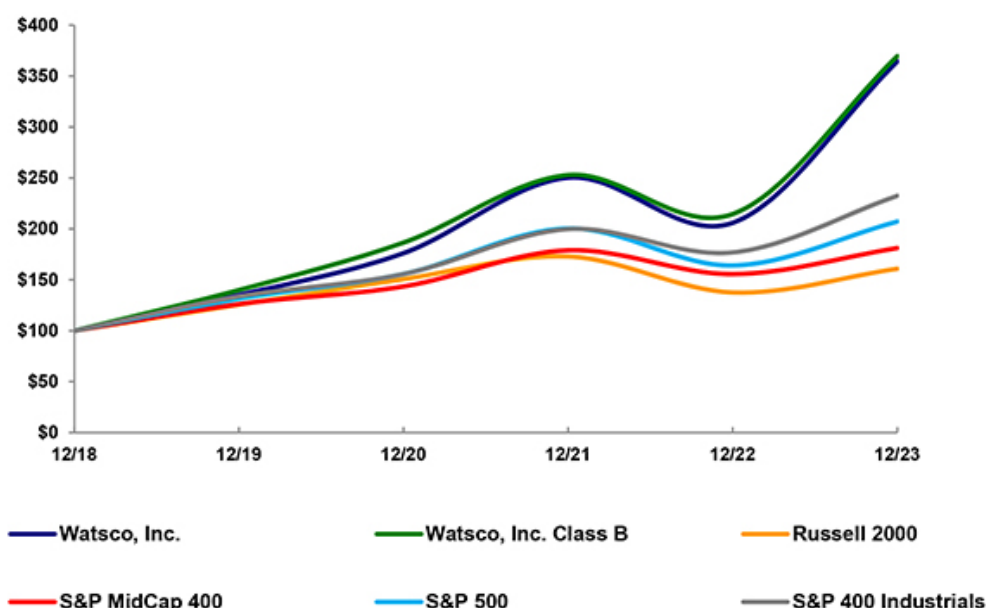
**Shareholder Return Performance**

The following graph compares the cumulative five-year total shareholder return attained by holders of our Common stock and Class B common stock relative to the cumulative total returns of the Russell 2000 index, the S&P MidCap 400 index, the S&P 500 index, and the S&P 400 Industrials index. Given our position as the largest distributor of HVAC/R equipment, parts and supplies in North America, our unique, sole line of business, the nature of our customers (air conditioning and heating contractors), and the products and markets we serve, we cannot reasonably identify an appropriate peer group; therefore, we have included in the graph below the performance of certain major market indices, which contain companies with market capitalizations similar to our own, including the S&P 400 Industrials Index because the component companies of such index more closely relate to the industry in which we operate. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from December 31, 2018 to December 31, 2023.

*The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this annual report into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such acts.*

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Watsco, Inc., the Russell 2000 Index, the S&P Midcap 400 Index, the S&P 500 Index and the S&P 400 Industrials Index



\*\$100 invested on 12/31/18 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Copyright© 2024 Standard & Poor's, a division of S&P Global. All rights reserved. Copyright© 2024 Russell Investment Group. All rights reserved.

	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
Watsco, Inc.	100.00	134.95	176.13	250.22	205.89	364.40
Watsco, Inc. Class B	100.00	139.90	186.51	252.78	214.53	369.56
Russell 2000 Index	100.00	125.52	150.58	172.90	137.56	160.85
S&P MidCap 400 Index	100.00	126.20	143.44	178.95	155.58	181.15
S&P 500 Index	100.00	131.49	155.68	200.37	164.08	207.21
S&P 400 Industrials	100.00	133.55	155.57	199.82	176.84	232.43

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></b>
October 1, 2023 to October 31, 2023	—	\$ —	—	\$ —
November 1, 2023 to November 30, 2023(1)	505	375.00	—	—
December 1, 2023 to December 31, 2023	—	—	—	—
<b>Total</b>	<b>505</b>	<b>\$ 375.00</b>	<b>—</b>	<b>\$ —</b>

- (1) During the quarter ended December 31, 2023, we repurchased an aggregate of 505 shares of our Class B common stock to satisfy the tax withholding obligations in connection with the vesting of restricted stock.

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. No shares were repurchased under this plan during 2023, 2022 or 2021. 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 this plan. At December 31, 2023, there were 1,129,087 shares remaining authorized for repurchase under this plan. Shares were last repurchased by the Company under this plan in 2008.

**ITEM 6. [RESERVED]****ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our 2023 Annual Report contains “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which section is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our 2023 Annual Report contains “Quantitative and Qualitative Disclosures about Market Risk,” which section is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our 2023 and 2022 Consolidated Balance Sheets and other consolidated financial statements for the years ended December 31, 2023, 2022, and 2021, together with the reports thereon (for the applicable periods covered by their reports) of Deloitte & Touche LLP dated February 23, 2024, and KPMG LLP (Auditor Firm ID: 185, Miami, FL) dated February 24, 2023, included in our 2023 Annual Report are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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.

### **Management's Report on Internal Control over Financial Reporting**

Our 2023 Annual Report contains "Management's Report on Internal Control over Financial Reporting" and the report thereon of Deloitte & Touche LLP dated February 23, 2024, and each is incorporated herein by reference.

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

We continuously seek to improve the efficiency and effectiveness 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 December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In accordance with the SEC's guidance that an assessment of a recently acquired business may be omitted from the scope in the year of acquisition, we have not yet assessed the internal control over financial reporting of Gateway Supply LLC ("GWS"), which represented approximately 4% of our total consolidated assets at December 31, 2023 and approximately 1% of our total consolidated revenues for the year ended December 31, 2023. From the acquisition date of September 1, 2023 to December 31, 2023, the processes and systems of GWS did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

### **ITEM 9B. OTHER INFORMATION**

During the quarter ended December 31, 2023, none of our officers or directors adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement", as defined in Item 408 of Regulation S-K.

### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## **PART III**

This part of Form 10-K, which includes Items 10 through 14, is omitted because we will file definitive proxy material pursuant to Regulation 14A not more than 120 days after the close of our most recently ended fiscal year, which proxy material will include the information required by Items 10 through 14 and is incorporated herein by reference.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a)(1) [Financial Statements](#). Our consolidated financial statements are incorporated by reference from our 2023 Annual Report.
- (2) [Financial Statement Schedules](#). The schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.
- (3) [Exhibits](#). The following exhibits are submitted with this Annual Report on Form 10-K or, where indicated, incorporated by reference to other filings.

## **INDEX TO EXHIBITS**

- 3.1 [Composite Articles of Incorporation of Watsco, Inc. \(filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and incorporated herein by reference\).](#)
- 3.2 [Watsco, Inc. Second Amended and Restated Bylaws effective August 1, 2016 \(filed as Exhibit 3.1 to the Current Report on Form 8-K on August 5, 2016 and incorporated herein by reference\).](#)
- 4.1 Specimen form of Class B Common Stock Certificate (filed as Exhibit 4.6 to the Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference). (P)

## Table of Contents

- 4.2 Specimen form of Common Stock Certificate (filed as Exhibit 4.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference). (P)
- 4.3 [Description of Capital Stock \(filed as Exhibit 4.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and incorporated herein by reference\).](#)
- 10.1(a) [Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.20 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference\).](#) \*
- 10.1(b) [First Amendment dated January 1, 2001 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference\).](#) \*
- 10.1(c) [Second Amendment dated January 1, 2002 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference\).](#) \*
- 10.1(d) [Third Amendment dated January 1, 2003 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference\).](#) \*
- 10.1(e) [Fourth Amendment dated January 1, 2004 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference\).](#) \*
- 10.1(f) [Fifth Amendment dated January 1, 2005 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference\).](#) \*
- 10.1(g) [Sixth Amendment dated January 1, 2006 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference\).](#) \*
- 10.1(h) [Seventh Amendment dated January 1, 2007 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference\).](#) \*
- 10.1(i) [Eighth Amendment dated January 1, 2008 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference\).](#) \*
- 10.1(j) [Ninth Amendment dated December 10, 2008 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference\).](#) \*
- 10.1(k) [Tenth Amendment dated January 1, 2009 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and incorporated herein by reference\).](#) \*
- 10.1(l) [Eleventh Amendment dated January 1, 2010 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference\).](#) \*
- 10.1(m) [Twelfth Amendment dated January 1, 2011 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference\).](#) \*
- 10.1(n) [Thirteenth Amendment dated January 1, 2012 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated herein by reference\).](#) \*



## Table of Contents

- 10.1(o) [Fourteenth Amendment dated January 1, 2013 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and incorporated herein by reference\).](#)\*
- 10.1(p) [Fifteenth Amendment dated January 1, 2014 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference\).](#)\*
- 10.1(q) [Sixteenth Amendment dated January 1, 2015 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference\).](#)\*
- 10.1(r) [Seventeenth Amendment dated January 1, 2016 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and incorporated herein by reference\).](#)\*
- 10.1(s) [Eighteenth Amendment dated January 1, 2017 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 and incorporated herein by reference\).](#)\*
- 10.1(t) [Nineteenth Amendment dated January 1, 2018 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and incorporated herein by reference\).](#)\*
- 10.1(u) [Twentieth Amendment dated January 1, 2019 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and incorporated herein by reference\).](#)\*
- 10.1(v) [Twenty-first Amendment dated January 1, 2020 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and incorporated herein by reference\).](#)\*
- 10.1(w) [Twenty-second Amendment dated January 1, 2021 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1\(w\) to the Annual Report on Form 10-K for the year ended December 31, 2020 and incorporated herein by reference\).](#)\*
- 10.1(x) [Twenty-third Amendment dated January 1, 2022 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1\(x\) to the Annual Report on Form 10-K for the year ended December 31, 2021 and incorporated herein by reference\).](#)\*
- 10.1(y) [Twenty-fourth Amendment dated January 1, 2023 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 and incorporated herein by reference\).](#)\*
- 10.1(z) [Twenty-fifth Amendment dated January 1, 2024 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad.](#)\*\*
- 10.2(a) [Watsco, Inc. 2014 Incentive Compensation Plan \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2014 Annual Meeting of Shareholders and incorporated herein by reference\).](#)\*
- 10.2(b) [Watsco, Inc. 2021 Incentive Compensation Plan \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2021 Annual Meeting of Shareholders and incorporated herein by reference\).](#)\*
- 10.3 [Fourth Amended and Restated 1996 Qualified Employee Stock Purchase Plan dated April 18, 2011 \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2011 Annual Meeting of Shareholders and incorporated herein by reference\).](#)\*

## Table of Contents

10.4(a)	<a href="#"><u>Credit Agreement, dated as of March 16, 2023, by and among Watsco, Inc., Watsco Canada, Inc. and Carrier Enterprise Mexico, S. de R.L. de C.V., as Borrowers, the Other Lenders From Time to Time Party Thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A. as Syndication Agent and U.S. Bank National Association and Wells Fargo Bank, National Association as Co-Documentation Agents (filed as Exhibit 10.1 to the Current Report on Form 8-K filed on March 22, 2023 and incorporated herein by reference).</u></a>
10.5	<a href="#"><u>Second Amended and Restated Sales Agreement dated November 3, 2023, by and between Watsco, Inc. and Robert W. Baird &amp; Co. Incorporated (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 and incorporated herein by reference).</u></a>
13	<a href="#"><u>2023 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 7, 8 and 9 of this Form 10-K, the 2023 Annual Report to Shareholders is provided solely for the information of the SEC and is not deemed “filed” as part of this Form 10-K). #</u></a>
16.1	<a href="#"><u>Letter of KPMG LLP, dated April 24, 2023 (filed as Exhibit 16.1 to the Current Report on Form 8-K filed on April 24, 2023 and incorporated herein by reference).</u></a>
21.1	<a href="#"><u>Subsidiaries of the Registrant. #</u></a>
23.1	<a href="#"><u>Consent of Independent Registered Public Accounting Firm – Deloitte &amp; Touche LLP. #</u></a>
23.2	<a href="#"><u>Consent of Independent Registered Public Accounting Firm – KPMG LLP. #</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #</u></a>
31.2	<a href="#"><u>Certification of Executive Vice President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #</u></a>
31.3	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer, Executive Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +</u></a>
97.1	<a href="#"><u>Policy Relating to Recovery of Erroneously Awarded Compensation. #</u></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 Annual Report on Form 10-K for the year ended December 31, 2023, formatted in Inline XBRL.

# filed herewith.

+ furnished herewith.

\* management contract or compensation plan or arrangement.

## **ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

WATSCO, INC.

February 23, 2024

By: /s/ Albert H. Nahmad  
Albert H. Nahmad, Chief Executive Officer

February 23, 2024

By: /s/ Ana M. Menendez  
Ana M. Menendez, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/S/ ALBERT H. NAHMAD</u> <b>Albert H. Nahmad</b>	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 23, 2024
<u>/S/ ANA M. MENENDEZ</u> <b>Ana M. Menendez</b>	Chief Financial Officer (principal accounting officer and principal financial officer)	February 23, 2024
<u>/S/ CESAR L. ALVAREZ</u> <b>Cesar L. Alvarez</b>	Director	February 23, 2024
<u>/S/ J. MICHAEL CUSTER</u> <b>J. Michael Custer</b>	Director	February 23, 2024
<u>/S/ DENISE DICKINS</u> <b>Denise Dickins</b>	Director	February 23, 2024
<u>/S/ ANA LOPEZ-BLAZQUEZ</u> <b>Ana Lopez-Blazquez</b>	Director	February 23, 2024
<u>/S/ JOHN A. MACDONALD</u> <b>John A. Macdonald</b>	Director	February 23, 2024
<u>/S/ AARON J. NAHMAD</u> <b>Aaron J. Nahmad</b>	Director and President	February 23, 2024
<u>/S/ STEVEN RUBIN</u> <b>Steven Rubin</b>	Director	February 23, 2024
<u>/S/ VALERIE F. SCHIMEL</u> <b>Valerie F. Schimel</b>	Director	February 23, 2024

**TWENTY-FIFTH AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

This Twenty-fifth Amendment to Employment Agreement is made and entered into effective as of the 1st day of January 2024, by and between **WATSCO, INC.**, a Florida corporation (hereinafter called the “Company”), and **ALBERT H. NAHMAD** (hereinafter called the “Employee”).

**RECITALS**

**WHEREAS**, the Company and the Employee entered into an Employment Agreement effective as of January 31, 1996 (the “Employment Agreement”) pursuant to which the Employee renders certain services to the Company; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors amended the Employment Agreement effective as of January 1, for each of 2001 through 2023; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors has determined that the Employee’s Base Salary will be \$600,000 for calendar year 2024; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors has determined the Employee’s use of the Company’s airplane for personal purposes for up to ninety (90) hours during the calendar year 2024. The Company shall pay all fuel and operational costs incident thereto. The value of the Employee’s usage of the Company’s airplane shall be treated as compensation for tax purposes; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors has set the targets for the long-term performance-based compensation payable in the form of restricted shares by the Company to the Employee for the year 2024; and

**WHEREAS**, the long-term performance-based compensation payable by the Company to the Employee for the calendar year 2024 shall not exceed \$10 million.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants set forth in this Twenty-fifth Amendment, and other good and valuable consideration, the parties to this Twenty-fifth Amendment agree as follows:

1. All capitalized terms in this Twenty-fifth Amendment shall have the same meaning as in the Employment Agreement, unless otherwise specified.
2. The Employment Agreement is hereby amended by replacing “Exhibit A-1 — 2023 Performance Goals and Long-term Performance Based Compensation” with the attached “Exhibit A-1 — 2024 Performance Goals and Long-term Performance Based Compensation” thereto.
3. All other terms and conditions of the Employment Agreement shall remain the same.

**IN WITNESS WHEREOF**, the parties have caused this Twenty-fifth Amendment to be duly executed effective as of the day and year first above written.

---

**WATSCO, INC.**

By: /s/ Barry S. Logan  
Barry S. Logan, Executive Vice President

**EMPLOYEE**

By: /s/ Albert H. Nahmad  
Albert H. Nahmad, Chief Executive Officer

**EXHIBIT A-1**  
**2024 PERFORMANCE GOALS AND LONG-TERM PERFORMANCE BASED COMPENSATION**

***Overview***

Watsco's compensation program is grounded by the guiding principle that compensation should be highly dependent upon long-term shareholder returns. This key tenet of our compensation philosophy has driven the unique design of our program for many years and has enabled our executive leadership team to stay solidly focused on long-term performance. We have generated a compounded annual growth rate for total shareholder return of 19% over the last 34 years.

The most unique aspect of the program is the use of restricted stock that requires an executive to spend his or her entire career with the Company in order to vest. We believe granting restricted stock effectively balances strategic risk-taking and long-term performance, creates an ownership culture, and aligns the interests of high-performing leaders with the interests of our shareholders. Additionally, we believe these awards help build a sustainable future by ensuring that our executives make the right long-term business decisions that will survive well past their retirement.

We began granting restricted stock awards in 1997. All the restricted shares we have granted to our leaders throughout the Company vest upon reaching retirement age (usually 62 or older). Based on data provided by Equilar, the duration of our cliff-vesting period is solely unique to Watsco. Vesting may also occur at an even later date for those who extend their careers beyond age 62. This means that our key leaders will not know the value and cannot realize the value of their equity awards until they have spent their career with the Company. As it relates to our CEO, on a weighted-average basis, his restricted share awards will vest in approximately 4.0 years.

In formulating the amount of a potential award, the Compensation Committee believes that the 'present-value' of an award versus the 'face-value' of an award is considerably less due to the unusually long vesting periods and associated risks of forfeiture.

### ***Annual Performance-based Restricted Stock Award***

The formula for determining the CEO's Annual Performance-based Restricted Stock Award has been consistent, and for 2024 is as follows:

	Amount of Restricted Stock Award
<b>A. Earnings Per Share (EPS)</b>	
For each \$.01 increase if growth is below 5%	\$ 43,500
For each \$.01 increase if growth is at or above 5%	\$ 65,000
<b>B. Increase in Common Stock Price</b>	
If the closing price of a share of Common Stock on 12/31/24 does not exceed \$428.47	\$ 0
If the closing price of a share of Common Stock on 12/31/24 exceeds \$428.47 but does not equal or exceed \$514.16, for each \$0.01 increase in per share price of a share of Common Stock above \$428.47	\$ 1,200
If the closing price of a share of Common Stock on 12/31/24 equals or exceeds \$514.16, for each \$0.01 increase in per share price of a share of Common Stock above \$428.47	\$ 1,800

### ***Other Considerations***

The amount of Performance-Based Restricted Stock Award shall be subject to a cap of \$10 million.

The award shall be paid through the issuance of a number of restricted shares of Class B Common Stock of the Company (the "Shares") equal to the amount determined by dividing (x) the Performance-Based Restricted Stock Award Amount by (y) the closing price for the Class B Common Stock of the Company on the New York Stock Exchange as of the close of trading on December 31, 2024. The value of any fractional shares shall be paid in cash.

The restrictions on the Shares shall lapse on the first to occur of (i) October 15, 2032, (ii) termination of the Executive's employment with the Company by reason of Executive's disability or death, (iii) the Executive's termination of employment with the Company for Good Reason, (iv) the Company's termination of Executive's employment without Cause, or (v) the occurrence of a Change in Control of the Company ("Good Reason," "Cause," and "Change in Control" to be defined in a manner consistent with the most recent grant of Restricted Stock by the Company to the Executive).

The Performance-Based Restricted Stock Award is being made by the Compensation Committee as performance awards of restricted stock pursuant to the Company's 2021 Incentive Compensation Plan or any successor plan (the "Incentive Plan") and are subject to the limitations contained in Section 5 of the Incentive Plan.

---

Effective as of January 1, 2024

**COMPENSATION COMMITTEE**

By: /s/ Denise Dickins  
Denise Dickins, Chair

**ACKNOWLEDGED AND ACCEPTED**

By: Albert H. Nahmad  
Albert H. Nahmad



**WATSCO, INC. AND SUBSIDIARIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

This Annual Report on Form 10-K 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, including conditions that impact the supply chain;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- new housing starts and completions;
- capital spending in the commercial construction market;
- 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 included in Item 1A "Risk Factors" of this Annual Report on Form 10-K, 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.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity for the year ended December 31, 2023. This discussion should be read in conjunction with the information contained in Item 1A, "Risk Factors" and the consolidated financial statements, including the notes thereto, included under Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for the year ended December 31, 2023.

## **Company Overview**

Watsco, Inc. was incorporated in Florida in 1956, and, together with its subsidiaries (collectively, “Watsco,” the “Company,” 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 December 31, 2023, we operated from 690 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.

## **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 footprints.

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 footprints.

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 likely 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 increased the current minimum SEER beginning in 2023 (generally, to 14 SEER from 13 SEER in the Northern U.S. and to 15 SEER from 14 SEER for the Southern U.S.).

In addition, the American Innovation and Manufacturing Act of 2020 gave the U.S. Environmental Protection Agency regulatory authority to address hydrofluorocarbon (“HFC”) refrigerants. HFCs were developed to replace certain refrigerants, such as chlorofluorocarbons and hydrochlorofluorocarbons that were harmful to the ozone layer, but are considered potent greenhouse gases as a result of their global warming potential. As a result, regulations are in effect that mandate a 30% phase down of HFC refrigerants currently used in older HVAC systems along with the introduction of new HVAC systems in 2024 that contain more environmentally friendly refrigerants.

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. Based on estimates validated by independent sources, we averted an estimated 19.2 million metric tons of CO<sub>2</sub>e emissions from January 1, 2020 to December 31, 2023 through the sale of replacement residential HVAC systems at higher-efficiency standards.

## **Federal Tax Credits and State Incentives**

Demand for higher-efficiency products, such as variable-speed systems and heat pumps, is expected to increase due to the passage of the U.S. Inflation Reduction Act of 2022 (the “IRA”) in August 2022. This legislation is intended, in part, to promote the replacement of existing systems in favor of high-efficiency heat pump systems that reduce greenhouse gas emissions, as compared to older systems, and thereby combat climate change. Programs under the IRA include enhanced tax credits for homeowners who install qualifying HVAC equipment and tax deductions for owners of commercial buildings that are upgraded to achieve defined energy savings. The IRA also sets aside \$4.3 billion for state-administered consumer rebate programs designed to promote energy savings for low and medium-income households, including HVAC systems. Further details, including qualifying products, specific programs, states participating, and other regulatory requirements contemplated by the IRA are still being finalized.

## **Economic and Marketplace Dynamics**

The global economic recovery from the COVID-19 pandemic has included challenges such as inflationary pressure and supply chain disruptions. Certain of our manufacturers and suppliers experienced some level of supply chain disruptions caused by reduced component availability, labor shortages, transportation delays, and other logistical challenges, resulting in longer lead times and constrained availability of some HVAC/R products. These challenges were exacerbated by the regulatory transition to higher SEER products that became effective on January 1, 2023. Revenues for 2023 reflected temporary production and availability delays by one of our primary OEM partners that persisted through the third quarter of 2023. We estimate that revenues were negatively impacted by approximately 2% for 2023 due to constrained availability of inventory. We believe our OEMs are working to improve their supply chains and product availability in order to help us meet our customers' needs.

We cannot estimate the future impact of supply chain disruptions, but we continue to take proactive steps to limit the impact of these disruptions and are working closely with our suppliers to ensure the availability of products. Also, we continue to actively monitor the situation and may take further actions that alter our business.

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

In 2009, we formed a joint venture with Carrier Global Corporation ("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. In 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.

The export division, Carrier InterAmerica Corporation ("CIAC"), redomesticated from the U.S. Virgin Islands to Delaware in 2019, following which CIAC became a separate operating entity in which we have an 80% controlling interest and Carrier has a 20% non-controlling interest.

Carrier Enterprise I has a 38.4% ownership interest in Russell Sigler, Inc. ("RSI"), an HVAC distributor operating from 34 locations in the Western U.S. RSI is Carrier's second largest independent North American distributor and had sales of approximately \$1.2 billion in 2023.

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. In 2019, we repurchased the 20% ownership interest in Homans from Carrier Enterprise II and have since solely owned and operated Homans.

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

In 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, one of Carrier's independent distributors with locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new joint venture with Carrier, TEC Distribution LLC ("TEC"), that owns and 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 consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires 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 consolidated 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.

## Table of Contents

Our significant accounting policies are discussed in Note 1 to our audited consolidated financial statements included in this Annual Report on Form 10-K. Management believes that the following accounting estimates include a higher degree of judgment and/or complexity and are reasonably likely to have a material impact on our financial condition or results of operations and, thus, are considered critical accounting estimates. Management has discussed the development and selection of critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosures relating to critical accounting estimates.

### Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make the required payments. We typically do not require our customers to provide collateral. Accounting for doubtful accounts contains uncertainty because management must use judgment to assess the collectability of these accounts. When preparing these estimates, management considers several factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends, and other information, including potential impacts of business and economic conditions. Our business and our customers' businesses are seasonal. Sales are lowest during the first and fourth quarters, and past due accounts receivable balances as a percentage of total trade receivables generally increase during these quarters. We review our accounts receivable reserve policy periodically, reflecting current risks, trends, and changes in industry conditions.

The allowance for doubtful accounts was \$21.5 million and \$18.3 million at December 31, 2023 and 2022, respectively, an increase of \$3.2 million, which was primarily due to a decline in the underlying quality of our accounts receivable portfolio at December 31, 2023. Accounts receivable balances greater than 90 days past due as a percent of accounts receivable at December 31, 2023 increased to 2.7% from 2.4% at December 31, 2022.

Although we believe the allowance for doubtful accounts is sufficient, a decline in economic conditions could lead to the deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments and requiring additional allowances that could materially impact our consolidated results of operations. We believe our exposure to customer credit risk is limited due to the large number of customers comprising our customer base and their dispersion across many different geographical regions. Additionally, we mitigate credit risk through credit insurance programs.

### Inventories

Inventory adjustments are established to report inventories at the lower of cost using the weighted-average and the first-in, first-out methods, or net realizable value. As part of the valuation process, inventories are adjusted to reflect excess, slow-moving, and damaged goods. The valuation process contains uncertainty because management must make estimates and use judgment to determine the future salability of inventories. Inventory policies are reviewed periodically, reflecting current risks, trends, and changes in industry conditions. A reserve for estimated inventory shrinkage is maintained and reflects the results of cycle count programs and physical inventories. When preparing these estimates, management considers historical results, inventory levels, and current operating trends.

### Valuation of Goodwill, Indefinite Lived Intangible Assets and Long-Lived Assets

The recoverability of goodwill is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount may not be recoverable. We have one reporting unit that is subject to goodwill impairment testing. In performing the goodwill impairment test, we use a two-step approach. The first step compares the reporting unit's fair value to its carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. On January 1, 2024, we performed our annual evaluation of goodwill impairment and determined that the estimated fair value of our reporting unit exceeded its carrying value.

The recoverability of indefinite lived intangibles and long-lived assets are also evaluated on an annual basis or more often if deemed necessary. Indefinite lived intangibles and long-lived assets not subject to amortization are assessed for impairment by comparing the fair value of the intangible asset or long-lived asset to its carrying amount to determine if a write-down to fair value is required. Our annual evaluation did not indicate any impairment of indefinite lived intangibles or long-lived assets.

## Table of Contents

The estimates of fair value of our reporting unit, indefinite lived intangibles, and long-lived assets are based on the best information available as of the date of the assessment and incorporates management's assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment, or market conditions. There have been no events or circumstances from the date of our assessments that would have had an impact on this conclusion. The carrying amounts of goodwill, intangibles, and long-lived assets were \$1,337.3 million and \$1,189.5 million at December 31, 2023 and 2022, respectively, an increase of \$147.8 million, primarily related to our acquisition of Gateway Supply Company, Inc. ("GWS") in September 2023 and higher renewal lease rates for our warehouse facilities. Although no impairment losses have been recorded to date, there can be no assurance that impairments will not occur in the future. An adjustment to the carrying value of goodwill, intangibles, and long-lived assets could materially adversely impact the consolidated results of operations.

### Loss Contingencies

Accruals are recorded for various contingencies including self-insurance, legal proceedings, environmental matters, and other claims that arise in the normal course of business. The estimation process contains uncertainty because accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of external legal counsel and actuarially determined estimates. Additionally, we record receivables from third party insurers when recovery has been determined to be probable.

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 several 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 self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occur and exceed these estimates, additional reserves may be required and could materially impact the consolidated results of operations. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. Reserves in the amounts of \$9.7 million and \$12.3 million at December 31, 2023 and 2022, respectively, were established related to such insurance programs. The decrease in self-insurance reserves was primarily due to a decrease in the frequency of claims reported and the settlement of claims during 2023.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. The use of estimates by management is required to determine income tax expense, deferred tax assets, and any related valuation allowance and deferred tax liabilities. A valuation allowance of \$10.5 million and \$8.2 million was recorded at December 31, 2023 and 2022, respectively. The increase was primarily attributable to the impact on U.S. deferred tax assets from share-based compensation deduction limitations related to the expansion of IRC Section 162(m). See Note 9 to our audited consolidated financial statements included in this Annual Report on Form 10-K. The valuation allowance is based on several factors including, but not limited to, estimates of future taxable income by jurisdiction in which the deferred tax assets will be recoverable. These estimates can be affected by several factors, including changes to tax laws, or possible tax audits, or general economic conditions, or competitive pressures that could affect future taxable income. Although management believes that the estimates are reasonable, the deferred tax asset and any related valuation allowance will need to be adjusted if management's estimates of future taxable income differ from actual taxable income. An adjustment to the deferred tax asset and any related valuation allowance could materially impact the consolidated results of operations.

### **New Accounting Standards**

There were no new accounting standards made effective during 2023 that have significance, or potential significance, to our consolidated financial statements. Refer to Note 1 to our audited consolidated financial statements included in this Annual Report on Form 10-K for a discussion of recently issued accounting standards not yet adopted.

## [Table of Contents](#)

### Results of Operations

The following table summarizes information derived from our audited consolidated statements of income, expressed as a percentage of revenues, for the years ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Revenues	100.0%	100.0%	100.0%
Cost of sales	72.6	72.1	73.4
Gross profit	27.4	27.9	26.6
Selling, general and administrative expenses	16.8	16.8	16.9
Other income	0.4	0.3	0.3
Operating income	10.9	11.4	10.0
Interest expense, net	0.1	0.0	0.0
Income before income taxes	10.8	11.4	10.0
Income taxes	2.1	1.7	2.1
Net income	8.7	9.7	7.9
Less: net income attributable to non-controlling interest	1.3	1.4	1.3
Net income attributable to Watsco, Inc.	7.4%	8.3%	6.7%

Note: Due to rounding, percentages may not total 100.

The following narratives reflect our acquisitions of GWS in September 2023, Capitol District Supply Co., Inc. (“Capitol”) in March 2023, 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.

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 December 31, 2023 and 2022, three and eight 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 2023 and 2022:

	Number of Locations
December 31, 2021	671
Opened	11
Closed	(9)
December 31, 2022	673
Opened	6
Acquired	19
Closed	(8)
December 31, 2023	690

### Tax Benefit from Fourth Quarter 2022 Vesting of Restricted Stock

Our 2022 results reflect the vesting of 975,622 shares of Class B restricted stock previously granted to our Chief Executive Officer (“CEO”) during the period from 1997 to 2011. The vesting occurred on October 15, 2022 and provided a \$49.0 million tax benefit and \$3.6 million in incremental selling, general and administrative expenses, primarily related to employment taxes. The net benefit to 2022 diluted earnings per share was \$1.21. Due to the infrequent nature of this event, certain key performance metrics in 2022 are presented on an “adjusted basis” to exclude the impact. Please see “Non-GAAP Financial Measures” below.

### 2023 Compared to 2022

#### Revenues

(in millions)	Years Ended December 31,		Change	
	2023	2022		
Revenues	\$ 7,283.8	\$ 7,274.3	\$9.5	0%

## Table of Contents

Revenues for 2023 were flat and included \$70.8 million attributable to new locations acquired and \$8.7 million from other locations opened during the preceding 12 months, offset by \$7.5 million from locations closed.

<i>(in millions)</i>	Years Ended December 31,		Change	
	2023	2022		
Same-store sales	\$ 7,204.2	\$ 7,266.9	\$(62.7)	(1)%

The following table presents our revenues, by major product lines and the related percentage change from the prior year:

	% of Sales		% Change	
	2023	2022	2023	2022
HVAC equipment	69%	68%	0%	14%
Other HVAC products	27%	28%	(5)%	16%
Commercial refrigeration products	4%	4%	5%	24%

HVAC equipment sales reflect a 4% decrease in residential products, which is composed of unitary compressor-bearing systems, furnaces, and other indoor components, (4% decrease in U.S. markets and a 5% increase in international markets) and a 15% increase in sales of commercial HVAC equipment (13% increase in U.S. markets and a 22% increase in international markets). Domestic sales of unitary compressor-bearing systems declined 4%, reflecting an 11% decrease in units and an 8% increase in average selling price.

### Gross Profit

<i>(in millions)</i>	Years Ended December 31,		Change	
	2023	2022		
Gross profit	\$ 1,992.1	\$ 2,030.3	\$(38.2)	(2)%
Gross margin	27.4%	27.9%		

Gross profit margin declined 50 basis-points primarily due to the impact of less beneficial pricing actions taken by our HVAC equipment suppliers in 2023 as compared to 2022.

### Selling, General and Administrative Expenses

<i>(in millions)</i>	Years Ended December 31,		Change	
	2023	2022		
Selling, general and administrative expenses	\$ 1,223.5	\$ 1,221.4	\$ 2.1	0%
Selling, general and administrative expenses as a percentage of revenues	16.8%	16.8%		

Selling, general and administrative expenses for 2023 were flat. On a same-store basis, selling, general and administrative expenses decreased 1% as compared to 2022 and as a percentage of sales decreased to 16.7% versus 16.8% in 2022, primarily due to a decrease in variable expenses and improved operating efficiencies.

### Other Income

Other income of \$26.2 million and \$22.7 million for 2023 and 2022, respectively, represented our share of the net income of RSI.

### Operating Income

<i>(in millions)</i>	Years Ended December 31,		Change	
	2023	2022		
Operating income	\$ 794.8	\$ 831.6	\$(36.8)	(4)%
Operating margin	10.9%	11.4%		

On a same-store basis operating income decreased 5% and operating margin was 11.0% in 2023 as compared to 11.4% in 2022.

## [Table of Contents](#)

### Interest Expense, Net

Interest expense, net for 2023 increased \$2.8 million, or 127%, to \$4.9 million, primarily as a result of a higher effective interest rate and an increase in average outstanding borrowings, in each case under our revolving credit facility, for the 2023 period as compared to 2022.

### Income Taxes

<i>(in millions)</i>	Years Ended December 31,		Change
	2023	2022	
Income taxes	\$ 155.8	\$ 125.7	\$30.1 24%
Effective income tax rate	22.3%	17.2%	

Income taxes represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to our joint ventures with Carrier, 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 majority of the increase in the effective income tax rate was primarily due to the decrease in share-based compensation deduction in 2023 as compared to 2022. In 2022, the share-based compensation deduction was impacted by the vesting of 975,622 shares of Class B restricted stock on October 15, 2022, which provided a \$49.0 million tax benefit that lowered our effective income tax rate. In 2023, the share-based compensation deduction was partially offset by the addition of a valuation allowance on the deferred tax asset related to share-based compensation. Lower state income taxes and higher federal and state tax credits partially reduced the 2023 effective tax rate as compared to 2022 adjusted for the impact of the vesting of restricted stock on October 15, 2022.

### Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco in 2023 decreased \$64.8 million, or 11%, to \$536.3 million. The decrease was primarily driven by lower operating income and an increase in income taxes, partially offset by a decrease in the net income attributable to the non-controlling interest and an increase in other income.

Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022 for a discussion of results of operations for the year ended December 31, 2022 compared to the year ended December 31, 2021.

### **Non-GAAP Financial Measures**

We disclose operating income, operating margin, and diluted earnings per share on an adjusted, non-GAAP basis to exclude the impact caused by the vesting of restricted stock on October 15, 2022 as described above. We believe that these adjusted, non-GAAP financial measures provide greater comparability regarding our ongoing operating performance. These measures should not be considered an alternative to measurements required by U.S. GAAP. Adjusted, non-GAAP measures are useful to assist our investors in evaluating our ongoing operating performance for the current reporting period and, where provided, over different reporting periods. Adjusted, non-GAAP measures should not be considered in isolation or as a substitute for income statement data prepared in accordance with GAAP and our presentation of adjusted, non-GAAP measures may not be comparable to similarly-titled measures used by other companies.

The reconciliation of operating income, a GAAP measure, to operating income on an adjusted basis, a non-GAAP measure is as follows:

<i>(in millions)</i>	Years Ended December 31,	
	2023	2022
Operating income	\$ 794.8	\$ 831.6
Primarily employment taxes related to the vesting of restricted stock	—	3.6
Operating income on an adjusted basis	\$ 794.8	\$ 835.2
Operating margin	10.9%	11.4%
Operating margin on an adjusted basis	10.9%	11.5%



## Table of Contents

The reconciliation of diluted earnings per share for Common and Class B common stock, a GAAP measure, to diluted earnings per share for Common and Class B common stock on an adjusted basis, a non-GAAP measure is as follows:

	Years Ended December 31,	
	2023	2022
Diluted earnings per share for Common and Class B common stock	\$ 13.67	\$ 15.41
Primarily employment taxes related to the vesting of restricted stock	—	0.08
Tax related benefit from the vesting of restricted stock	—	(1.29)
Diluted earnings per share for Common and Class B common stock on an adjusted basis	<u>\$ 13.67</u>	<u>\$ 14.20</u>

### **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.

### 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 December 31, 2023, we had \$210.1 million of cash and cash equivalents, of which \$187.0 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 the Secured Overnight Financing Rate (“SOFR”), which is one of the base rates under our revolving credit agreement. SOFR has limited historical data and is a secured lending rate (whereas our revolving credit agreement is unsecured, and had primarily used LIBOR, an unsecured lending rate, as a base rate prior to the discontinuation of LIBOR in 2023), which could give rise to uncertainties and volatility in the benchmark rates. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs or reduced borrowing capacity under our revolving credit agreement.

### Working Capital

Working capital increased to \$1,679.9 million at December 31, 2023, which included 16 locations added by the acquisition of GWS in 2023 that added \$38.5 million of working capital. Excluding these acquired locations, working capital increased 18% to \$1,641.4 million at December 31, 2023 from \$1,392.2 million at December 31, 2022 due to: (i) a reduction of accounts payable due to timing of payments; (ii) higher accounts receivable driven by a decrease in the underlying quality of our accounts receivable portfolio; and (iii) paydown of borrowings (borrowings under our revolving credit agreement were classified as a long-term liability at December 31, 2022).

## [Table of Contents](#)

### Cash Flows

The following table summarizes our cash flow activity for 2023 and 2022 (in millions):

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Cash flows provided by operating activities	<b>\$ 562.0</b>	\$ 572.0	\$(10.0)
Cash flows used in investing activities	<b>\$ (41.3)</b>	\$ (33.8)	\$ (7.5)
Cash flows used in financing activities	<b>\$ (460.1)</b>	\$ (504.0)	\$ 43.9

The individual items contributing to cash flow changes for the years presented are detailed in the audited consolidated statements of cash flows included in this Annual Report on Form 10-K.

### *Operating Activities*

The decrease in net cash provided by operating activities was primarily due to lower net income in 2023 as compared to 2022 and the impact of changes in working capital discussed above.

### *Investing Activities*

Net cash used in investing activities was higher primarily due to cash consideration paid for acquisitions and investments in 2023. We acquired no businesses in 2022.

### *Financing Activities*

The decrease in net cash used in financing activities was attributable to the payment of withholding tax obligations in 2022 primarily upon the vesting of restricted stock previously granted to our CEO and proceeds from the sale and issuance of Common stock used for repayments under our revolving credit agreement in 2023, partially offset by an increase in dividends paid and an increase in distributions to the non-controlling interest in 2023.

### Revolving Credit Agreement

On March 16, 2023, we entered into an unsecured, five-year \$600.0 million syndicated multicurrency revolving credit agreement, which replaced in its entirety our prior five-year \$560.0 million unsecured revolving credit agreement that was nearing maturity. Proceeds from the new facility were used to repay the \$235.5 million outstanding under the prior facility. Additional borrowings under the new facility may be used for, among other things, funding 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 revolving credit facility has a seasonal component from October 1 to March 31, during which the borrowing capacity may be reduced to \$500.0 million at our discretion (which effectively reduces fees payable in respect of the unused portion of the commitment), and we effected this reduction on October 1, 2023. Included in the revolving credit facility are a \$125.0 million swingline loan sublimit, a \$10.0 million letter of credit sublimit, a \$75.0 million alternative currency borrowing sublimit, and an \$10.0 million Mexican borrowing subfacility. The revolving credit agreement matures on March 16, 2028.

Borrowings under the revolving credit facility bear interest at either Term SOFR or Daily Simple SOFR-based rates plus 0.10%, plus a spread which ranges from 100.0 to 137.5 basis-points (Term SOFR and Daily Simple SOFR plus 100.0 basis-points at December 31, 2023), depending on our ratio of total debt to EBITDA, or on rates based on the highest of the Federal Funds Effective Rate plus 0.50%, the Prime Rate or Term SOFR plus 1.0%, in each case plus a spread which ranges from 0 to 50.0 basis-points (0 basis-points at December 31, 2023), depending on our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment under the revolving credit agreement, ranging from 12.5 to 27.5 basis-points (12.5 basis-points at December 31, 2023). We paid fees of \$0.8 million in connection with entering into the revolving credit agreement, which are being amortized ratably through the maturity of the facility in March 2028.

At December 31, 2023, \$15.4 million was 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 December 31, 2023.

## [Table of Contents](#)

### At-the-Market Offering Program

We are party to a sales agreement with Robert W. Baird & Co. Inc., 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).

During 2023, we issued and sold 45,000 shares of Common stock under the ATM Program for net proceeds of \$15.2 million. Direct costs of \$0.4 million incurred in connection with the offering were charged against the proceeds from the sale of Common stock and reflected as a reduction of paid-in capital. At December 31, 2023, \$284.7 million remained available for sale under the ATM Program.

### Contractual Obligations

At December 31, 2023, operating lease liabilities for real property, vehicles, and equipment totaled \$372.5 million and expire at various dates through 2033. Refer to Note 2 to our audited consolidated financial statements included in this Annual Report on Form 10-K for information on our operating lease liabilities and related maturities.

Commercial obligations outstanding at December 31, 2023 under our revolving credit agreement consisted of borrowings totaling \$15.4 million. Refer to Note 8 to our audited consolidated financial statements included in this Annual Report on Form 10-K for additional information on our debt.

At December 31, 2023, we were obligated under various non-cancelable purchase orders with our key suppliers for goods aggregating approximately \$50.0 million, of which approximately \$48.0 million is with Carrier and its affiliates. These purchase obligations represent commitments under purchase orders for goods in the ordinary course of business that are enforceable and legally binding with defined terms as to price, quantity, and delivery.

The total amount of unrecognized tax benefits (net of the federal benefit received from state positions) relating to various tax positions we have taken, the timing of which is uncertain, was \$6.6 million at December 31, 2023. Refer to Note 9 to our audited consolidated financial statements included in this Annual Report on Form 10-K for additional information on our unrecognized tax benefits.

### Off-Balance Sheet Arrangements

Refer to Note 15 to our audited consolidated financial statements included in this Annual Report on Form 10-K, under the caption “Off-Balance Sheet Financial Instruments,” for a discussion of a standby letter of credit and performance bonds for which we were contingently liable at December 31, 2023.

### Investment in Unconsolidated Entity

Carrier Enterprise I, one of our joint ventures with Carrier, in which we have an 80% controlling interest, has a 38.4% ownership interest in RSI, an HVAC distributor operating from 34 locations in the Western U.S. Our proportionate share of the net income of RSI is included in other income in our consolidated statements of income. Effective December 18, 2023, Carrier Enterprise I acquired an additional 0.3% ownership interest in RSI for cash consideration of \$2.8 million, of which we contributed \$2.3 million, and Carrier contributed \$0.5 million. This acquisition increased Carrier Enterprise I's ownership interest in RSI from 38.1% to 38.4%.

Carrier Enterprise I is a party to a shareholders' agreement (the “Shareholders' Agreement”) with RSI and its shareholders, consisting of five Sigler second generation family siblings and their affiliates, who collectively own 55.4% of RSI (the “RSI Majority Holders”) and certain next-generation Sigler family members and an employee, who collectively own 6.2% of RSI (the “RSI Minority Holders”) and, together with the RSI Majority Holders, the “RSI Shareholders”). Pursuant to the Shareholders' Agreement, the RSI 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 the higher of book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price for its 38.4% investment held in RSI. The RSI 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 the RSI Shareholders the remaining outstanding shares of RSI common stock. At December 31, 2023, using the criteria set forth in the Shareholders' Agreement, the valuation of the RSI Shareholders' RSI common stock was approximately \$408.0 million. We believe that our operating cash flows, cash on hand, funds available for borrowing under our revolving credit agreement, or use of the ATM Program would be sufficient to purchase any additional ownership interests in RSI for cash pursuant to the agreement described in the following paragraph.

## Table of Contents

On July 28, 2023, Watsco, Carrier Enterprise I, and the RSI Majority Holders entered into an agreement that (1) provides Carrier Enterprise I the discretion, but not the obligation, to fund up to 80% of any purchase from the RSI Majority Holders of their RSI common stock, as required under the Shareholders' Agreement, using Watsco Common stock (the "Offered Shares"), (2) provides that any Offered Shares actually issued would be valued based on the average volume-weighted average price of Watsco's Common stock for the ten trading days immediately preceding the payment date for the applicable RSI shares, and (3) limits the amount of RSI shares that may be collectively sold by the RSI Majority Holders to Carrier Enterprise I under the Shareholders' Agreement to \$125.0 million during any rolling 12-month period. We have not issued or sold any Offered Shares, and there is no assurance that we will issue and sell any Offered Shares, nor is the number of Offered Shares that may be issued and sold currently determinable.

### Acquisitions

On February 1, 2024, one of our wholly owned subsidiaries acquired Commercial Specialists, Inc., a distributor of HVAC products with annual sales of approximately \$13.0 million, operating from two locations in Cincinnati, Ohio. Consideration for the purchase consisted of \$6.0 million in cash, 1,904 shares of Common stock having a fair value of \$0.8 million, and \$0.6 million for repayment of indebtedness, net of cash acquired of \$1.3 million.

On September 1, 2023, we acquired substantially all the assets and assumed certain of the liabilities of GWS, a plumbing and HVAC distributor with annual sales of approximately \$180.0 million, operating from 16 locations in South Carolina and North Carolina. Consideration for the net purchase price consisted of \$4.0 million in cash, net of cash acquired of \$3.1 million, and 280,215 shares of Common stock having a fair value of \$101.6 million, net of a discount for lack of marketability.

On March 3, 2023, one of our wholly owned subsidiaries acquired Capitol, a distributor of plumbing and air conditioning and heating products with annual sales of approximately \$13.0 million, operating from three locations in New York. Consideration for the purchase consisted of \$1.2 million in cash, net of cash acquired of \$0.1 million, and \$1.9 million for repayment of indebtedness.

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.

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 \$9.80, \$8.55, and \$7.625 per share of Common stock and Class B common stock in 2023, 2022, and 2021, respectively. On January 2, 2024, our Board of Directors declared a regular quarterly cash dividend of \$2.45 per share of both Common and Class B common stock that was paid on January 31, 2024 to shareholders of record as of January 17, 2024. On January 25, 2024, our Board of Directors approved an increase to the annual cash dividend per share of Common and Class B common stock to \$10.80 per share from \$9.80 per share, effective with the quarterly dividend that will be paid in April 2024. 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, prospects, and other factors deemed relevant by our Board of Directors.

### 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 December 31, 2023, there were 1,129,087 shares remaining authorized for repurchase under the program. The IRA includes, among other provisions, a 1% excise tax on stock repurchases effective January 1, 2023. In considering any further stock repurchases under our repurchase program, we intend to evaluate the impact of the IRA's 1% excise tax.

### **Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks, including fluctuations in foreign currency exchange rates and interest rates. To manage certain of these exposures, we use derivative instruments, including forward and option contracts and swaps. We use derivative instruments as risk management tools and not for trading purposes.

#### Foreign Currency Exposure

We are exposed to cash flow and earnings fluctuations resulting from currency exchange rate variations. These exposures are transactional and translational in nature. The foreign currency exchange rates to which we are exposed are the Canadian dollar and Mexican peso. Revenues in these markets accounted for 5% and 3%, respectively, of our total revenues for 2023.

Our transactional exposure primarily relates to purchases by our Canadian operations in currencies other than their local currency. To mitigate the impact of currency exchange rate movements on these purchases, we consider entering into foreign currency forward contracts. By entering into these foreign currency forward contracts, we lock in exchange rates that would otherwise cause losses should the U.S. dollar strengthen and gains should the U.S. dollar weaken, in each case against the Canadian dollar.

We have exposure related to the translation of financial statements of our Canadian operations into U.S. dollars, our functional currency. We do not currently hold any derivative contracts that hedge our foreign currency translational exposure. A 10% change in the Canadian dollar would have had an estimated \$4.7 million impact to our financial position and results of operations for 2023.

Historically, fluctuations in these exchange rates have not materially impacted our results of operations. Our exposure to currency rate fluctuations could be material in the future if these fluctuations become significant or if our Canadian and Mexican markets grow and represent a larger percentage of our total revenues.

We had only one foreign exchange contract at December 31, 2023, the total notional value of which was \$2.8 million, and such contract expired during January 2024. For the year ended December 31, 2023, foreign currency transaction gains and losses did not have a material impact on our results of operations. See Note 16 to our audited consolidated financial statements included in this Annual Report on Form 10-K for further information on our derivative instruments.

#### Interest Rate Exposure

Our revolving credit facility exposes us to interest rate risk because borrowings thereunder accrue interest at one or more variable interest rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we consider entering into interest rate swap agreements with financial institutions that have investment grade credit ratings, thereby minimizing credit risk associated with these instruments. We do not currently hold any such swap agreements or any other derivative contracts that hedge our interest rate exposure, but we may enter into such instruments in the future.

We have evaluated our exposure to interest rates assuming we are fully borrowed under our \$600.0 million revolving credit agreement and determined that a 100 basis-point change in interest rates would result in an impact to income before income taxes of approximately \$6.0 million. See Note 8 to our audited consolidated financial statements included in this Annual Report on Form 10-K for further information about our debt.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system has been designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of our published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In accordance with the SEC's guidance that an assessment of a recently acquired business may be omitted from the scope in the year of acquisition, we have not yet assessed the internal control over financial reporting of Gateway Supply LLC ("GWS"), which represented approximately 4% of our total consolidated assets at December 31, 2023 and approximately 1% of our total consolidated revenues for the year ended December 31, 2023. From the acquisition date of September 1, 2023 to December 31, 2023, the processes and systems of GWS did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Executive Vice President, and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2023. The assessment was based on criteria established in the framework *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on this assessment under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2023. The effectiveness of our internal control over financial reporting

as of December 31, 2023 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report that is included herein.

## Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of Watsco, Inc.

### *Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheet of Watsco, Inc. and subsidiaries (the “Company”) as of December 31, 2023, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows, for the year ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”).

We also have audited the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting of Gateway Supply LLC, which was acquired on September 1, 2023, and whose financial statements constitute approximately 4% of the total consolidated assets as of December 31, 2023, and approximately 1% of the total consolidated revenues for the year ended December 31, 2023. Accordingly, our audit did not include the internal control over financial reporting at Gateway Supply LLC.

### *Basis for Opinions*

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *Definition and Limitations of Internal Control over Financial Reporting*

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Inventories, net — Refer to Note 1*

*Critical Audit Matter Description*

The Company's inventories are stated at the lower of cost or net realizable value. The Company periodically evaluates the carrying value of inventory, which requires management to make significant estimates and assumptions related to sales patterns and expected future demand in order to estimate the amount necessary to write down inventories to net realizable value. Changes in the assumptions related to future demand and sales patterns could have a significant impact on the net realizable value of inventory, the amount of the related write-down, or both.

Given the magnitude of the inventory balance, coupled with the significant judgments made by management to estimate the net realizable value of inventory, auditing such estimates required a high degree of auditor judgment and an increased extent of effort when performing audit procedures and evaluating the results of those procedures.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the adjustments to reduce inventories to net realizable value included the following, among others:

- We evaluated the design and tested the operating effectiveness of internal controls, including those related to the Company's process to estimate net realizable values related to excess and slow-moving inventory. This included controls related to the future salability of inventories, assumptions used for excess and slow-moving inventory, and the Company's review of inventory net realizable value adjustments.
- We evaluated the sales performance of excess and slow-moving inventories by analyzing historical inventory and sales data to evaluate the reasonableness of management's assumptions used in developing the inventory lower of cost or market adjustments.
- We compared a selection of inventory units to recent selling performance and sales margins to assess possible write-down indications and future salability.

/s/ Deloitte & Touche LLP

Miami, Florida  
February 23, 2024

We have served as the Company's auditor since 2023.



**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors Watsco, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Watsco, Inc. and subsidiaries (the Company) as of December 31, 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2009 to 2023.

Miami, Florida  
February 24, 2023

**WATSCO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	2023	2022	2021
<i>(In thousands, except per share data)</i>			
Revenues	\$7,283,767	\$7,274,344	\$6,280,192
Cost of sales	5,291,627	5,244,055	4,612,647
Gross profit	1,992,140	2,030,289	1,667,545
Selling, general and administrative expenses	1,223,507	1,221,382	1,058,316
Other income	26,177	22,671	19,299
Operating income	794,810	831,578	628,528
Interest expense, net	4,920	2,165	996
Income before income taxes	789,890	829,413	627,532
Income taxes	155,751	125,717	128,797
Net income	634,139	703,696	498,735
Less: net income attributable to non-controlling interest	97,802	102,529	79,790
Net income attributable to Watsco, Inc.	\$ 536,337	\$ 601,167	\$ 418,945
Earnings per share for Common and Class B common stock:			
Basic	\$ 13.72	\$ 15.46	\$ 10.83
Diluted	\$ 13.67	\$ 15.41	\$ 10.78

*See accompanying notes to consolidated financial statements.*

**WATSCO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(In thousands)</i>	<u>Years Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income	\$634,139	\$703,696	\$498,735
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment	7,906	(20,305)	936
Unrealized gain on cash flow hedging instruments	—	—	70
Reclassification of loss on cash flow hedging instruments into earnings	—	—	219
Other comprehensive income (loss)	7,906	(20,305)	1,225
Comprehensive income	642,045	683,391	499,960
Less: comprehensive income attributable to non-controlling interest	100,329	95,758	80,324
Comprehensive income attributable to Watsco, Inc.	<u>\$541,716</u>	<u>\$587,633</u>	<u>\$419,636</u>

*See accompanying notes to consolidated financial statements.*

**WATSCO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share and per share data)</i>	December 31,	
	2023	2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 210,112	\$ 147,505
Accounts receivable, net	797,832	747,110
Inventories, net	1,347,289	1,370,173
Other current assets	36,698	33,951
Total current assets	2,391,931	2,298,739
Property and equipment, net	136,230	125,424
Operating lease right-of-use assets	368,748	317,314
Goodwill	457,148	430,711
Intangible assets, net	218,146	175,191
Investment in unconsolidated entity	146,238	132,802
Other assets	10,741	8,033
	\$3,729,182	\$3,488,214
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 100,265	\$ 90,597
Borrowings under revolving credit agreement (Note 8)	—	56,400
Accounts payable	369,396	456,128
Accrued expenses and other current liabilities	242,351	303,397
Total current liabilities	712,012	906,522
Long-term obligations:		
Borrowings under revolving credit agreement (Note 8)	15,400	—
Operating lease liabilities, net of current portion	276,913	232,144
Finance lease liabilities, net of current portion	12,214	11,388
Total long-term obligations	304,527	243,532
Deferred income taxes and other liabilities	96,453	89,882
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value, 60,000,000 shares authorized; 38,705,586 and 38,108,752 shares outstanding at December 31, 2023 and 2022, respectively	19,353	19,054
Class B common stock, \$0.50 par value, 10,000,000 shares authorized; 5,562,945 and 5,513,386 shares outstanding at December 31, 2023 and 2022, respectively	2,781	2,757
Preferred stock, \$0.50 par value, 10,000,000 shares authorized; no shares issued	—	—
Paid-in capital	1,153,459	973,060
Accumulated other comprehensive loss, net of tax	(42,331)	(47,710)
Retained earnings	1,183,207	1,029,516
Treasury stock, at cost, 4,778,988 and 4,823,988 shares of Common stock and 48,263 and 48,263 shares of Class B common stock at December 31, 2023 and 2022, respectively	(86,630)	(87,440)
Total Watsco, Inc. shareholders' equity	2,229,839	1,889,237
Non-controlling interest	386,351	359,041
Total shareholders' equity	2,616,190	2,248,278
	\$3,729,182	\$3,488,214

*See accompanying notes to consolidated financial statements.*

**WATSCO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED 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, 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>\$1,779,700</b>
Net income					418,945		79,790	498,735
Other comprehensive gain				691			534	1,225
Issuances of restricted shares of common stock	194,643	97	(97)					—
Forfeitures of restricted shares of common stock	(57,089)	(28)	28					—
Common stock contribution to 401(k) plan	22,752	11	5,143					5,166
Stock issuances from exercise of stock options and employee stock purchase plan	136,641	69	22,111					22,189
Retirement of common stock	(7,898)	(4)	(2,253)					(2,255)
Common stock released from escrow	(23,230)	(12)	12		522			522
Share-based compensation			24,531					24,531
Cash dividends declared and paid on Common and Class B common stock, \$7.625 per share					(295,044)			(295,044)
Common stock issued for Acme Refrigeration of Baton Rouge LLC	8,492	4	2,547					2,553
Common stock issued for Makdad Industrial Supply Co., Inc.	3,627	2	995					999
Investment in TEC Distribution LLC							21,040	21,040
Distributions to non-controlling interest							(61,980)	(61,980)
<b>Balance at December 31, 2021</b>	<b><u>38,799,632</u></b>	<b><u>21,836</u></b>	<b><u>1,003,932</u></b>	<b><u>(34,176)</u></b>	<b><u>760,796</u></b>	<b><u>(87,440)</u></b>	<b><u>332,467</u></b>	<b><u>1,997,411</u></b>

*Continued on next page.*

[Table of Contents](#)

<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					601,167		102,529	703,696
Other comprehensive loss				(13,534)			(6,771)	(20,305)
Issuances of restricted shares of common stock	143,059	72	(72)					—
Forfeitures of restricted shares of common stock	(13,000)	(7)	7					—
Common stock contribution to 401(k) plan	21,560	11	6,735					6,746
Stock issuances from exercise of stock options and employee stock purchase plan	120,696	60	20,742					20,802
Retirement of common stock	(322,060)	(161)	(87,327)					(87,488)
Share-based compensation			29,043					29,043
Cash dividends declared and paid on Common and Class B common stock, \$8.55 per share					(332,447)			(332,447)
Distributions to non-controlling interest							(69,184)	(69,184)
<b>Balance at December 31, 2022</b>	<b><u>38,749,887</u></b>	<b><u>21,811</u></b>	<b><u>973,060</u></b>	<b><u>(47,710)</u></b>	<b><u>1,029,516</u></b>	<b><u>(87,440)</u></b>	<b><u>359,041</u></b>	<b><u>2,248,278</u></b>

*Continued on next page.*

[Table of Contents](#)

<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, 2022</b>	<b>38,749,887</b>	<b>21,811</b>	<b>973,060</b>	<b>(47,710)</b>	<b>1,029,516</b>	<b>(87,440)</b>	<b>359,041</b>	<b>2,248,278</b>
Net income					536,337		97,802	634,139
Other comprehensive income				5,379			2,527	7,906
Issuances of restricted shares of common stock	180,617	90	(90)					—
Forfeitures of restricted shares of common stock	(13,796)	(7)	7					—
Common stock contribution to 401(k) plan	35,533	18	8,844					8,862
Stock issuances from exercise of stock options and employee stock purchase plan	188,464	94	33,909					34,003
Issuance of Class B common stock	632	—	200					200
Common stock issued for Gateway Supply Company, Inc.	280,215	140	101,505					101,645
Retirement of common stock	(25,272)	(12)	(7,692)					(7,704)
Net proceeds from the sale of Common stock	45,000		13,994			810		14,804
Share-based compensation			29,722					29,722
Cash dividends declared and paid on Common and Class B common stock, \$9.80 per share					(382,646)			(382,646)
Investment in unconsolidated entity							570	570
Distributions to non-controlling interest							(73,589)	(73,589)
<b>Balance at December 31, 2023</b>	<b>39,441,280</b>	<b>\$ 22,134</b>	<b>\$1,153,459</b>	<b>\$ (42,331)</b>	<b>\$1,183,207</b>	<b>\$(86,630)</b>	<b>\$ 386,351</b>	<b>\$2,616,190</b>

See accompanying notes to consolidated financial statements.

**WATSCO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In thousands)</i>	Years Ended December 31,		
	2023	2022	2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 634,139	\$ 703,696	\$ 498,735
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	35,090	31,683	28,127
Share-based compensation	30,000	28,821	25,365
Deferred income tax (benefit) provision	(7,179)	13,466	5,939
Provision for doubtful accounts	7,158	8,539	6,888
Non-cash contribution to 401(k) plan	8,862	6,746	5,154
(Gain) loss on sale of property and equipment	(143)	(1,624)	350
Other income from investment in unconsolidated entity	(26,177)	(22,671)	(19,299)
<b>Changes in operating assets and liabilities, net of effects of acquisitions:</b>			
Accounts receivable, net	(36,035)	(60,154)	(130,414)
Inventories, net	64,620	(259,860)	(243,660)
Accounts payable and other liabilities	(162,042)	121,993	182,819
Other, net	13,661	1,329	(10,438)
<b>Net cash provided by operating activities</b>	<b>561,954</b>	<b>571,964</b>	<b>349,566</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(35,478)	(35,652)	(25,464)
Business acquisitions, net of cash acquired	(3,822)	(47)	(129,462)
Investment in unconsolidated entity	(2,849)	—	—
Other investment	(500)	—	(1,000)
Proceeds from sale of equity securities	—	—	5,993
Proceeds from sale of property and equipment	1,306	1,863	1,356
<b>Net cash used in investing activities</b>	<b>(41,343)</b>	<b>(33,836)</b>	<b>(148,577)</b>
<b>Cash flows from financing activities:</b>			
Dividends on Common and Class B common stock	(382,646)	(332,447)	(294,522)
Distributions to non-controlling interest	(73,589)	(69,184)	(61,980)
Net (repayments) proceeds under prior revolving credit agreement	(56,400)	(32,600)	89,000
Net repayments of finance lease liabilities	(4,045)	(3,042)	(2,040)
Repurchases of common stock to satisfy employee withholding tax obligations	(2,828)	(87,107)	(1,092)
Payment of fees related to revolving credit agreement	(844)	—	(22)
Proceeds from non-controlling interest for investment in TEC Distribution LLC	—	—	21,040
Proceeds from non-controlling interest for investment in unconsolidated entity	570	—	—
Net proceeds from the sale of Common stock	15,179	—	—
Net proceeds under current revolving credit agreement	15,400	—	—
Net proceeds from issuances of Common stock under employee related plans	29,127	20,422	21,014
<b>Net cash used in financing activities</b>	<b>(460,076)</b>	<b>(503,958)</b>	<b>(228,602)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	2,072	(4,933)	(186)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>62,607</b>	<b>29,237</b>	<b>(27,799)</b>
Cash and cash equivalents at beginning of year	147,505	118,268	146,067
<b>Cash and cash equivalents at end of year</b>	<b>\$ 210,112</b>	<b>\$ 147,505</b>	<b>\$ 118,268</b>

Supplemental cash flow information (Note 21)

*See accompanying notes to consolidated financial statements.*



**WATSCO, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(In thousands, except share and per share data)*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization, Consolidation and Presentation**

Watsco, Inc. (collectively with its subsidiaries, “Watsco,” the “Company,” “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. At December 31, 2023, we operated from 690 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.

The consolidated 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, in which we have a controlling interest, the accounts of Carrier InterAmerica Corporation, in which we have an 80% controlling interest, and Carrier has a 20% non-controlling interest, and our 38.4% investment in Russell Sigler, Inc. (“RSI”), which is accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

**Foreign Currency Translation and Transactions**

The functional currency of our operations in Canada is the Canadian dollar. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, and income and expense items are translated at the average exchange rates in effect during the applicable period. The aggregate effect of foreign currency translation is recorded in accumulated other comprehensive loss in our consolidated balance sheets. Our net investment in our Canadian operations is recorded at the historical rate and the resulting foreign currency translation adjustments are included in accumulated other comprehensive loss in our consolidated balance sheets. Gains or losses resulting from transactions denominated in U.S. dollars are recognized in earnings primarily within cost of sales in our consolidated statements of income.

Our operations in Mexico consider their functional currency to be the U.S. dollar because the majority of their transactions are denominated in U.S. dollars. Gains or losses resulting from transactions denominated in Mexican pesos are recognized in earnings primarily within selling, general and administrative expenses in our consolidated statements of income.

**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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

**Cash Equivalents**

All highly liquid instruments purchased with original maturities of three months or less are considered to be cash equivalents.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable primarily consist of trade receivables due from customers and are stated at the invoiced amount less an allowance for doubtful accounts. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make the required payments. When preparing these estimates, we consider a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends, and other information, including potential impacts of business and economic conditions. Upon determination that an account is uncollectible, the receivable balance is written off. At December 31, 2023 and 2022, the allowance for doubtful accounts totaled \$21,528 and \$18,345, respectively.

### **Inventories**

Inventories consist of air conditioning, heating and refrigeration equipment, and related parts and supplies and are valued at the lower of cost using the first-in, first-out and weighted-average cost basis methods, or net realizable value. As part of the valuation process, inventories are adjusted to reflect excess, slow-moving, and damaged inventories at their estimated net realizable value. Inventory policies are reviewed periodically, reflecting current risks, trends, and changes in industry conditions. A reserve for estimated inventory shrinkage is maintained to consider inventory shortages determined from cycle counts and physical inventories.

### **Vendor Rebates and Purchase Discounts**

We have arrangements with several vendors that provide rebates payable to us when we achieve defined measures, generally related to the volume level of purchases. We account for such rebates as a reduction of inventory until we sell the product, at which time such rebates are reflected as a reduction of cost of sales in our consolidated statements of income. Throughout the year, we estimate rebates based on our estimate of purchases to date relative to the purchase levels that mark our progress toward earning the rebates. We continually revise our estimates of earned vendor rebates based on actual purchase levels. At December 31, 2023 and 2022, we had \$18,688 and \$22,961, respectively, of rebates recorded as a reduction of inventories. Substantially all vendor rebate receivables are collected within three months following the end of the year. Vendor rebates that are earned based on products sold are credited directly to cost of sales in our consolidated statements of income.

We also have vendors that offer a cash discount when we pay their invoice within a specified period of time. We account for such cash discounts as a reduction of inventories until we sell the product at which time such cash discounts are reflected as a reduction of cost of sales in our consolidated statements of income. At December 31, 2023 and 2022, we had \$22,628 and \$19,158, respectively, of cash discounts recorded as a reduction of inventories.

### **Equity Securities**

Investments in equity securities are recorded at fair value using the specific identification method and are included in other assets in our consolidated balance sheets. Changes in the fair value of equity securities and dividend income are recognized in our consolidated statements of income.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is computed using the straight-line method. Buildings and improvements are depreciated or amortized over estimated useful lives ranging from 3-40 years. Leasehold improvements are amortized over the shorter of the respective lease terms or estimated useful lives. Machinery, vehicles, and equipment are depreciated over estimated useful lives ranging from 3-10 years. Computer hardware and software are depreciated over estimated useful lives ranging from 3-10 years. Furniture and fixtures are depreciated over estimated useful lives ranging from 5-7 years.

### **Operating and Finance Leases**

We have operating leases for real property, vehicles and equipment, and finance leases primarily for vehicles. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of long-term obligations, and operating lease liabilities, net of current portion in our consolidated balance sheets. Finance leases are not considered material to our consolidated balance sheets or consolidated statements of income. Finance lease ROU assets at December 31, 2023 and 2022, of \$16,328 and \$14,480, respectively, are included in property and equipment, net in our consolidated balance sheets. Finance lease liabilities at December 31, 2023 and 2022, of \$16,892 and \$14,865, respectively, are included in current portion of long-term obligations and finance lease liabilities, net of current portion in our consolidated balance sheets.

---

## [Table of Contents](#)

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the applicable commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement dates of the respective leases in determining the present value of the applicable lease payments.

Operating lease ROU assets also include any lease pre-payments made and exclude lease incentives. Certain of our leases include variable payments, which are excluded from lease ROU assets and lease liabilities and expensed as incurred. Our leases have remaining lease terms of 1-10 years, some of which include options to extend the leases for up to five years. The exercise of lease renewal options is at our sole discretion, and our lease ROU assets and liabilities reflect only the options we are reasonably certain that we will exercise. Certain real property lease agreements have lease and non-lease components, which are generally accounted for as a single lease component. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease payments for short-term leases, which are 12 months or less without a purchase option that is likely to be exercised, are recognized as lease cost on a straight-line basis over the lease term.

### *Practical Expedients*

We elected the practical expedients related to short-term leases and separating lease components from non-lease components for all underlying asset classes.

### **Goodwill and Intangible Assets**

Goodwill is recorded when the purchase price paid for an acquisition of a business exceeds the fair value of the net identified tangible and intangible assets acquired. We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by comparing the fair value of our reporting unit to its carrying value. If the fair value is determined to be less than the carrying value, an impairment charge would be recognized. On January 1, 2024, we performed our annual evaluation of goodwill impairment and determined that the estimated fair value of our reporting unit exceeded its carrying value.

Intangible assets primarily consist of the value of trade names and trademarks, distributor agreements, customer relationships, and patented and unpatented technology. Indefinite lived intangibles not subject to amortization are assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate they may be impaired, by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. Finite lived intangible assets are amortized using the straight-line method over their respective estimated useful lives.

We perform our impairment tests annually and have determined there was no impairment for any of the periods presented. There were no events or circumstances identified from the date of our assessment that would require an update to our annual impairment tests.

### **Long-Lived Assets**

Long-lived assets, other than goodwill and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is evaluated by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows. We measure the impairment loss based on projected discounted cash flows using a discount rate reflecting the average cost of funds and compared it to the asset's carrying value. For the year ended December 31, 2023, there were no such events or circumstances.

### **Fair Value Measurements**

We carry various assets and liabilities at fair value in the consolidated balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are classified based on the following fair value hierarchy:

- Level 1 Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; or model-driven valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

### **Revenue Recognition**

Revenue primarily consists of sales of air conditioning, heating and refrigeration equipment, and related parts and supplies. We generate our revenue primarily from the sale of finished products to customers; therefore, the significant majority of our contracts are short-term in nature and have only a single performance obligation to deliver products. The performance obligation under such contracts is satisfied when we transfer control of the product to the customer. Some contracts contain a combination of product sales and services, the latter of which is distinct and accounted for as a separate performance obligation. We satisfy our performance obligations for services when we render the services within the agreed-upon service period. Total service revenue is not material and accounted for less than 1% of our consolidated revenues for all periods presented.

Revenue is recognized when control transfers to our customers when products are picked up, or via shipment of products or delivery of services. We measure revenue as the amount of consideration we expect to be entitled to receive in exchange for those goods or services, net of any variable considerations (e.g., rights to return product, sales incentives, others) and any taxes collected from customers and subsequently remitted to governmental authorities. Revenue for shipping and handling charges is recognized when products are delivered to the customer.

#### *Product Returns*

We estimate product returns based on historical experience and record them on a gross basis on our balance sheets. Substantially all customer returns relate to products that are returned under manufacturers' warranty obligations. Accrued sales returns at December 31, 2023 and 2022 of \$21,392 and \$21,023, respectively, were included in accrued expenses and other current liabilities in our consolidated balance sheets.

#### *Sales Incentives*

We estimate sales incentives expected to be paid over the terms of the programs based on the most likely amounts. Sales incentives are accounted for as a reduction in the transaction price and are generally paid on an annual basis.

#### *Practical Expedients*

We generally expense sales commissions when incurred because the amortization period is one year or less. These costs are recorded within selling, general and administrative expenses. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2023, 2022, and 2021, were \$28,236, \$25,884, and \$21,552, respectively.

### **Shipping and Handling**

Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through cost of sales as inventories are sold. Shipping and handling costs associated with the delivery of products are included in selling, general and administrative expenses. Shipping and handling costs for the years ended December 31, 2023, 2022 and 2021, were \$82,600, \$86,620, and \$70,453, respectively.

### **Share-Based Compensation**

The fair value of stock option and restricted stock awards are expensed net of estimated forfeitures on a straight-line basis over the vesting period of the awards. Share-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of income. Tax benefits resulting from tax deductions in excess of share-based compensation expense are recognized in our provision for income taxes in our consolidated statements of income.

### **Income Taxes**

We record U.S. federal, state and foreign income taxes currently payable, as well as deferred taxes due to temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. We and our eligible subsidiaries file a consolidated U.S. federal income tax return. As income tax returns are generally not filed until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that calendar year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that we and our subsidiaries are required to file, the potential utilization of operating loss carryforwards, and valuation allowances required for tax assets that may not be realizable in the future.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting this threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

### **Earnings per Share**

We compute earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Shares of our restricted stock are considered participating securities because these awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share for our Common and Class B common stock is computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of shares of Common and Class B common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to Common stock, Class B common stock and participating securities based on the weighted-average shares outstanding during the period.

Diluted earnings per share reflects the dilutive effect of potential common shares from stock options. The dilutive effect of outstanding stock options is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options, would be used to purchase common stock at the average market price for the period. The assumed proceeds include the purchase price the optionee pays, the windfall tax benefit that we receive upon assumed exercise, and the unrecognized compensation expense at the end of each period.

### **Derivative Instruments and Hedging Activity**

We have used derivative instruments, including forward and option contracts and swaps, to manage our exposure to fluctuations in foreign currency exchange rates and interest rates. The use of these derivative instruments modifies the exposure of these risks with the intent to reduce the risk or cost to us. We use derivative instruments as risk management tools and not for trading purposes. All derivatives, whether designated as hedging relationships or not, are recorded on the balance sheet at fair value. Cash flows from derivative instruments are classified in the consolidated statements of cash flows in the same category as the cash flows from the items subject to the designated hedge or undesignated (economic) hedge relationships. The hedging designation may be classified as one of the following:

*No Hedging Designation.* The gain or loss on a derivative instrument not designated as an accounting hedging instrument is recognized in earnings within selling, general and administrative expenses.

## [Table of Contents](#)

*Cash Flow Hedge.* A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is considered a cash flow hedge. The effective portion of the change in the fair value of a derivative that is designated as a cash flow hedge is recorded in other comprehensive income (loss) and reclassified to earnings as a component of cost of sales in the period for which the hedged transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

*Fair Value Hedge.* A hedge of a recognized asset or liability or an unrecognized firm commitment is considered a fair value hedge. Fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings.

See Note 16 for additional information pertaining to derivative instruments.

### Loss Contingencies

Accruals are recorded for various contingencies including self-insurance, legal proceedings, environmental matters, and other claims that arise in the normal course of business. The estimation process contains uncertainty because accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of external legal counsel and actuarially determined estimates. Additionally, we record receivables from third party insurers when recovery has been determined to be probable.

### Recently Issued Accounting Standards Not Yet Adopted

#### *Segment Reporting*

In September 2023, the Financial Accounting Standards Board (“FASB”) issued guidance that enhances segment reporting primarily by expanding the disclosures about significant segment expenses. Under the new standard, an entity will be required to disclose significant segment expenses that are regularly provided to the chief operating decision maker (“CODM”), how the CODM assesses segment performance and decides how to allocate resources, the title and position of the CODM, among others. This guidance is effective prospectively and is effective for annual periods beginning after December 15, 2023 and interim periods beginning after December 15, 2024. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

#### *Income Taxes*

In December 2023, the FASB issued guidance that enhances annual income tax disclosures primarily by disaggregating the existing disclosures related to the effective tax rate reconciliation and income taxes paid. Under the new standard, an entity will be required to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. An entity will also be required to disclose the amount of income taxes paid disaggregated by federal, state and foreign, and by individual jurisdictions equal or greater than five percent of total income taxes paid. This guidance is effective prospectively and is effective for annual periods beginning after December 15, 2024. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

## 2. LEASES

The components of operating lease expense were as follows:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Lease cost	<u>\$ 112,195</u>	<u>\$ 101,578</u>	<u>\$ 90,742</u>
Short-term lease cost	<u>10,102</u>	<u>10,226</u>	<u>9,598</u>
Variable lease cost	<u>1,773</u>	<u>1,840</u>	<u>1,868</u>
Sublease income	<u>(436)</u>	<u>(373)</u>	<u>(332)</u>
	<u>\$ 123,634</u>	<u>\$ 113,271</u>	<u>\$ 101,876</u>

## [Table of Contents](#)

Supplemental balance sheet information related to operating leases were as follows:

<i>December 31,</i>	<u>2023</u>	<u>2022</u>
ROU assets	<b>\$ 368,748</b>	\$ 317,314
Current portion of operating lease liabilities	<b>\$ 95,587</b>	\$ 87,120
Operating lease liabilities	<b>276,913</b>	232,144
Total operating lease liabilities	<b><u>\$ 372,500</u></b>	<u>\$ 319,264</u>
Weighted Average Remaining Lease Term (in years)	<b>4.8 years</b>	4.8 years
Weighted Average Discount Rate	<b>4.91%</b>	3.85%

Supplemental cash flow information related to operating leases were as follows:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating cash flows for the measurement of operating lease liabilities	<b>\$ 110,614</b>	\$ 100,092	\$ 91,063
Operating lease ROU assets obtained in exchange for operating lease obligations	<b>\$ 148,196</b>	\$ 140,704	\$ 141,198

At December 31, 2023, maturities of operating lease liabilities over each of the next five years and thereafter were as follows:

2024	\$ 111,590
2025	95,946
2026	77,896
2027	51,703
2028	32,610
Thereafter	50,528
Total lease payments	420,273
Less imputed interest	47,773
Total lease liability	<b><u>\$372,500</u></b>

At December 31, 2023, we had additional operating leases that had not yet commenced. Such leases had estimated future minimum rental commitments of approximately \$24,000. These operating leases are expected to commence in 2024 with lease terms of more than 1 year to 10 years. These undiscounted amounts are not included in the table above.

### 3. REVENUES

#### Disaggregation of Revenues

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

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Primary Geographical Regions:</b>			
United States	<b>\$6,540,646</b>	\$6,578,897	\$5,636,929
Canada	<b>374,659</b>	389,119	386,780
Latin America and the Caribbean	<b>368,462</b>	306,328	256,483
	<b><u>\$7,283,767</u></b>	<u>\$7,274,344</u>	<u>\$6,280,192</u>

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Major Product Lines:</b>			
HVAC equipment	<b>69%</b>	68%	69%
Other HVAC products	<b>27%</b>	28%	28%
Commercial refrigeration products	<b>4%</b>	4%	3%
	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

#### 4. EARNINGS PER SHARE

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

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Basic Earnings per Share:</b>			
Net income attributable to Watsco, Inc. shareholders	\$ <b>536,337</b>	\$ 601,167	\$ 418,945
Less: distributed and undistributed earnings allocated to restricted common stock	<b>36,966</b>	51,365	37,273
Earnings allocated to Watsco, Inc. shareholders	<b><u>\$ 499,371</u></b>	<b><u>\$ 549,802</u></b>	<b><u>\$ 381,672</u></b>
Weighted-average common shares outstanding—Basic	<b>36,406,148</b>	35,564,203	35,244,230
Basic earnings per share for Common and Class B common stock	<b><u>\$ 13.72</u></b>	<b><u>\$ 15.46</u></b>	<b><u>\$ 10.83</u></b>
Allocation of earnings for Basic:			
Common stock	\$ <b>455,186</b>	\$ 499,792	\$ 353,873
Class B common stock	<b>44,185</b>	50,010	27,799
	<b><u>\$ 499,371</u></b>	<b><u>\$ 549,802</u></b>	<b><u>\$ 381,672</u></b>
<b>Diluted Earnings per Share:</b>			
Net income attributable to Watsco, Inc. shareholders	\$ <b>536,337</b>	\$ 601,167	\$ 418,945
Less: distributed and undistributed earnings allocated to restricted common stock	<b>36,932</b>	51,294	37,222
Earnings allocated to Watsco, Inc. shareholders	<b><u>\$ 499,405</u></b>	<b><u>\$ 549,873</u></b>	<b><u>\$ 381,723</u></b>
Weighted-average common shares outstanding—Basic	<b>36,406,148</b>	35,564,203	35,244,230
Effect of dilutive stock options	<b>125,535</b>	119,431	179,608
Weighted-average common shares outstanding—Diluted	<b><u>36,531,683</u></b>	<b><u>35,683,634</u></b>	<b><u>35,423,838</u></b>
Diluted earnings per share for Common and Class B common stock	<b><u>\$ 13.67</u></b>	<b><u>\$ 15.41</u></b>	<b><u>\$ 10.78</u></b>

Diluted earnings per share for our Common stock assumes the conversion of all 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 December 31, 2023, 2022, and 2021, our outstanding Class B common stock was convertible into 3,221,259, 3,234,939, and 2,566,990 shares of our Common stock, respectively.

Diluted earnings per share excluded 18,489, 190,462, and 40,529 shares for the years ended December 31, 2023, 2022, and 2021, respectively, related to stock options with an exercise price per share greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share.



## 5. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (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 income (loss) were as follows:

<u>Years Ended December 31,</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Foreign currency translation adjustment	<u>\$7,906</u>	<u>\$ (20,305)</u>	<u>\$ 936</u>
Unrealized gain on cash flow hedging instruments	<u>—</u>	<u>—</u>	<u>97</u>
Income tax expense	<u>—</u>	<u>—</u>	<u>(27)</u>
Unrealized gain on cash flow hedging instruments, net of tax	<u>—</u>	<u>—</u>	<u>70</u>
Reclassification of loss on cash flow hedging instruments into earnings	<u>—</u>	<u>—</u>	<u>305</u>
Income tax benefit	<u>—</u>	<u>—</u>	<u>(86)</u>
Reclassification of loss on cash flow hedging instruments into earnings, net of tax	<u>—</u>	<u>—</u>	<u>219</u>
Other comprehensive income (loss)	<u>\$7,906</u>	<u>\$ (20,305)</u>	<u>\$1,225</u>

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

<u>Years Ended December 31,</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Foreign currency translation adjustment:			
Beginning balance	<u>\$(47,710)</u>	<u>\$(34,176)</u>	<u>\$(34,694)</u>
Current period other comprehensive income (loss)	<u>5,379</u>	<u>(13,534)</u>	<u>518</u>
Ending balance	<u>(42,331)</u>	<u>(47,710)</u>	<u>(34,176)</u>
Cash flow hedging instruments:			
Beginning balance	<u>—</u>	<u>—</u>	<u>(173)</u>
Current period other comprehensive income	<u>—</u>	<u>—</u>	<u>43</u>
Reclassification adjustment	<u>—</u>	<u>—</u>	<u>130</u>
Ending balance	<u>—</u>	<u>—</u>	<u>—</u>
Accumulated other comprehensive loss, net of tax	<u>\$(42,331)</u>	<u>\$(47,710)</u>	<u>\$(34,176)</u>

## 6. SUPPLIER CONCENTRATION

Purchases from our top ten suppliers comprised 86%, 84%, and 83% of all purchases made in 2023, 2022, and 2021, respectively. Our largest supplier, Carrier and its affiliates, accounted for 65%, 60%, and 61% of all purchases made in 2023, 2022, and 2021, respectively. See Note 19. A significant interruption by Carrier, or any of our other key suppliers, in the delivery of products could impair our ability to maintain current inventory levels and could materially adversely impact our consolidated results of operations and consolidated financial position.

At December 31, 2023, \$85,913 was recorded as a reduction of inventories related to pricing claim advances, of which \$63,546 was provided by Carrier and its affiliates. At December 31, 2022, \$92,402 was recorded as a reduction of inventories related to pricing claim advances, of which \$69,814 was provided by Carrier and its affiliates.

## 7. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of:

<u>December 31,</u>	<u>2023</u>	<u>2022</u>
Land	\$ 676	\$ 676
Buildings and improvements	100,086	93,033
Machinery, vehicles, and equipment	130,958	120,811
Computer hardware and software	101,311	83,354
Furniture and fixtures	24,545	24,029
	<u>357,576</u>	<u>321,903</u>
Accumulated depreciation and amortization	<u>(221,346)</u>	<u>(196,479)</u>
	<u>\$ 136,230</u>	<u>\$ 125,424</u>

Depreciation and amortization expense related to property and equipment included in selling, general and administrative expenses for the years ended December 31, 2023, 2022, and 2021, were \$30,767, \$26,974, and \$22,566, respectively.

## 8. DEBT

On March 16, 2023, we entered into an unsecured, five-year \$600,000 syndicated multicurrency revolving credit agreement, which replaced in its entirety our prior five-year \$560,000 unsecured revolving credit agreement that was nearing maturity. Proceeds from the new facility were used to repay the \$235,500 outstanding under the prior facility. Additional borrowings under the new facility may be used for, among other things, funding seasonal working capital needs and 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 revolving credit facility has a seasonal component from October 1 to March 31, during which the borrowing capacity may be reduced to \$500,000 at our discretion (which effectively reduces fees payable in respect of the unused portion of the commitment), and we effected this reduction on October 1, 2023. Included in the revolving credit facility are a \$125,000 swingline loan sublimit, a \$10,000 letter of credit sublimit, a \$75,000 alternative currency borrowing sublimit, and an \$10,000 Mexican borrowing subfacility. The revolving credit agreement matures on March 16, 2028.

Borrowings under the revolving credit facility bear interest at either Term Secured Overnight Financing Rate ("SOFR") or Daily Simple SOFR-based rates plus 0.10%, plus a spread which ranges from 100.0 to 137.5 basis-points (Term SOFR and Daily Simple SOFR plus 100.0 basis-points at December 31, 2023), depending on our ratio of total debt to EBITDA, or on rates based on the highest of the Federal Funds Effective Rate plus 0.50%, the Prime Rate or Term SOFR plus 1.0%, in each case plus a spread which ranges from 0 to 50.0 basis-points (0 basis-points at December 31, 2023), depending on our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment under the revolving credit agreement, ranging from 12.5 to 27.5 basis-points (12.5 basis-points at December 31, 2023). We paid fees of \$844 in connection with entering into the revolving credit agreement, which are being amortized ratably through the maturity of the facility in March 2028.

At December 31, 2023, \$15,400 was 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 December 31, 2023.

## 9. INCOME TAXES

The components of income tax expense from our wholly owned operations and investments and our controlling interest in CIAC and joint ventures with Carrier are as follows:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current:			
U.S. Federal	\$ 119,133	\$ 71,475	\$ 91,162
State	29,749	27,202	20,703
Foreign	14,048	13,574	10,993
	<u>162,930</u>	<u>112,251</u>	<u>122,858</u>
Deferred:			
U.S. Federal	(5,581)	10,766	6,434
State	(1,301)	3,695	1,374
Foreign	(297)	(995)	(1,869)
	<u>(7,179)</u>	<u>13,466</u>	<u>5,939</u>
Income tax expense	<u>\$155,751</u>	<u>\$125,717</u>	<u>\$128,797</u>

We calculate our income tax expense and our effective tax rate for 100% of income attributable to our wholly owned operations and for our controlling interest of income attributable to CIAC and our joint ventures with Carrier, which are primarily taxed as partnerships for income tax purposes.

Following is a reconciliation of the effective income tax rate:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
U.S. federal statutory rate	21.0%	21.0%	21.0%
State income taxes, net of federal benefit and other	3.5	4.6	3.5
Excess tax benefits from share-based compensation	(1.8)	(8.6)	(1.7)
Tax effects on foreign income	0.2	0.3	0.4
FDII	(0.1)	(0.1)	(0.1)
Change in valuation allowance	0.3	0.4	0.8
Tax credits and other	(0.8)	(0.4)	(0.5)
Effective income tax rate attributable to Watsco, Inc.	<u>22.3</u>	<u>17.2</u>	<u>23.4</u>
Taxes attributable to non-controlling interest	(2.6)	(2.0)	(2.9)
Effective income tax rate	<u>19.7%</u>	<u>15.2%</u>	<u>20.5%</u>

The following is a summary of the significant components of our net deferred tax liabilities:

<i>December 31,</i>	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Share-based compensation	\$ 30,847	\$ 27,037
Capitalized inventory costs and adjustments	5,387	4,366
Allowance for doubtful accounts	4,096	3,326
Self-insurance reserves	1,701	1,975
Capitalized research and development costs	6,712	—
Other	7,678	8,711
Net operating loss carryforwards	4,584	3,899
	<u>61,005</u>	<u>49,314</u>
Valuation allowance	(10,468)	(8,171)
Total deferred tax assets	<u>50,537</u>	<u>41,143</u>
Deferred tax liabilities:		
Deductible goodwill	(104,026)	(88,316)
Depreciation	(24,973)	(23,806)
Unremitted earnings of domestic affiliates	(5,008)	(6,618)
Other	(4,390)	(3,761)
Total deferred tax liabilities	<u>(138,397)</u>	<u>(122,501)</u>
Net deferred tax liabilities (1)	<u>\$ (87,860)</u>	<u>\$ (81,358)</u>

(1) Net deferred tax liabilities have been included in the consolidated balance sheets in deferred income taxes and other liabilities.

Provisions of the Tax Cuts and Jobs Act of 2017 (the “TCJA”), such as the one-time repatriation transition tax and the global intangible low-taxed income (“GILTI”) for years beginning in 2018, effectively taxed the undistributed earnings previously deferred from U.S. federal and certain state income taxes and eliminated any additional U.S. taxation resulting from repatriation of earnings on non-U.S. subsidiaries. GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. We have elected to provide for the tax expense related to GILTI in the year the tax was incurred as a period expense. As of December 31, 2023, we have accumulated undistributed earnings generated by our foreign subsidiaries of approximately \$190,000. Any additional taxes due with respect to such previously taxed earnings, if repatriated, would generally be limited to certain state income taxes and foreign withholding. Deferred taxes have been recorded for foreign withholding taxes on certain earnings of our foreign consolidated subsidiaries expected to be repatriated. We do not intend to distribute the remaining previously taxed foreign earnings and therefore have not recorded deferred taxes for certain state income taxes and foreign withholding on such earnings. The amount of certain state income taxes and foreign withholding that might be payable on the remaining amounts at December 31, 2023 is not practicable to estimate.

On March 11, 2021, the America Rescue Plan Act of 2021 (the “ARPA”) was enacted. The ARPA expanded IRC Section 162(m) to include five additional most highly compensated individuals. The expansion of Section 162(m) coverage is effective for tax years beginning after December 31, 2026. Unlike the employees subject to Section 162(m) by virtue of being the Chief Executive Officer (“CEO”), Chief Financial Officer, or three most highly compensated named executive officers, an employee who is identified as one of the “additional” five employees is not considered to be a covered employee indefinitely. The five additional employees will be subject to the annual \$1,000 cap on compensation, and will be determined annually.

On August 16, 2022, the Inflation Reduction Act (the “IRA”) was enacted, which introduces a new 15% corporate minimum tax based on adjusted financial statement income and a 1% excise tax on stock repurchases, effective January 1, 2023, and provisions intended to mitigate climate change, including tax credit incentives for investments that reduce greenhouse gas emissions. This legislation did not have a material impact on our consolidated financial statements.

## [Table of Contents](#)

Valuation allowances are provided to reduce the related deferred income tax assets to an amount which will, more likely than not, be realized. The valuation allowance was \$10,468 and \$8,171 at December 31, 2023 and 2022, respectively. The increase was primarily attributable to the impact on U.S. deferred tax assets from share-based compensation deduction limitations related to the expansion of IRC Section 162(m).

At December 31, 2023, there were state net operating loss carryforwards of \$29,881, some of which expire in 2026, with the majority having an indefinite carryforward period. At December 31, 2023, there were foreign net operating loss carryforwards of \$17,723, which expire in varying amounts from 2035 through 2043. These amounts are available to offset future taxable income. There were no federal net operating loss carryforwards at December 31, 2023.

We are subject to U.S. federal income tax, income tax of multiple state jurisdictions and foreign income tax. We are subject to tax audits in the various jurisdictions until the respective statutes of limitations expire. We are no longer subject to U.S. federal tax examinations for tax years prior to 2020. For the majority of states and foreign jurisdictions, we are no longer subject to tax examinations for tax years prior to 2019. In addition, we are no longer subject to U.S. Virgin Islands federal tax examinations for tax years prior to 2015.

At December 31, 2023 and 2022, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$7,874 and \$7,752, respectively. Of these totals, \$6,559 and \$6,457, respectively, (net of the federal benefit received from state positions) represent the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Our policy is to recognize penalties within selling, general and administrative expenses and interest related to income tax matters in income tax expense in the consolidated statements of income. At December 31, 2023 and 2022, the cumulative amount of estimated accrued interest and penalties resulting from such unrecognized tax benefits was \$1,471 and \$1,343, respectively, and is included in deferred income taxes and other current liabilities in the accompanying consolidated balance sheets.

The changes in gross unrecognized tax benefits were as follows:

Balance at December 31, 2020	\$ 6,505
Additions based on tax positions related to the current year	1,143
Reductions due to lapse of applicable statute of limitations	(921)
Balance at December 31, 2021	6,727
Additions based on tax positions related to the current year	1,867
Reductions due to lapse of applicable statute of limitations	(842)
Balance at December 31, 2022	7,752
Additions based on tax positions related to the current year	1,215
Reductions due to lapse of applicable statute of limitations	(1,093)
Balance at December 31, 2023	<u>\$ 7,874</u>

## 10. SHARE-BASED COMPENSATION AND BENEFIT PLANS

### Share-Based Compensation Plans

We have two share-based compensation plans for employees. The 2021 Incentive Compensation Plan (the "2021 Plan") provides for the award of a broad variety of share-based compensation alternatives such as restricted stock, non-qualified stock options, restricted stock units, incentive stock options, performance awards, dividend equivalents, and stock appreciation rights at no less than 100% of the market price on the date the award is granted. To date, awards under the 2021 Plan consist of non-qualified stock options and restricted stock.

Under the 2021 Plan, the number of shares of Common and Class B common stock available for issuance is (i) 2,500,000, plus (ii) 7,327 shares of Common stock or Class B common stock that remained available for grant in connection with awards under the Watsco, Inc. 2014 Incentive Compensation Plan (the "2014 Plan") on the date on which our shareholders approved the 2021 Plan, plus (iii) shares underlying currently outstanding awards issued under the 2014 Plan, which shares become reissuable under the 2021 Plan to the extent that such underlying shares are not issued due to their forfeiture, expiration, termination or otherwise. A total of 178,439 shares of Common and Class B common stock, net of cancellations, had been awarded under the 2021 Plan as of December 31, 2023. As of December 31, 2023, 2,328,888 shares of common stock were reserved for future grants under the 2021 Plan. Options under the 2021 Plan vest over two to four years of service and have contractual terms of five years. Awards of restricted stock, which are granted at no cost to the employee, vest upon attainment of a specified age, generally toward the end of an employee's career at age 62 or older. Vesting may be accelerated in certain circumstances prior to the original vesting date.

## [Table of Contents](#)

Our second plan, the 2014 Plan, expired in 2021; therefore, no additional options may be granted, but outstanding awards remain outstanding in accordance with their respective terms. There were 173,120 options to exercise common stock outstanding under the 2014 Plan at December 31, 2023. Options under the 2014 Plan vest over two to four years of service and have contractual terms of five years.

The following is a summary of stock option activity under the 2021 Plan and the 2014 Plan as of and for the year ended December 31, 2023:

	<u>Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at December 31, 2022	559,625	\$ 225.01		
Granted	54,471	344.05		
Exercised	(181,289)	174.92		
Forfeited	(21,942)	263.84		
Expired	—	—		
Options outstanding at December 31, 2023	<u>410,865</u>	<u>\$ 260.82</u>	<u>2.57</u>	<u>\$ 68,882</u>
Options exercisable at December 31, 2023	<u>86,340</u>	<u>\$ 202.25</u>	<u>1.54</u>	<u>\$ 19,532</u>

The following is a summary of restricted stock activity as of and for the year ended December 31, 2023:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Restricted stock outstanding at December 31, 2022	2,589,261	\$ 112.53
Granted	180,617	302.71
Vested	(19,401)	107.81
Forfeited	(13,796)	243.17
Restricted stock outstanding at December 31, 2023	<u>2,736,681</u>	<u>\$ 124.56</u>

The weighted-average grant date fair value of restricted stock granted during 2023, 2022, and 2021 was \$302.71, \$290.55, and \$254.73, respectively. The fair value of restricted stock that vested during 2023, 2022, and 2021 was \$5,745, \$271,781, and \$3,646, respectively.

During 2023, 7,585 shares of Common and Class B common stock with an aggregate fair market value of \$2,215 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. During 2022, 320,468 shares of Class B common stock, which include the 311,408 surrendered shares referenced below, with an aggregate fair market value of \$87,049 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. During 2021, 3,858 shares of Class B common stock with an aggregate fair market value of \$1,078 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. These shares were retired upon delivery.

### **2022 Vesting of Restricted Stock Held by our CEO**

On October 15, 2022, 975,622 shares of Class B restricted stock previously granted to our CEO during the period from 1997 to 2011 under various performance-based incentive plans vested. The vested shares had a value of \$265,106 based on the closing price of our Class B common stock as of that date, which is deductible in our 2022 income tax return. The vesting of shares provided a cash benefit of approximately \$67,000 in 2022 and reduced our provision for income taxes in 2022 by approximately \$49,000. This vested value constitutes 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 to us of \$19,700 and by the surrendering of 311,408 shares of Class B common stock. Accordingly, 664,214 shares of Class B common stock were retained by the CEO, and we retired the surrendered shares.

### Share-Based Compensation Fair Value Assumptions

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing valuation model based on the weighted-average assumptions noted in the table below. The fair value of each stock option award, which is subject to graded vesting, is expensed, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the stock option. We use historical data to estimate stock option forfeitures. The expected term of stock option awards granted represents the period of time that stock option awards granted are expected to be outstanding and was calculated using the simplified method for plain vanilla options, which we believe provides a reasonable estimate of expected life based on our historical data. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. Expected volatility is based on historical volatility of our stock.

The following table presents the weighted-average assumptions used for stock options granted:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Expected term in years	4.25	4.25	4.25
Risk-free interest rate	4.11%	3.04%	0.79%
Expected volatility	25.38%	23.10%	21.85%
Expected dividend yield	3.15%	2.84%	2.97%
Grant date fair value	\$67.32	\$46.60	\$34.79

### Exercise of Stock Options

The total intrinsic value of stock options exercised during 2023, 2022, and 2021 was \$30,515, \$13,046, and \$16,903, respectively. Cash received from the exercise of stock options during 2023, 2022, and 2021 was \$26,835, \$18,425, and \$19,338, respectively. The tax benefit from stock option exercises during 2023, 2022, and 2021 was \$6,617, \$2,658, and \$3,595, respectively. During 2023, 2022, and 2021, 17,687 shares of Common stock with an aggregate fair market value of \$5,489, 1,592 shares of Common stock with an aggregate fair market value of \$438 and 4,040 shares of Common stock with an aggregate fair market value of \$1,179, respectively, were withheld as payment in lieu of cash for stock option exercises and related tax withholdings. These shares were retired upon delivery.

### Share-Based Compensation Expense

The following table provides information on share-based compensation expense:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Stock options	\$ 3,603	\$ 3,856	\$ 2,908
Restricted stock	26,397	24,965	22,457
Share-based compensation expense	<u>\$30,000</u>	<u>\$28,821</u>	<u>\$25,365</u>

At December 31, 2023, there was \$7,650 of unrecognized pre-tax compensation expense related to stock options granted under the 2021 Plan, which is expected to be recognized over a weighted-average period of approximately 1.9 years. The total fair value of stock options that vested during 2023, 2022, and 2021 was \$2,751, \$2,721, and \$2,621, respectively.

At December 31, 2023, there was \$219,771 of unrecognized pre-tax compensation expense related to restricted stock, which is expected to be recognized over a weighted-average period of approximately 11.9 years. Of this amount, approximately \$52,000 is related to awards granted to our CEO, of which approximately \$15,000, \$21,000, and \$16,000 vest in approximately 3, 5, and 6 years upon his attainment of age 86, 88, and 89, respectively, and approximately \$50,000 is related to awards granted to our President, of which approximately \$49,000 and \$1,000 vest in approximately 20 and 22 years upon his attainment of age 62 and 64, respectively. In the event that vesting is accelerated for any circumstance, as defined in the related agreements, the remaining unrecognized share-based compensation expense would be immediately recognized as a charge to earnings with a corresponding tax benefit. At December 31, 2023, we were obligated to issue 23,685 shares of restricted stock to our CEO that vest in 6 years, 29,882 shares of restricted stock to our President that vest in 20 years, and an estimated 7,000 shares of restricted stock to various key leaders that vest in 5-12 years in connection with 2023's performance-based incentive compensation program.

### **Employee Stock Purchase Plan**

The Watsco, Inc. Fourth Amended and Restated 1996 Qualified Employee Stock Purchase Plan (the “ESPP”) provides for up to 1,500,000 shares of Common stock to be available for purchase by our full-time employees with at least 90 days of service. The ESPP allows participating employees to purchase shares of Common stock at a 5% discount to the fair market value at specified times. During 2023, 2022, and 2021, employees purchased 4,096, 4,101, and 3,501 shares of Common stock at an average price of \$306.80, \$262.57, and \$239.11 per share, respectively. Cash dividends received by the ESPP were reinvested in Common stock and resulted in the issuance of 3,079, 3,365, and 2,962 additional shares during 2023, 2022, and 2021, respectively. We received net proceeds of \$2,292, \$1,997, and \$1,676, respectively, during 2023, 2022, and 2021, for shares of our Common stock purchased under the ESPP. At December 31, 2023, 436,304 shares remained available for purchase under the ESPP.

### **401(k) Plan**

We have a profit sharing retirement plan for our employees that is qualified under Section 401(k) of the Internal Revenue Code. Annual matching contributions are made based on a percentage of eligible employee compensation deferrals. The contribution has historically been made with the issuance of Common stock to the plan on behalf of our employees. For the years ended December 31, 2023, 2022, and 2021, we issued 35,533, 21,560, and 22,752 shares of Common stock, respectively, to the plan, representing the Common stock discretionary matching contribution of \$8,862, \$6,746, and \$5,154, respectively.

## **11. INVESTMENT IN UNCONSOLIDATED ENTITY**

Our first joint venture with Carrier, Carrier Enterprise, LLC, which we refer to as Carrier Enterprise I, has a 38.4% ownership interest in Russell Sigler, Inc. (“RSI”), an HVAC distributor operating from 34 locations in the Western U.S. Our proportionate share of the net income of RSI is included in other income in our consolidated statements of income. Effective December 18, 2023, Carrier Enterprise I acquired an additional 0.3% ownership interest in RSI for cash consideration of \$2,849, of which we contributed \$2,279 and Carrier contributed \$570. This acquisition increased Carrier Enterprise I’s ownership interest in RSI from 38.1% to 38.4%.

Carrier Enterprise I is a party to a shareholders’ agreement (the “Shareholders’ Agreement”) with RSI and its shareholders, consisting of five Sigler second generation family siblings and their affiliates, who collectively own 55.4% of RSI (the “RSI Majority Holders”) and certain next-generation Sigler family members and an employee, who collectively own 6.2% of RSI (the “RSI Minority Holders” and, together with the RSI Majority Holders, the “RSI Shareholders”). Pursuant to the Shareholders’ Agreement, the RSI 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 the higher of book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price for its 38.4% investment held in RSI. The RSI 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 the RSI Shareholders the remaining outstanding shares of RSI common stock. Additionally, Carrier Enterprise I has the right to appoint two of RSI’s six board members. Given Carrier Enterprise I’s 38.4% equity interest in RSI and its right to appoint two out of RSI’s six board members, this investment in RSI is accounted for under the equity method.

On July 28, 2023, Watsco, Carrier Enterprise I, and the RSI Majority Holders entered into an agreement that (1) provides Carrier Enterprise I the discretion, but not the obligation, to fund up to 80% of any purchase from the RSI Majority Holders of their RSI common stock, as required under the Shareholders’ Agreement, using Watsco Common stock (the “Offered Shares”), (2) provides that any Offered Shares actually issued would be valued based on the average volume-weighted average price of Watsco’s Common stock for the ten trading days immediately preceding the payment date for the applicable RSI shares, and (3) limits the amount of RSI shares that may be collectively sold by the RSI Majority Holders to Carrier Enterprise I under the Shareholders’ Agreement to \$125,000 during any rolling 12-month period. We have not issued or sold any Offered Shares, and there is no assurance that we will issue and sell any Offered Shares, nor is the number of Offered Shares that may be issued and sold currently determinable.



## 12. ACQUISITIONS

### Gateway Supply Company, Inc.

On September 1, 2023, we acquired substantially all the assets and assumed certain of the liabilities of Gateway Supply Company, Inc. (“GWS”), a plumbing and HVAC distributor with annual sales of approximately \$180,000, operating from 15 locations in South Carolina and one location in Charlotte, North Carolina. We formed a new, wholly owned subsidiary, Gateway Supply LLC, that operates this business. Consideration for the net purchase price consisted of \$4,000 in cash, net of cash acquired of \$3,102, and 280,215 shares of Common stock having a fair value of \$101,645, net of a discount for lack of marketability. Of the 280,215 shares of Common stock issued, 21,228 shares are subject to a contractual restriction that generally prohibits the sale or other transfer of such shares by GWS and its permitted transferees for a period of one year following the closing date with respect to half of such shares, and two years following the closing date with respect to the other half of such shares. The preliminary purchase price resulted in the recognition of \$69,098 in goodwill and intangibles. The fair value of the identified intangible assets was \$44,000 and consisted of \$18,600 in trade names and distribution rights, and \$25,400 in customer relationships to be amortized over an 18-year period. The tax basis of the acquired goodwill recognized is not deductible for income tax purposes.

The table below presents the allocation of the total consideration to tangible and intangible assets acquired and liabilities assumed from the acquisition of GWS based on their respective fair values as of September 1, 2023:

Accounts receivable	\$ 21,159
Inventories	37,098
Other current assets	319
Property and equipment	3,213
Operating lease ROU assets	15,737
Goodwill	25,098
Intangibles	44,000
Other assets	86
Current portion of long-term liabilities	(3,633)
Accounts payable	(8,306)
Accrued expenses and other current liabilities	(4,934)
Operating lease liabilities, net of current portion	(12,434)
Finance lease liabilities, net of current portion	(1,431)
Other liabilities	(13,429)
Total	<u>\$ 102,543</u>

### Capitol District Supply Co., Inc.

On March 3, 2023, one of our wholly owned subsidiaries acquired Capitol District Supply Co., Inc., a distributor of plumbing and air conditioning and heating products with annual sales of approximately \$13,000, operating from three locations in New York. Consideration for the purchase consisted of \$1,217 in cash, net of cash acquired of \$144, and \$1,851 for repayment of indebtedness. The purchase price resulted in the recognition of \$1,055 in goodwill and intangibles. The fair value of the identified intangible assets was \$606 and consisted of \$430 in trade names and distribution rights, and \$176 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.

### Makdad Industrial Supply Co., Inc.

On August 20, 2021, one of our wholly owned subsidiaries acquired Makdad Industrial Supply Co., Inc. (“MIS”), 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 (“ACME”), 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.

### Temperature Equipment Corporation

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, one of Carrier’s independent distributors with 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 owns and 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
Current portion of long-term liabilities	(5,855)
Accounts payable	(25,393)
Accrued expenses and other current liabilities	(14,654)
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.

### 13. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2021	\$434,019
Acquired goodwill	60
Allocation to intangible assets related to 2021 acquisition	(596)
Foreign currency translation adjustment	(2,772)
Balance at December 31, 2022	430,711
Acquired goodwill	25,547
Foreign currency translation adjustment	890
Balance at December 31, 2023	<u>\$457,148</u>

Intangible assets are comprised of the following:

<i>December 31,</i>	<u>Estimated Useful Lives</u>	<u>2023</u>	<u>2022</u>
Indefinite lived intangible assets - Trade names, trademarks, and distribution rights		\$174,779	\$154,086
Finite lived intangible assets:			
Customer relationships	7-18 years	110,489	83,943
Patented and unpatented technology	7 years	1,650	1,611
Trade name	10 years	1,150	1,150
Accumulated amortization		(69,922)	(65,599)
Finite lived intangible assets, net		<u>43,367</u>	<u>21,105</u>
		<u>\$218,146</u>	<u>\$175,191</u>

Amortization expense related to finite lived intangible assets included in selling, general and administrative expenses for the years ended December 31, 2023, 2022, and 2021, were \$4,323, \$4,709, and \$5,561, respectively.

Based on the finite lived intangible assets recorded at December 31, 2023, annual amortization for the next five years is expected to approximate the following:

2024	\$4,600
2025	\$4,500
2026	\$4,300
2027	\$2,900
2028	\$2,200

### 14. SHAREHOLDERS' EQUITY

#### Common Stock

Common stock and Class B common stock share equally in earnings and are identical in most other respects except: (i) Common stock is entitled to one vote on most matters and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock; and (iv) Class B common stock is convertible at any time into Common stock on a one-for-one basis at the option of the shareholder.

---

## [Table of Contents](#)

### **Preferred Stock**

We are authorized to issue preferred stock with such designation, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, the Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our Common stock and Class B common stock and, in certain instances, could adversely affect the market price of this stock. We had no preferred stock outstanding at December 31, 2023 or 2022.

### **At-the-Market Offering Program**

We are party to a sales agreement with Robert W. Baird & Co. Inc., 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).

During 2023, we issued and sold 45,000 shares of Common stock under the ATM Program for net proceeds of \$15,179. Direct costs of \$375 incurred in connection with the offering were charged against the proceeds from the sale of Common stock and reflected as a reduction of paid-in capital. At December 31, 2023, \$284,745 remained available for sale under the ATM Program.

### **Stock Repurchase Plan**

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. No shares were repurchased during 2023, 2022 or 2021. We last repurchased shares under this plan during 2008. In aggregate, 6,322,650 shares of Common stock and 48,263 shares of Class B common stock have been repurchased at a cost of \$114,425 since the inception of the program. At December 31, 2023, there were 1,129,087 shares remaining authorized for repurchase under the program. The IRA includes, among other provisions, a 1% excise tax on corporate stock repurchases in tax years effective January 1, 2023. In consideration of any further stock repurchases under our repurchase program, we intend to evaluate the impact of the IRA’s 1% excise tax.

### **Common Stock Released from Escrow**

On August 23, 2018 we issued 23,230 shares of Common stock into escrow as contingent consideration in connection with the acquisition of Alert Labs, Inc. The shares were subject to certain performance metrics within a three-year measurement period. On November 12, 2021, the shares, and related cash dividends paid during the three-year period, were released to us from escrow as the performance metrics were not met. These shares were retired upon delivery.

## **15. FINANCIAL INSTRUMENTS**

### **Recorded Financial Instruments**

Recorded financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term obligations, and borrowings under our revolving credit agreement. At December 31, 2023 and 2022, the fair values of cash and cash equivalents, accounts receivable, accounts payable, and the current portion of long-term obligations approximated their carrying values due to the short-term nature of these instruments.

The fair values of variable rate borrowings under our revolving credit agreement also approximate their carrying value based upon interest rates available for similar instruments with consistent terms and remaining maturities.

### **Off-Balance Sheet Financial Instruments**

At both December 31, 2023 and 2022, we were contingently liable under a standby letter of credit for \$150, which was required by a lease for real property. Additionally, at December 31, 2023 and 2022, we were contingently liable under various performance bonds aggregating approximately \$13,600 and \$13,700, respectively, which are used as collateral to cover any contingencies related to our nonperformance under agreements with certain customers. We do not expect that any material losses or obligations will result from the issuance of the standby letter of credit or performance bonds because we expect to meet our obligations under our lease for real property and to certain customers in the ordinary course of business.

**Concentrations of Credit Risk**

Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable. Concentrations of credit risk are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions. We also have access to credit insurance programs which are used as an additional means to mitigate credit risk.

**16. DERIVATIVES**

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

**Derivatives Not Designated as Hedging Instruments**

We have 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 December 31, 2023, the total notional value of which was \$2,800. Such contract expired in January 2024.

We recognized losses of \$2,791, \$917, and \$237 from foreign currency forward and option contracts not designated as hedging instruments in our consolidated statements of income for 2023, 2022, and 2021, respectively.

**17. FAIR VALUE MEASUREMENTS**

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

	<u>Balance Sheet Location</u>	<u>Total</u>	<u>Fair Value Measurements at December 31, 2023 Using</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>					
Derivative financial instruments	Other current assets	\$ 5	—	\$ 5	—
Equity securities	Other assets	\$1,044	\$1,044	—	—
Private equities	Other assets	\$1,500	—	—	\$1,500

	<u>Balance Sheet Location</u>	<u>Total</u>	<u>Fair Value Measurements at December 31, 2022 Using</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>					
Equity securities	Other assets	\$ 678	\$ 678	—	—
Private equities	Other assets	\$1,000	—	—	\$1,000

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:

*Derivative financial instruments* – these derivatives are foreign currency forward and option contracts. See Note 16. 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.

*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 investments in which fair value inputs are unobservable and are therefore classified within Level 3 of the fair value hierarchy.

## 18. 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 several 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 \$9,747 and \$12,256 at December 31, 2023 and 2022, respectively, were established related to such programs and are included in accrued expenses and other current liabilities in our consolidated balance sheets.

### Variable Interest Entity

As of December 31, 2023, in conjunction with our casualty insurance programs, limited equity interests are held in a captive insurance entity. The programs permit us to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit risk of loss in any particular year. The entity meets the definition of Variable Interest Entity (“VIE”); however, we do not meet the requirements to include this entity in the consolidated financial statements. At December 31, 2023, the maximum exposure to loss related to our involvement with this entity is limited to approximately \$6,900 and we have a cash deposit of approximately \$3,600 with them as collateral to cover any contingency related to additional risk assessments pertaining to our self-insurance programs. See “Self-Insurance” above for further information on commitments associated with the insurance programs. At December 31, 2023, there were no other entities that met the definition of a VIE.

### Purchase Obligations

At December 31, 2023, we were obligated under various non-cancelable purchase orders with our key suppliers for goods aggregating approximately \$50,000, of which approximately \$48,000 is with Carrier and its affiliates.

## 19. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 65%, 60%, and 61%, of all inventory purchases made during 2023, 2022, and 2021, respectively. At December 31, 2023 and 2022, approximately \$100,000 and \$88,000, respectively, was payable to Carrier and its affiliates, net of receivables. We also sell HVAC products to Carrier and its affiliates. Revenues in our consolidated statements of income for 2023, 2022, and 2021 included approximately \$110,000, \$97,000, and \$108,000, 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 2023, 2022, and 2021, fees for services performed were \$192, \$186, and \$225, respectively, and \$3 and \$1 was payable at December 31, 2023 and 2022, respectively.

## 20. INFORMATION ABOUT GEOGRAPHIC AREAS

Our operations are primarily within the United States, including Puerto Rico, Canada, and Mexico. Products are also sold from the United States on an export-only basis to portions of Latin America and the Caribbean Basin. The following tables set forth revenues and long-lived assets by geographical area:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Revenues:</b>			
United States	<b>\$6,540,646</b>	\$6,578,897	\$5,636,929
Canada	<b>374,659</b>	389,119	386,780
Latin America and the Caribbean	<b>368,462</b>	306,328	256,483
Total revenues	<b><u>\$7,283,767</u></b>	<u>\$7,274,344</u>	<u>\$6,280,192</u>

<i>December 31,</i>	<u>2023</u>	<u>2022</u>
<b>Long-Lived Assets:</b>		
United States	<b>\$1,150,736</b>	\$1,009,188
Canada	<b>167,314</b>	164,284
Latin America and the Caribbean	<b>19,201</b>	16,003
Total long-lived assets	<b><u>\$1,337,251</u></b>	<u>\$1,189,475</u>

Revenues are attributed to countries based on the location of the store from which the sale occurred. Long-lived assets consist primarily of goodwill and intangible assets, operating lease ROU assets, property and equipment, and our investment in an unconsolidated entity.

## 21. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

<i>Years Ended December 31,</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Interest paid	\$ 10,115	\$ 3,505	\$ 913
Income taxes net of refunds	\$ 188,443	\$ 105,736	\$ 124,984
Common stock issued for MIS	—	—	\$ 997
Common stock issued for ACME	—	—	\$ 2,551
Common stock issued for GWS	\$ 101,645	—	—

## 22. SUBSEQUENT EVENTS

On January 25, 2024, our Board of Directors approved an increase to the annual cash dividend per share of Common and Class B common stock to \$10.80 per share from \$9.80 per share, effective with the dividend that will be paid in April 2024.

On February 1, 2024, one of our wholly owned subsidiaries acquired Commercial Specialists, Inc., a distributor of HVAC products with annual sales of approximately \$13,000, operating from two locations in Cincinnati, Ohio. Consideration for the purchase consisted of \$6,042 in cash, 1,904 shares of Common stock having a fair value of \$750, and \$562 for repayment of indebtedness, net of cash acquired of \$1,292.



## SUBSIDIARIES OF THE REGISTRANT

The following table sets forth the significant subsidiaries of Watsco, Inc. as of December 31, 2023, and their respective incorporation jurisdictions. The names of various other wholly owned subsidiaries have been omitted. None of the foregoing omitted subsidiaries, considered either alone or in the aggregate as a single subsidiary, constitutes a significant subsidiary.

<b>Name of Subsidiary</b>	<b>State or Other Jurisdiction of Incorporation</b>	<b>Percent of Ownership</b>
Acme Refrigeration LLC	Delaware	100%
Alert Labs Inc.	Ontario, Canada	100%
Baker Distributing Company LLC	Delaware	100%
Boreal International Corporation	Florida	100%
Carrier Enterprise Canada, L.P.	Ontario, Canada	60%
Carrier Enterprise Mexico S. de R.L. de C.V.	Mexico	80%
Carrier Enterprise Servicios Mexico S. de R.L. de C.V.	Mexico	80%
Expert TTL Solutions S. de R.L. de C.V.	Mexico	80%
Carrier Enterprise, LLC	Delaware	80%
Carrier Enterprise Northeast, LLC	Delaware	80%
Carrier InterAmerica Corporation	Delaware	80%
Carrier (Puerto Rico), Inc.	Delaware	80%
East Coast Metal Distributors LLC	Delaware	100%
Gateway Supply LLC	Delaware	100%
Gemaire Distributors LLC	Delaware	100%
Heating & Cooling Supply LLC	California	100%
Homans Associates II LLC	Delaware	100%
N&S Supply LLC	Delaware	100%
Peirce-Phelps LLC	Delaware	80%
TEC Distribution LLC	Delaware	80%
Tradewinds Distributing Company, LLC	Delaware	100%

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement No. 333-260758 on Form S-3 and Registration Statement Nos. 333-256872, 333-197795, and 333-185345 on Form S-8 of our report dated February 23, 2024, relating to the consolidated financial statements of Watsco, Inc. and subsidiaries and the effectiveness of Watsco, Inc. and subsidiaries' internal control over financial reporting.

/s/ Deloitte & Touche LLP

Miami, Florida  
February 23, 2024

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the registration statement (No. 333-260758) on Form S-3 and (No. 333-256872, 333-197795, and 333-185345) on Form S-8 of our report dated February 24, 2023, with respect to the consolidated financial statements of Watsco, Inc.

/s/ KPMG LLP

Miami, Florida  
February 23, 2024

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

I, Albert H. Nahmad, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 this 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: February 23, 2024

/s/ Albert H. Nahmad

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 Annual Report on Form 10-K 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 this 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: February 23, 2024

/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 Annual Report on Form 10-K 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 this 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: February 23, 2024

/s/ Ana M. Menendez

\_\_\_\_\_  
Ana M. Menendez

Chief Financial Officer

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

In connection with the Annual Report of Watsco, Inc. (“Watsco”) on Form 10-K for the year ended December 31, 2023, 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  
February 23, 2024

/s/ Barry S. Logan  
Barry S. Logan  
Executive Vice President  
February 23, 2024

/s/ Ana M. Menendez  
Ana M. Menendez  
Chief Financial Officer  
February 23, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.

**WATSCO, INC.**  
**EXECUTIVE CLAWBACK POLICY**

*Approved by the Board of Directors on December 1, 2023 (the "Adoption Date")*

**I. Purpose**

This Executive Clawback Policy describes the circumstances under which Covered Persons of Watsco, Inc., a Florida corporation, and any of its direct or indirect subsidiaries (collectively, the "Company") will be required to repay or return Erroneously-Awarded Compensation to the Company.

This Policy and any terms used in this Policy shall be construed in accordance with all applicable SEC regulations promulgated to comply with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including, without limitation, Rule 10D-1 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules adopted by NYSE.

Each Covered Person shall sign an Acknowledgement and Agreement to the Clawback Policy in the form attached hereto as Exhibit A as a condition to his or her participation in any of the Company's incentive-based compensation programs; provided, that, this Policy shall apply to each Covered Person, irrespective of whether such Covered Person shall have failed, for any reason, to have executed such acknowledgment and agreement.

**II. Definitions**

For purposes of this Policy, the following capitalized terms shall have the respective meanings set forth below:

- (a) "**Accounting Restatement**" means an accounting restatement (i) due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued consolidated financial statements that is material to the previously issued consolidated financial statements (a "Big R" restatement), or (ii) that corrects an error that is not material to previously issued consolidated financial statements, but would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement). Notwithstanding the foregoing, none of the following changes to the Company's consolidated financial statements represent error corrections and shall not be deemed an Accounting Restatement: (a) retrospective application of a change in accounting principle; (b) retrospective revision to reportable segment information due to a change in the structure of the Company's internal organization; (c) retrospective reclassification due to a discontinued operation; (d) retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and (e) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.
- (b) "**Board**" means the Board of Directors of the Company.
- (c) "**Clawback-Eligible Incentive Compensation**" means, in connection with an Accounting Restatement, any Incentive-Based Compensation Received by a Covered Person (regardless of whether such Covered Person was serving at the time that Erroneously-Awarded Compensation is required to be repaid) (i) on or after the NYSE Effective Date, (ii) after beginning service as a Covered Person, (iii) while the Company has a class of securities listed on a national securities exchange or national securities association and (iv) during the Clawback Period.
- (d) "**Clawback Period**" means, with respect to any Accounting Restatement, the three completed fiscal years immediately preceding the Restatement Date and any transition period (that results from a change in the Company's fiscal year) of less than nine months within or immediately following those three completed fiscal years.
- (e) "**Committee**" means the Compensation Committee of the Board.
- (f) "**Covered Person**" means any person who is, or was at any time, during the Clawback Period, an Executive. For the elimination of doubt, Covered Person may include a former Executive who left the Company, retired or transitioned to a non-Executive role (including after serving as an Executive in an interim capacity) during the Clawback Period, and this Policy applies regardless of whether the Covered Person was at fault for an accounting error that resulted in, or contributed to, the Accounting Restatement.



- (g) “**Erroneously-Awarded Compensation**” means the amount of Clawback-Eligible Incentive Compensation that exceeded the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts set forth in the Accounting Restatement. This amount must be computed without regard to any taxes paid.
- (h) “**Executive**” means the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including an officer of the Company’s parent(s) or subsidiaries) who performs similar policy-making functions for the Company or is designated by the Company. For the sake of clarity, at a minimum, all persons who are executive officers pursuant to Item 401(b) of Regulation S-K shall be deemed “Executives”.
- (i) “**Financial Reporting Measures**” means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s consolidated financial statements, and all other measures that are derived wholly or in part from such measures, including, without limitation, measures that are “non-GAAP financial measures” for purposes of Exchange Act Regulation G and Item 10(e) of Regulation S-K, as well other measures, metrics and ratios that are not non-GAAP measures. For purposes of this Policy, Financial Reporting Measures shall include stock price and total stockholder return (and any measures that are derived wholly or in part from stock price or total stockholder return). A Financial Reporting Measure need not be presented within the Company’s consolidated financial statements or included in a Company filing with the SEC.
- (j) “**Incentive-Based Compensation**” has the meaning set forth in Section III below.
- (k) “**NYSE**” means the New York Stock Exchange.
- (l) “**NYSE Effective Date**” means October 2, 2023.
- (m) “**Policy**” means this Executive Clawback Policy, as the same may be amended or restated from time to time.
- (n) “**Received**” means Incentive-Based Compensation received, or deemed to be received, in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant occurs after such fiscal period.
- (o) “**Repayment Agreement**” has the meaning set forth in Section V below.
- (p) “**Restatement Date**” means the earlier of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement and (ii) the date that a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.
- (q) “**RSAs**” means restricted stock awards.
- (r) “**RSUs**” means restricted stock units.
- (s) “**SARs**” means stock appreciation rights.
- (t) “**SEC**” means the U.S. Securities and Exchange Commission.

### **III. Incentive-Based Compensation**

“Incentive-Based Compensation” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

For purposes of this Policy, specific examples of Incentive-Based Compensation include, but are not limited to:

- Non-equity incentive plan awards that are earned based, wholly or in part, based on satisfaction of a Financial Reporting Measure-based performance goal;

- Bonuses paid from a “bonus pool,” the size of which is determined, wholly or in part, based on satisfaction of a Financial Reporting Measure-based performance goal;
- Other cash awards based on satisfaction of a Financial Reporting Measure-based performance goal;
- Restricted stock, RSUs, performance share units, stock options and SARs that are granted or become vested, wholly or in part, on satisfaction of a Financial Reporting Measure-based performance goal; and
- Proceeds Received upon the sale of shares acquired through an incentive plan that were granted or vested based, wholly or in part, on satisfaction of a Financial Reporting Measure-based performance goal.

For purposes of this Policy, Incentive-Based Compensation excludes:

- Base salaries (except with respect to any salary increases earned, wholly or in part, based on satisfaction of a Financial Reporting Measure-based performance goal);
- Bonuses paid solely at the discretion of the Committee or Board that are not paid from a “bonus pool” that is determined by satisfying a Financial Reporting Measure-based performance goal;
- Bonuses paid solely upon satisfying one or more subjective standards or completion of a specified employment period;
- Non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and
- Equity awards that vest solely based on the passage of time or satisfaction of one or more non-Financial Reporting Measures.

#### **IV. Determination and Calculation of Erroneously-Awarded Compensation**

In the event of an Accounting Restatement, the Committee shall promptly determine the amount of any Erroneously-Awarded Compensation for each Executive in connection with such Accounting Restatement and shall promptly thereafter provide each Executive with a written notice containing the amount of Erroneously-Awarded Compensation and a demand for repayment, return or forfeiture thereof, as applicable.

- Cash Awards**. With respect to cash awards, the Erroneously-Awarded Compensation is the difference between the amount of the cash award (whether payable as a lump sum or over time) that was Received and the amount that should have been Received applying the restated Financial Reporting Measure.
- Cash Awards Paid From Bonus Pools**. With respect to cash awards paid from bonus pools, the Erroneously-Awarded Compensation is the pro rata portion of any deficiency that results from the aggregate bonus pool that is reduced based on applying the restated Financial Reporting Measure.
- Equity Awards**. With respect to equity awards, if the shares, options, RSUs, RSAs, SARs or other equity awards are still held at the time of recovery, the Erroneously-Awarded Compensation is the number of such securities Received in excess of the number that should have been Received applying the restated Financial Reporting Measure (or the value in excess of that number). If the restricted shares, options, RSUs, RSAs, SARs or other equity awards have been exercised, vested, settled, or otherwise been converted into the underlying shares, but the underlying shares have not been sold, the Erroneously-Awarded Compensation is the number of shares underlying the excess shares, options, SARs, RSUs, RSAs or other equity awards (or the value thereof). If the underlying shares have already been sold, then [the Committee shall determine the amount that most reasonably estimates the Erroneously-Awarded Compensation and retain documentation reflecting the estimate analysis and provide to NYSE if deemed appropriate by the Board or requested by NYSE.
- Compensation Based on Stock Price or Total Stockholder Return**. For Incentive-Based Compensation based on (or derived from) stock price or total stockholder return, where the amount of Erroneously-Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total stockholder return upon which the Incentive-Based Compensation was Received (in which case, the Committee shall maintain documentation of such determination of that reasonable estimate and provide such documentation to NYSE in accordance with applicable listing standards).

#### **V. Recovery of Erroneously-Awarded Compensation**

Once the Committee has determined the amount of Erroneously-Awarded Compensation recoverable from the applicable Covered Person, the Committee shall take action to recover the Erroneously-Awarded Compensation reasonably promptly. The Company’s obligation to recover Erroneously-Awarded Compensation is not dependent on if or when the restated consolidated financial statements pursuant to the applicable Accounting Restatement are filed with the SEC. Unless otherwise determined by the Committee, the Committee shall pursue the recovery of Erroneously-Awarded Compensation as set forth below:

- (a) **Cash Awards.** With respect to cash awards, the Committee shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee agrees to accept with a value equal to such Erroneously-Awarded Compensation) or (ii) if approved by the Committee, offer to enter into a Repayment Agreement. If the Covered Person accepts such offer and signs the Repayment Agreement within a reasonable time, as determined by the Committee, the Company shall countersign such Repayment Agreement.
- (b) **Unvested Equity Awards.** With respect to those equity awards that have not yet vested, the Committee shall take such action as is necessary to cancel, or otherwise cause to be forfeited, the awards in the amount of the Erroneously-Awarded Compensation.
- (c) **Vested Equity Awards.** With respect to those equity awards that have vested or been exercised and the underlying shares have not been sold, the Committee shall take such action as is necessary to cause the Covered Person to deliver and surrender the underlying shares in the amount of the Erroneously-Awarded Compensation.

In the event that the Covered Person has sold the underlying shares, the Committee shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee agrees to accept with a value equal to such Erroneously-Awarded Compensation) or (ii) if approved by the Committee, offer to enter into a Repayment Agreement. If the Covered Person accepts such offer and signs the Repayment Agreement within a reasonable time, as determined by the Committee, the Company shall countersign such Repayment Agreement.

- (d) **Repayment Agreement.** “Repayment Agreement” means a written agreement (in a form reasonably acceptable to the Committee) with the Covered Person that provides for the Covered Person’s repayment of the Erroneously-Awarded Compensation as promptly as possible without unreasonable economic hardship to the Covered Person.
- (e) **Effect of Non-Repayment.** To the extent that a Covered Person fails to repay all Erroneously-Awarded Compensation to the Company when due (as determined in accordance with this Policy), the Company shall take reasonable and appropriate actions to recover such outstanding Erroneously-Awarded Compensation from the applicable Covered Person. The applicable Covered Person shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously-Awarded Compensation in accordance with the immediately preceding sentence.

The Committee shall have broad discretion to determine the appropriate means of recovery of Erroneously-Awarded Compensation based on all applicable facts and circumstances and taking into account the time value of money and the cost to stockholders of delaying recovery. However, in no event may the Company accept an amount that is less than the amount of Erroneously-Awarded Compensation in satisfaction of a Covered Person’s obligations hereunder.

## **VI. Discretionary Recovery**

Notwithstanding anything herein to the contrary, the Company shall not be required to take action to recover Erroneously-Awarded Compensation if any one of the following conditions are met and the Committee (or in lieu of such a committee, a majority of the independent directors serving on the Board) determines that recovery would be impracticable:

- (i) The direct expenses paid to a third party to assist in enforcing this Policy against a Covered Person would exceed the amount to be recovered, after the Company has made a reasonable attempt to recover the applicable Erroneously-Awarded Compensation, documented such attempts and provided such documentation to NYSE;
- (ii) Recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously-Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to NYSE, that recovery would result in such a violation and a copy of the opinion is provided to NYSE; or
- (iii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

## **VII. Reporting and Disclosure Requirements**

The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including the disclosure required by the applicable filings required to be made with the SEC.

## **VIII. Effective Date**

This Policy shall apply to all Incentive-Based Compensation Received on or after the NYSE Effective Date.

## **IX. No Indemnification**

The Company shall not indemnify any Covered Person against the loss of Erroneously-Awarded Compensation and shall not pay, or reimburse any Covered Persons for premiums, for any insurance policy to fund such Covered Person's potential recovery obligations.

## **X. Administration**

The Committee has the sole discretion to administer this Policy and ensure compliance with NYSE listing rules and any other applicable law, regulation, rule or interpretation of the SEC or NYSE promulgated or issued in connection therewith. The Committee shall, subject to the provisions of this Policy, make such determinations and interpretations and take such actions as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Committee shall be final, binding and conclusive.

## **XI. Amendment; Termination**

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary, including as and when it determines that it is legally required by any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are then listed. The [Board][Committee] may terminate this Policy at any time. Notwithstanding anything in this Section XI to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule, or the rules of any national securities exchange or national securities association on which the Company's securities are then listed.

## **XII. Other Recoupment Rights; No Additional Payments**

The Committee intends that this Policy will be applied to the fullest extent of the law. The Committee may require that any employment agreement, equity award agreement or any other agreement entered into on or after the Adoption Date shall, as a condition to the grant of any benefit thereunder, require a Covered Person to agree to abide by the terms of this Policy; provided, that, his Policy shall apply to all Covered persons irrespective of any such explicit agreement. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other rights under applicable law, regulation or rule, or pursuant to the terms of the clawback policy adopted by the Board on March 25, 2016 or any similar policy in any employment agreement, equity plan, equity award agreement or similar arrangement and any other legal remedies available to the Company. However, this Policy shall not provide for recovery of Incentive-Based Compensation that the Company has already recovered pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations.

## **XIII. Successors**

This Policy shall be binding and enforceable against all Covered Persons and their beneficiaries, heirs, executors, administrators or other legal representatives.

**Exhibit A**  
**FORM OF ACKNOWLEDGEMENT AND AGREEMENT**  
**TO THE EXECUTIVE CLAWBACK POLICY**  
**OF WATSCO, INC.**

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of Watsco, Inc.'s Executive Clawback Policy (the "Policy"). Capitalized terms used but not otherwise defined in this Acknowledgement Form (this "Acknowledgement Form") shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously-Awarded Compensation (as defined in the Policy) to the Company to the extent required by, and in a manner permitted by, the Policy.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

\_\_\_\_\_  
Date