
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

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

Date of Report (date of earliest event reported) February 5, 2018

watsco

WATSCO, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida

(State or Other Jurisdiction of Incorporation)

1-5581

(Commission File Number)

59-0778222

(IRS Employer Identification No.)

2665 South Bayshore Drive, Suite 901

Miami, Florida 33133

(Address of Principal Executive Offices, Including Zip Code)

(305) 714-4100

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

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.

Item 1.01. Entry into a Material Definitive Agreement

As previously reported, on April 27, 2012, Watsco, Inc., a Florida corporation (the “Company”), and Watsco Canada, Inc., a corporation organized under the laws of New Brunswick, Canada, and a wholly owned subsidiary of the Company, entered into an unsecured, syndicated credit agreement with nine lenders, JPMorgan Chase Bank, N.A. as Administrative Agent, Bank of America, N.A. and Wells Fargo Bank, National Association as Co-Syndication Agents, and U.S. Bank National Association as Documentation Agent, as amended (as amended, the “Credit Facility”). The Company delivered a notice under the Credit Facility, effective February 5, 2018, decreasing the borrowing capacity under the Credit Facility from \$600,000,000 to \$300,000,000.

Item 2.02. Results of Operations and Financial Condition

On February 8, 2018, the Company issued a press release reporting its financial results for the quarter and year ended December 31, 2017. A copy of the Company’s press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is hereby incorporated by reference in this Item 2.02.

Item 7.01. Regulation FD Disclosure

The information set forth in Item 2.02 of this Current Report on Form 8-K is incorporated by reference in this Item 7.01.

On February 8, 2018, the Company issued a press release announcing a 16% increase in its annual dividend rate to \$5.80 per share on each outstanding share of its Common and Class B common stock. A copy of the Company’s press release is attached hereto as Exhibit 99.2 and is hereby incorporated by reference in this Item 7.01.

The information contained in this Current Report on Form 8-K, including Exhibit 99.1 and Exhibit 99.2 attached hereto, shall be deemed “furnished” and not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any Company filing under the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release dated February 8, 2018 issued by Watsco, Inc.
99.2	Press release dated February 8, 2018 issued by Watsco, Inc.

EXHIBIT INDEX

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SIGNATURES

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

WATSCO, INC.

Dated: February 8, 2018

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

**Watsco Sets Records for Earnings Per Share, Net Income and Sales
During Fourth Quarter and Full-Year**

Record Annual Cash Flow; Dividend Raised 16% to \$5.80 Per Share

Adoption of Customer-Centric Technology Grows as Business Transformation Continues

MIAMI, FLORIDA – (GLOBENEWSWIRE), February 8, 2018 – Watsco, Inc. (NYSE: WSO) reported record operating results for the fourth quarter and year ended December 31, 2017.

The record operating results reflect continued investment in technologies designed to revolutionize Watsco’s customer-experience, making it easier to do business and helping customers grow their businesses more profitably. Most notably, the digitization of Watsco’s marketplace via e-commerce through iOS/Android-enabled apps and websites with the industry’s most in-depth database of product information made significant progress in 2017. Customer adoption increased enabling more contractors to interact with us 24 hours a day to find products, place orders and obtain technical support. Employees are also empowered with better data, processes and capabilities to serve their customers’ needs.

In addition to record operating performance, Watsco generated record operating cash flow of \$302 million in 2017 on net income of \$257 million. Watsco also raised \$248 million during 2017 from the sale of shares of its common stock under its previously announced “at-the-market” (ATM) stock offering program, sharply reducing debt and positioning the Company to capitalize on long-term growth opportunities.

Watsco also announced today that its Board of Directors approved a 16% increase in its annual dividend to \$5.80 per share for each outstanding share of its Common and Class B common stock. The increase will be reflected in the Company’s next regular dividend payment beginning in April 2018.

Fourth Quarter Results

Key performance metrics:

- 47% increase in earnings per share to a record \$1.19 (includes 29 cent benefit from tax reform)
- 46% increase in net income to a record \$43 million (includes \$10 million benefit from tax reform)
- 6% increase in operating income to \$61 million (6.4% operating margin)
- Operating cash flow of \$117 million
- \$243 million of proceeds from ATM share offering
- 91% reduction in debt to \$22 million at December 31, 2017

Sales trends:

- 6% increase in sales to \$964 million
- 7% increase in HVAC equipment (67% of sales)
- 4% increase in other HVAC products (29% of sales)
- 4% decrease in commercial refrigeration products (4% of sales)

Albert Nahmad, Watsco’s Chairman and Chief Executive Officer stated: “Watsco delivered another record quarter with a resumption of strong sales growth rates for residential and commercial HVAC systems from increasing unit demand and an improved mix of higher-efficiency systems. Results also reflect further investments in technology and 150 new customer-facing employees during the course of the year to drive sales growth and market share.”

Mr. Nahmad added: “We are pleased to reward shareholders by raising our annual dividend to \$5.80 per share, reflecting our continued confidence to generate strong cash flow while investing in our business. We believe the sale of Watsco shares under the ATM program is both innovative and important as it positions the Company for almost any size investment over the long-term and is consistent with our conservative mindset about debt.”

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

Full Year Results

Key performance metrics:

- 13% increase in earnings per share to a record \$5.81 (includes 27 cent benefit from tax reform)
- 14% increase in net income to a record \$208 million (includes \$10 million benefit from tax reform)
- 2% increase in operating income to a record \$354 million (8.2% operating margin)
- 9% increase in operating cash flow to a record \$302 million

Sales trends:

- 3% increase in sales to a record \$4.34 billion
- 4% increase in HVAC equipment (67% of sales)
- 1% increase in other HVAC products (28% of sales)
- Flat sales for commercial refrigeration products (5% of sales)

Cash Flow & Dividends

Operating cash flow for the full year increased 9% to a record \$302 million. Since 2000, Watsco’s cash flow was approximately \$2.2 billion compared to net income of approximately \$2.0 billion, surpassing the Company’s stated goal of generating cash flow in excess of net income.

Dividends paid in 2017 increased 29% to \$164 million. On February 6, 2018, Watsco’s Board of Directors approved a 16% increase in its annual dividend to \$5.80 per share on each outstanding share of its Common and Class B common stock. The increase will be reflected in the Company’s dividend payment on April 30, 2018.

Watsco has paid dividends for over 40 consecutive years with the philosophy of sharing increasing amounts of cash flow through higher dividends while maintaining a conservative financial position. Future increases in dividends, if any, will be considered in light of investment opportunities, cash flow, general economic conditions and the Company’s overall financial condition.

Watsco raised \$248 million in 2017 from the sale of 1.5 million shares of Common stock under its ATM program. The cash proceeds were used to reduce long-term debt. As of December 31, 2017, the Company’s debt-to-total capitalization was 1%.

Technology Strategy

Watsco has launched a variety of technologies and process enhancements to transform how HVAC contractor customers are served in the marketplace. Watsco believes that speed, productivity and efficiency will be ever more critical as the digital era progresses and is investing to ensure an unparalleled customer-experience. Since 2012, Watsco’s technology team has grown from approximately 60 employees to 180 employees and the present annual run-rate for technology-related spending is approximately \$23 million.

Watsco estimates that over 250,000 contractors and technicians visit or call one of its 560 locations each year to get information and buy products, resulting in over 7 million sale transactions. Innovations to enhance the customer-experience include:

- Mobile apps, websites and e-commerce platforms that employ the industry's leading, data-rich repository of product information.
- Business intelligence and data analytics expertise to enable insightful assistance and decision-making by 600+ managers.
- Proprietary order fulfillment software to improve speed, accuracy and convenience of the pick, pack and ship process.
- Predictive analytics-driven demand planning and inventory optimization software to improve order fill-rates, increase inventory turns, reduce real estate requirements and improve long-term productivity.

Key performance indicators relative to these technology platforms include:

E-Commerce and App Usage

E-commerce sales
E-commerce transactions
E-commerce run-rate at end of year
Unique iOS or Android app users
Products (SKUs) digitized and available on-line
Line items per order on-line versus in-store
Sales attrition rate for users versus non-users

Progress in 2017

50% growth in online sales to over \$900 million
57% increase in transactions
25% of sales versus 15% at the end of 2016
34% increase in users
30% increase to over 650,000 SKUs
33% more line items per order
Attrition rate is 2.5X less for active users

Business Intelligence (BI) Platform

Increase in internal BI users
Average number of BI queries per week per user
Number of total user inquiries during the year

11% increase to over 1,500 weekly-users
30% increase in queries
46% increase to 17.9 million queries

Warehouse Efficiency

Number of wireless locations
Locations with Order Fulfillment (OF) software
Number of orders filled with OF
Delivery truck miles tracked and analyzed
Locations with express pickup

461 locations Wi-Fi enabled versus 359 last year
329 locations versus 150 locations last year
2.1 million versus 750,000 last year
4.2 million miles versus 880,000 miles last year
134 locations versus 68 locations last year

Supply Chain Optimization

Inventory turns for fully-adopted locations
Fill-rates for fully-adopted locations
Reduction of real estate requirements

80 basis-point improvement over last 2 years
Fill-rates of 97% (up 300 basis-points from inception)
487,000 square feet (1 million square feet over 2 years)

A.J. Nahmad, Watsco's President said, "We are proud of the progress we've made in regard to digitizing our business, but we've merely scratched the surface of what is possible in terms of value creation and realization. When our customers win, we win. To that end, our culture is one of continuous improvement, which will consistently enhance our customers' businesses."

Tax Cuts and Jobs Act of 2017

Income tax expense in 2017 reflects net tax benefits of \$10 million from a reduction in deferred income tax liabilities partially offset by taxes related to undistributed earnings of our international operations and other changes. The impacts from tax reform in 2018 are being evaluated and we currently estimate our 2018 effective income tax rate (net of taxes attributable to non-controlling interest) will be in the range of 21% to 22%.

Investor Day

Watsco will host an investor and analyst meeting on Friday, March 16, 2018 in Miami, Florida from 10:00 a.m. to 1:00 p.m. by invitation only. Leadership will provide a strategic overview of the Company, including an update of the various technology initiatives currently underway. A webcast will be provided on the Company's website at <http://investors.watsco.com>.

Conference Call Information

Date: February 8, 2018

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

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

Dial-in number: United States (844) 883-3908 / International (412) 317-9254

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

About Watsco

Watsco provides comfort to homes and businesses regardless of the outdoor climate. There are approximately 92 million central air conditioning and heating systems installed in the United States that have been in service more than 10 years. Older systems often operate below today's government mandated energy efficiency and environmental standards. Watsco has an opportunity to accelerate the replacement of these systems at a scale greater than its competitors as the movement toward reducing energy consumption and its environmental impact continues. This is especially important since heating and cooling accounts for approximately half of the energy consumed in a typical U.S. home.

Watsco's traditional sales channel is the industry's largest and currently serves 88,000 contractor businesses through 560 locations in the United States, Canada, Mexico and Puerto Rico, and on an export basis to Latin America and the Caribbean. Watsco is a technology company, operating scalable platforms for mobile apps, e-commerce, business intelligence and supply chain. Strategic goals are to accelerate sales and profit growth, increase the speed and convenience of serving customers and to extend its reach into new geographies and sales channels. Watsco is also developing technologies to address the evolving buying habits of consumers in the digital economy. Over the long-term, Watsco believes its focus, scale and innovative culture offer significant advantages to address the consumer market, which is estimated to be \$88 billion annually. Additional information about Watsco may be found at <http://www.watsco.com>.

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

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

	Quarter Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Revenues	\$ 964,345	\$ 913,611	\$ 4,341,955	\$ 4,220,702
Cost of sales	723,415	685,539	3,276,296	3,186,118
Gross profit	240,930	228,072	1,065,659	1,034,584
Gross profit margin	25.0%	25.0%	24.5%	24.5%
SG&A expenses	181,156	169,998	715,671	688,952
Other Income	1,592	—	3,886	—
Operating income	61,366	58,074	353,874	345,632
Operating margin	6.4%	6.4%	8.2%	8.2%
Interest expense, net	1,344	677	6,363	3,713
Income before income taxes	60,022	57,397	347,511	341,919
Income taxes	7,366	17,530	90,221	105,936
Net income	52,656	39,867	257,290	235,983
Less: net income attributable to non-controlling interest	9,401	10,314	49,069	53,173
Net income attributable to Watsco	<u>\$ 43,255</u>	<u>\$ 29,553</u>	<u>\$ 208,221</u>	<u>\$ 182,810</u>
Diluted earnings per share:				
Net income attributable to Watsco shareholders	\$ 43,255	\$ 29,553	\$ 208,221	\$ 182,810
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	3,724	3,050	17,427	14,801
Earnings allocated to Watsco shareholders	<u>\$ 39,531</u>	<u>\$ 26,503</u>	<u>\$ 190,794</u>	<u>\$ 168,009</u>
Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share	33,310,064	32,662,341	32,862,633	32,616,505
Diluted earnings per share for Common and Class B common stock	<u>\$ 1.19</u>	<u>\$ 0.81</u>	<u>\$ 5.81</u>	<u>\$ 5.15</u>

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

	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 80,496	\$ 56,010
Accounts receivable, net	478,133	475,974
Inventories	761,314	685,011
Other	17,454	23,161
Total current assets	<u>1,337,397</u>	<u>1,240,156</u>
Property and equipment, net	91,198	90,502
Goodwill, intangibles, net and other	618,282	543,991
Total assets	<u>\$2,046,877</u>	<u>\$1,874,649</u>
Accounts payable and accrued expenses	\$ 416,233	\$ 314,688
Current portion of long-term obligations	244	200
Total current liabilities	<u>416,477</u>	<u>314,888</u>
Borrowings under revolving credit agreement	21,800	235,294
Deferred income taxes and other liabilities	57,623	72,719
Total liabilities	<u>495,900</u>	<u>622,901</u>
Watsco's shareholders' equity	1,297,953	1,005,828
Non-controlling interest	253,024	245,920
Shareholders' equity	<u>1,550,977</u>	<u>1,251,748</u>
Total liabilities and shareholders' equity	<u>\$2,046,877</u>	<u>\$1,874,649</u>

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

	Year Ended December 31,	
	2017	2016
Cash flow from operating activities:		
Net income	\$ 257,290	\$ 235,983
Non-cash items	25,239	40,751
Changes in working capital	19,317	1,022
Net cash provided by operating activities	<u>301,846</u>	<u>277,756</u>
Cash flow from investing activities:		
Investment in unconsolidated entity	(63,600)	—
Capital expenditures, net	(17,708)	(42,833)
Net cash used in investing activities	<u>(81,308)</u>	<u>(42,833)</u>
Cash flow from financing activities:		
Net repayments under revolving credit agreement	(213,494)	(10,006)
Dividends on Common and Class B Common stock	(164,147)	(127,604)
Distributions to non-controlling interest	(42,831)	(38,900)
Purchase of additional ownership from non-controlling interest	(42,688)	(42,909)
Other	5,225	5,503
Proceeds from non-controlling interest for investment in unconsolidated entity	12,720	—
Net proceeds from sale of Common stock	247,744	—
Net cash used in financing activities	<u>(197,471)</u>	<u>(213,916)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	1,419	(226)
Net increase in cash and cash equivalents	24,486	20,781
Cash and cash equivalents at beginning of period	56,010	35,229
Cash and cash equivalents at end of period	<u>\$ 80,496</u>	<u>\$ 56,010</u>

Watsco Boosts Annual Dividend 16% to \$5.80 Per Share

MIAMI, FLORIDA – (GLOBENEWSWIRE) – February 8, 2018 — Watsco, Inc. (NYSE: WSO) announced today that its Board of Directors has approved a 16% increase in its annual dividend to \$5.80 per share on each outstanding share of its Common and Class B common stock. The increase will be reflected in the Company's next regular dividend payment beginning in April 2018.

Albert H. Nahmad, Watsco's Chairman & CEO stated: "We are pleased to be able to increase dividends to our shareholders and reflects our confidence in the business and is supported by our continued positive cash flow and strong balance sheet."

Watsco has paid dividends to shareholders for more than 40 consecutive years. The Company's philosophy is to share increasing amounts of cash flow through higher dividends while maintaining a conservative balance sheet with continued capacity to build its distribution network. Future changes in dividends are considered in light of investment opportunities, cash flow, general economic conditions and Watsco's overall financial condition.

About Watsco

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