
**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 14, 2017

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))
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Item 2.02. Results of Operations and Financial Condition

On February 14, 2017, Watsco, Inc., a Florida corporation (the “Company”), issued a press release reporting its financial results for the quarter and year ended December 31, 2016. 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 14, 2017, the Company issued a press release announcing the purchase of an additional 10% ownership interest in Carrier Enterprise Northeast LLC, a joint venture between the Company and Carrier. 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 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 14, 2017 issued by Watsco, Inc.
99.2	Press release dated February 14, 2017 issued by Watsco, Inc.

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.

Dated: February 14, 2017

WATSCO, INC.

By: /s/ Ana M. Menendez

Ana M. Menendez,

Chief Financial Officer

EXHIBIT INDEX

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**Watsco Sets Full-Year and Fourth Quarter Records
for Sales, Earnings, EPS and Cash Flow**

**Technology Investments and Culture of Innovation Continue
to Transform the HVAC Distribution Channel**

MIAMI, FLORIDA – (BUSINESS WIRE), February 14, 2017 – Watsco, Inc. (NYSE: WSO) reported record results for the fourth quarter and year ended December 31, 2016.

Watsco also announced today that it has raised its ownership stake in Carrier Enterprise Northeast LLC, a joint venture with Carrier, to 80% for approximately \$43 million in cash. The incremental investment builds on a transaction completed in November 2016, which increased Watsco's controlling interest from 60% to 70%. Carrier Enterprise Northeast had sales in 2016 of approximately \$500 million from 41 locations in the northeastern United States and 12 locations in Mexico.

2016 Full-Year Results

Key performance metrics:

- Earnings per share increased 5% to a record \$5.15
- Net income increased 6% to a record \$183 million
- Operating income increased 3% to a record \$346 million
- Operating income for U.S. locations (87% of sales) increased 6% (operating margins expanded 20 basis-points)
- Operating income for international locations (13% of sales) declined 14% (operating margins declined 120 basis-points)
- Operating cash flow of \$8.52 per share, a 25% increase to a record \$278 million

Sales trends:

- Sales increased 3% to a record \$4.2 billion
- HVAC equipment increased 3% (66% of sales), including 4% growth in the U.S.
- Other HVAC products increased 1% (29% of sales)
- Commercial refrigeration products increased 6% (5% of sales)

Albert H. Nahmad, Watsco's Chairman and CEO stated: "Watsco produced record results in a year of varying seasonal conditions in certain of our larger U.S. markets and lower international sales and profits due to a stronger U.S. dollar. This performance includes a 17% increase in technology costs for our on-going investments designed to enhance the customer-experience, to optimize the speed and efficiency of our operations and to compete in ways and at a scale that sets us apart in the marketplace."

Mr. Nahmad added: "Watsco generated record cash flow of \$278 million in 2016, or \$8.52 per share, which exceeded net income and represents a 25% increase over last year. Along with our continued focus to drive consistently strong cash flow, we improved inventory turns by approximately 30 basis-points through our recent launch of new supply-chain technologies. We are pleased with the early progress for what will be a long-term project to optimize working capital efficiency while enhancing product availability."

Fourth Quarter Results

Key performance metrics:

- Earnings per share increased 8% to a record 81 cents
- Net income increased 12% to a record \$30 million

- Operating income increased 7% to a record \$58 million (operating margins expanded 40 basis-points to record level)
- Operating income in U.S. locations increased 11% (operating margins expanded 50 basis-points)
- Operating income international locations decreased 4% (operating margins declined 30 basis-points)
- Operating cash flow increased 8% to a record \$131 million

Sales trends:

- Sales increased 1% to a record \$914 million
- HVAC equipment increased 2% (66% of sales), including 3% growth in the U.S.
- Other HVAC products declined 1% (29% of sales)
- Commercial refrigeration products increased 3% (5% of sales)

Mr. Nahmad added: “Watsco delivered record performance during the fourth quarter, reflecting mid-single-digit growth in most markets, offset by unfavorable seasonal conditions in certain regions and a decline in international locations. We are focused on achieving another record year in 2017 while driving the adoption and advancement of our technologies with our customers and within our organization.”

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

Technology Strategy

Watsco has established itself as the leader in the HVAC distribution industry and produced a 21% compounded annual total-shareholder-return over the last 25 years. A variety of scalable technologies have been launched to transform Watsco into a modern, data-based company to continue its outperformance in the digital era. Watsco’s goals with these technology programs are to further strengthen its leadership position, accelerate sales and profit growth, increase the speed, convenience and efficiency in serving customers and to extend Watsco’s reach into new geographies and sales channels.

Since 2012, Watsco’s technology team has grown from approximately 60 employees to 175 employees. Financial performance in 2016 reflects an increase of \$3.3 million in technology-related costs (6 cents diluted per share). The present annual run-rate for technology related costs is approximately \$23 million.

Examples of innovations that Watsco has launched to enhance the buying experience for its 88,000 customers and the service capabilities of personnel at its 565 locations include:

- Mobile apps, e-commerce and other on-line tools using the industry’s most data-rich catalog of product information.
- Business intelligence and data analytics to enable more insightful decision-making by more than 600+ P&L managers across the company.
- Supply chain optimization to improve fill-rates, increase inventory turns and reduce real estate requirements and other operational costs over the long-term.
- Comprehensive order fulfillment software and implementation of wireless warehouses to improve operational efficiency for 7+ million annual customer transactions.

A summary of key performance indicators for the company’s primary technology platforms is as follows:

E-Commerce / App Usage

iOS or Android app users
 Products (SKUs) mastered
 E-commerce transactions
 Line items per order on-line versus in-store

Progress in 2016

220% increase in weekly active users
 71% increase to over 500,000 SKUs
 127% increase in on-line transactions
 28% more line items per order

Business Intelligence (BI) Platform

Increase in internal BI users	12% increase to over 1,500 users
Average number of BI queries per day per user	31% increase in queries per user
Total user inquiries during the year	Over 225,000 queries processed
Salesman BI-user performance versus non-user	7-times better sales performance
Store manager BI-user performance versus non-user	5-times better sales performance

Supply Chain / Warehouse Optimization

Total company inventory turns	32 basis-point improvement in turns
Inventory turns for fully-adopted locations	80 basis-point improvement in turns
Service levels for fully-adopted locations	300 basis-point improvement to 97%
Number of wireless locations	359 locations now functioning
Locations with digitized order fulfillment software	150 locations versus 25 locations last year
Locations with express pickup	68 locations (began in late 2016)
Reduction of real estate requirements	500,000 square foot reduction

A.J. Nahmad, Watsco's President said: "We are pleased to have made progress across all of these fronts. Our customers and organization continue to embrace technology though we are still in the early stages. We believe our efforts and innovative culture will ultimately redefine how the HVAC distribution channel will serve customers and transact business."

Cash Flow & Dividends

Operating cash flow for the full year was a record \$278 million or \$8.52 per diluted share and for the fourth quarter was a record \$131 million. Since 2000, Watsco's operating cash flow was approximately \$1.9 billion compared to net income of approximately \$1.8 billion, surpassing the Company's stated goal of generating cash flow in excess of net income.

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. Dividends paid in 2016 increased 30% to \$128 million. Watsco recently raised its annual dividend rate 24% to \$4.20 per share. 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.

Other

2016 full-year results include income tax benefits of \$2.9 million or 8 cents per diluted share relating to the Company's early adoption of Accounting Standards Update 2016-09, *Improvements to Employee-Share-Based Payment Accounting*, issued by the Financial Accounting Standards Board on March 30, 2016.

Conference Call Information

Date & time: February 14, 2017 at 10:00 a.m. (EDT)
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.

Use of Non-GAAP Financial Information

In this release, the Company discloses non-GAAP measure of "operating cash flow per share", which is determined by dividing "net cash provided by operating activities" as shown in the attached Condensed Consolidated Statements of Cash Flows by the "weighted-average Common and Class B common shares and equivalent shares used to calculate earnings per share" as shown in the attached Condensed Consolidated

Results of Operations. The Company believes that this information provides a meaningful comparison and important correlation of the Company's financial performance and cash flow generation on a per share basis in order to further assess overall performance. This measure should not be considered an alternative to measurements required by accounting principles generally accepted in the United States (GAAP).

About Watsco

Watsco improves indoor living and working environments with air conditioning and heating solutions that provide comfort regardless of the outdoor climate. There are approximately 89 million central air conditioning and heating systems installed in the United States that have been in service for 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 our 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 through one of its 565 locations in the United States, Canada, Mexico and Puerto Rico, and on an export basis to Latin America and the Caribbean. This network has been built over the last 25 years and serves 88,000 active customers. Watsco is developing and investing in technologies to enable sales via e-commerce, on-line marketplaces and through the retail sales channel. As the industry leader, we believe that significant growth potential remains given that the marketplace for HVAC/R products at the consumer level is estimated to be \$88 billion annually. Additional information about Watsco may be found at <http://www.watsco.com>.

Cautionary Statement Regarding Forward-Looking Statements

This document includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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,	
	2016	2015	2016	2015
Revenues	\$ 913,611	\$ 903,816	\$ 4,220,702	\$ 4,113,239
Cost of sales	685,539	681,775	3,186,118	3,105,882
Gross profit	228,072	222,041	1,034,584	1,007,357
Gross profit margin	25.0%	24.6%	24.5%	24.5%
SG&A expenses	169,998	167,840	688,952	670,609
Operating income	58,074	54,201	345,632	336,748
Operating margin	6.4%	6.0%	8.2%	8.2%
Interest expense, net	677	1,021	3,713	5,547
Income before income taxes	57,397	53,180	341,919	331,201
Income taxes	17,530	16,841	105,936	104,677
Net income	39,867	36,339	235,983	226,524
Less: net income attributable to non-controlling interest	10,314	9,849	53,173	53,595
Net income attributable to Watsco	<u>\$ 29,553</u>	<u>\$ 26,490</u>	<u>\$ 182,810</u>	<u>\$ 172,929</u>
Diluted earnings per share:				
Net income attributable to Watsco shareholders	\$ 29,553	\$ 26,490	\$ 182,810	\$ 172,929
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	3,050	2,107	14,801	13,626
Earnings allocated to Watsco shareholders	<u>\$ 26,503</u>	<u>\$ 24,383</u>	<u>\$ 168,009</u>	<u>\$ 159,303</u>
Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share				
	32,662,341	32,513,121	32,616,504	32,480,356
Diluted earnings per share for Common and Class B common stock	<u>\$ 0.81</u>	<u>\$ 0.75</u>	<u>\$ 5.15</u>	<u>\$ 4.90</u>

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 56,010	\$ 35,229
Accounts receivable, net	475,974	451,079
Inventories	685,011	673,967
Other	23,161	20,990
Total current assets	<u>1,240,156</u>	<u>1,181,265</u>
Property and equipment, net	90,502	62,715
Goodwill, intangibles, net and other	543,991	544,462
Total assets	<u>\$1,874,649</u>	<u>\$1,788,442</u>
Accounts payable and accrued expenses	\$ 314,688	\$ 270,117
Current portion of long-term obligations	200	184
Total current liabilities	<u>314,888</u>	<u>270,301</u>
Borrowings under revolving credit agreement	235,294	245,300
Deferred income taxes and other liabilities	72,719	69,120
Total liabilities	<u>622,901</u>	<u>584,721</u>
Watsco's shareholders' equity	1,005,828	957,310
Non-controlling interest	245,920	246,411
Shareholders' equity	<u>1,251,748</u>	<u>1,203,721</u>
Total liabilities and shareholders' equity	<u>\$1,874,649</u>	<u>\$1,788,442</u>

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

	Year Ended December 31, 2016	2015
Cash flow from operating activities:		
Net income	\$ 235,983	\$ 226,524
Non-cash items	40,751	38,142
Changes in working capital	1,022	(43,283)
Net cash provided by operating activities	<u>277,756</u>	<u>221,383</u>
Cash flow from investing activities:		
Capital expenditures, net	(42,833)	(22,938)
Cash flow from financing activities:		
Dividends on Common and Class B Common stock	(127,604)	(98,532)
Net repayments under revolving credit agreement	(10,006)	(56,256)
Distributions to non-controlling interest	(38,900)	(39,754)
Purchase of additional ownership from non-controlling interest	(42,909)	—
Other	5,503	8,222
Net cash used in financing activities	<u>(213,916)</u>	<u>(186,320)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(226)	(1,343)
Net increase in cash and cash equivalents	20,781	10,782
Cash and cash equivalents at beginning of year	35,229	24,447
Cash and cash equivalents at end of year	<u>\$ 56,010</u>	<u>\$ 35,229</u>

Watsco Raises Ownership Interest in Joint Venture with Carrier to 80%

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