BLUE OPS

ISSUE NO. 37

HVAC DISTRIBUTION · EXECUTIVE INTELLIGENCE · WEEK OF SEPT 7, 2026

The volume showed up. The margin still has to.

THE WEEK IN ONE LINE

HARDI's July jump was real, but weather did the work — and the 12-month line is still +2.7%. Treat volume as useful, not durable: protect freight recovery, A2L execution, and legacy-stock aging before you chase the print.

THREE NUMBERS THAT MATTER THIS WEEK

1. **HARDI distributor sales +6.7% in July, 12-month growth still +2.7%.** Best monthly gain of the year on comparable billing days. HARDI itself tied the strong regions to cooling-degree-day gains. Read as weather pull, not replacement-cycle recovery.
2. **Diesel $5.599/gal, down 5.3¢ WoW but up $1.865 YoY.** A one-week dip does not fix a stale freight-recovery table. Fully-loaded delivery cost is still ~50% above last September. Every branch running free-freight habits is still leaking contribution.
3. **Watsco Q2 gross margin 27.5% vs 29.3% prior year — 180 bps down.** The company cited about 130 bps of 2025 pricing/A2L transition benefit that is now anniversarying. The market is shifting from inflation-aided gross margin to execution-driven clean margin. It is a public read on where private branches are next.

DO THESE THREE BY FRIDAY

1. **Segment July/August sales into weather-pull vs recurring demand**
2. **Audit freight recovery on the top 25 delivery accounts per branch**
3. **Stress-test aged legacy inventory and A2L readiness before Q4**

This week's deep dive is freight recovery — Section 05. Full agenda in Section 03.

HARDI JULY (SEPT 1) → | EIA DIESEL (SEPT 1) → | WATSCO Q2 (JUL 29) →

MOST URGENT FOR

Delivery-heavy branches (freight recovery) · **weather-lifted Sunbelt / Central branches** (segment July before setting September stock) · **builder- and project-heavy branches** (watch cohort AR) · **legacy-refrigerant-heavy locations** (aged-stock stress test).

FROM LAST WEEK — STILL ACTIVE

Last week's attachment and price-file discipline still matter. This week the bigger risk is assuming weather-driven volume fixed branch economics. Watsco's Q2 print quantified the pressure — 180 bps of GM compression, roughly 130 bps of it 2025 pricing/A2L anniversary that is now gone.

01 SIGNAL BOARD

TAKEAWAY Demand printed better in July. Freight, aged stock, A2L, and tariff risk decide who converts it. Six signals below — numbered.

The six branch-economics signals we watch — status, what it means, one action.

1 · **Demand** STRENGTHENING · NEW	HARDI July +6.7% — best month of the year — but 12-month growth is only +2.7% and HARDI tied strong regions to cooling-degree-day gains. Weather pull, not replacement-cycle recovery. **DO THIS → SEGMENT JULY/AUGUST SALES BY WEATHER-SENSITIVE PARTS VS RECURRING SERVICE BEFORE RAISING ANY INVENTORY TARGET**
2 · **Pricing** NORMALIZING · STRENGTHENING	Watsco Q2 GM 27.5% vs 29.3%; ~130 bps of the drop was 2025 pricing/A2L anniversary. Pricing lift is no longer doing the work — invoice margin, freight recovery, and rebate capture are. **DO THIS → TIE BRANCH-MANAGER INCENTIVES TO CLEAN GROSS MARGIN PLUS REBATE CAPTURE — NOT SALES ALONE**
3 · **Commodity basket** 105.5 · −0.1% WoW	Copper eased ~1.1% ($14,371), aluminum firmed ~1.6% ($3,293). Basket flat WoW, YTD +15.6%. Not relief — two confirmed metals moving in opposite directions across coils, motors, sheet metal. **DO THIS → RECONFIRM COST BASIS ON BOTH COPPER- AND ALUMINUM-HEAVY SKU CLASSES THIS WEEK**
4 · **Freight / fuel** ELEVATED · STRENGTHENING	Diesel $5.599/gal, down 5.3¢ WoW but +$1.865 YoY. The weekly dip is noise. A branch on last year's recovery table is leaking contribution every route. **DO THIS → REPRICE DELIVERY MINIMUMS, EMERGENCY FEES, AND FUEL SURCHARGES BY BRANCH DENSITY — NOT LAST YEAR'S DEFAULTS**
5 · **Regulation / trade** POLICY RISK · NEW	HARDI/AHRI/ACCA/PHCC asked USTR to preserve USMCA benefits and Section 232 relief. AHRI also filed a D.C. Circuit petition on the EPA Technology Transitions rule. Tariff and refrigerant policy churn on top of live A2L execution. **DO THIS → BUILD COUNTRY-OF-ORIGIN AND TARIFF EXPOSURE LIST FOR TOP 200 SKUS; GIVE BRANCH MANAGERS VISIBILITY BEFORE THEY QUOTE LONG-DURATION JOBS**
6 · **M&A / Capital** QUALITY PREMIUM · CONTINUING	Watsco's Jackson Supply close (~$230M 2025 sales, 25 Sunbelt locations) is still the marker in a 2,100+ distributor market. Public comps pay for margin durability and cash conversion — not top-line volume. **DO THIS → SELLERS, CLEAN THE WC/KPI PACKAGE; BUYERS, NORMALIZE 2025 PRICING/A2L WINDFALL OUT OF TRAILING EBITDA**

02 THESIS OF THE WEEK

Two branches, same +7% July, different Q4.

The strong branch converted heat-driven traffic into disciplined counter margin, freight recovery, and repeat contractor loyalty. The weak branch matched competitors on equipment price, honored stale quotes after vendor files moved, ran free delivery, and finished the month with slower-moving inventory and stretched project AR. Same top line. Very different Q4.

> **THE ARITHMETIC**
>
> On a $20M branch, 130 bps of GM (Watsco's 2025 anniversary effect) is **$260,000** that has to come from clean invoice margin, rebates, freight recovery, or aged-stock discipline. Add a 200-bp freight-recovery gap on $2M of delivery cost: **+$40,000**. Add a 25% haircut on $200K of aged legacy equipment: **+$50K**. Same top line, roughly $350K less contribution. That gap is what separates the two branches above.

03 OPERATOR'S AGENDA

Three by Friday. Three this month. Two this quarter. If your branch can't produce category-turns or cohort AR yet, the Friday three still work — start with the top 25 delivery accounts and open quotes older than 14 days.

BY FRIDAY · THREE NON-NEGOTIABLES

#	REQUIRED ACTION	OWNER	MEASURE

P1	**Segment July/August branch sales by weather-sensitive vs recurring.** HARDI told you July was weather-tied. Do not raise September inventory targets off one hot month without margin and turns proof.	COO / branch ops	Category GM & turns Weather-basket sales share
P2	**Audit freight recovery on the top 25 delivery customers per branch.** Diesel −5.3¢ WoW but still +$1.86 YoY. Free delivery or no fuel surcharge on emergency runs is a subsidy. Deep dive: Section 05.	Branch managers + finance	Freight recovery % Delivery contribution / stop
P3	**Review open quotes older than 14 days on cooling and copper-heavy SKUs.** Copper eased ~1.1%, aluminum firmed ~1.6% — cost basis moved both ways. 50–150 bps of GM at stake where old quotes are still floating.	Pricing lead + branch managers	Quote age (%>14d) Quote-margin variance

THIS MONTH · THREE OPERATING REVIEWS

M1 **Re-rank branches by clean gross margin, not revenue growth**

HARDI's +6.7% will look like a bonus event at every branch. It isn't. Isolate branches where weather lifted the top line while GM% deteriorated — that is where false positives land in bonus math and in a diligence book.

Owner: CFO / COO · **Measure:** Weekly branch flash — sales, GM%, freight recovery, rebate capture, returns

M2 **Build tariff / USMCA exposure list for top 200 SKUs**

Tariff exposure needs to be visible to branch managers before they quote long-duration jobs at unprotected margin.

Owner: Supply chain / category · **Measure:** % of top-200 SKUs with documented country-of-origin

M3 **Stress-test aged inventory by A2L / R-410A and local training readiness**

Watsco cited 10,000+ new A2L SKUs across 650 locations. Legacy inventory in mismatched combinations builds write-down risk before Q4 close.

Owner: Inventory / regional ops · **Measure:** Aging buckets 0–90 / 91–180 / 181–365 / 365+ by refrigerant generation

THIS QUARTER · TWO STRUCTURAL IMPROVEMENTS

Q1 **Rebuild branch budgets around contribution per labor hour and per delivery stop**

Better productivity signal and better diligence artifact than sales growth. Watsco's e-commerce mix at 37% of LTM sales is the leverage point private branches need to catch up on.

Q2 **Segment contractor credit by service/replacement vs project/new construction cohorts**

HARDI's blended DSO held under 37 days. Averages hide project-heavy contractors who stretch when timelines slip — with starts −12.4% MoM, that stretch is where AR pressure lands first.

> **IF YOUR BRANCH REPORTING IS STILL IMMATURE**
>
> You do not need a perfect dashboard to find the leak. Start with the top 25 delivery accounts (recovery gap $), open quotes over 14 days on cooling and copper-heavy SKUs, and aged inventory over 120 days by refrigerant generation. Three lists on paper this week beats a dashboard next quarter.

04 BLUE OPS BASKETS & MARKET DASHBOARD

TAKEAWAY Basket essentially flat WoW as copper eased and aluminum firmed — but YoY costs remain structurally elevated. Cost-file discipline stays the margin lever.

> **HOW TO USE THE BASKET**
>
> Early warning, not a price index. Copper and aluminum are market-confirmed; other components directional. Action thresholds: basket up >2 pts in 14 days → refresh open cooling-side quotes. Either metal up >3% in 14 days → cost-file review on affected SKUs. Manufacturer price-file change on file → freeze quote extensions past the effective date.



HVAC COMMODITY BASKET

COPPER EASED · ALUMINUM UP

105.5

INDEX · JAN 2025 = 100

−0.1% WoW **+15.6%** YTD

Copper −1.13%; aluminum +1.61%; steel ~flat



13-week trend

CONFIRMED: COPPER, ALUMINUM | DIRECTIONAL: STEEL, COMPRESSORS, MOTORS, CONTROLS

Basket settled at 105.5 with the two confirmed metals moving in opposite directions — copper closed near $14,371 on 9/4 (down ~1.1% from $14,535 on 8/28) while aluminum firmed to $3,293 (up ~1.6% from $3,240). WTI near $92 keeps freight-cost assumptions elevated. This is not the beginning of relief — a flat WoW headline masks two separately volatile cost streams. Copper eases coil and lineset pressure; aluminum firmness re-loads sheet-metal and equipment-casing exposure. Do not price September quotes on August cost files without confirming both metals at the SKU class level.

COMPONENT	WEIGHT	THIS WEEK	WHAT IT MEANS
Copper	30%	14,371 · −1.13%	Modest ease from 52-week highs; still elevated YTD — hold quoted margin on coils, motors, linesets, wire, service parts
Steel / galvanized	30%	~Flat · dir.	Directional this week; S232 tariffs keep domestic steel firm — no basis to give back price
Aluminum	15%	3,293 · +1.61%	Firmer again; coils, sheet metal, equipment casing exposure — refresh quote basis
Compressors	10%	Firm · dir.	A2L models continue to carry premium; cost pressure remains directional
Motors	8%	Firm · dir.	Copper ease offsets some pressure; aluminum firmness offsets some ease
Controls	7%	~Flat · dir.	Directional flat; monitor as A2L system controls change

Index = weighted weekly move of six components, Jan 2025 = 100. Copper and aluminum from Markets Insider closes 9/4 vs 8/28; steel, compressors, motors, controls are directional this week.



CORE EQUIPMENT BASKET

HEAT PUMPS STILL LEAD · 46% YTD

104.1

INDEX · JAN 2025 = 100 · DIRECTIONAL

+0.1% WoW **+4.1%** since base

Heat pumps ~+0.2%, AC ~+0.1%, furnaces ~flat



13-week trend

Equipment basket ~104.1 — directional read, not a rate. AHRI June: 605,033 unitary AC and 418,538 heat pumps (YTD HP ~46% of unitary). Cooling-side quote risk remains higher than furnace risk — age out cooling quotes over 14 days first.

BASKET INDEX · ROLLING 13-WEEK + YTD

INDEX	6/15	6/22	6/29	7/6	7/13	7/20	7/27	8/3	8/10	8/17	8/24	8/31	9/7	WOW	YTD
Commodity	99.4	99.2	99.8	100.5	101.1	101.8	102.9	104.2	104.8	104.9	105.1	105.6	**105.5**	−0.1%	+15.6%
Equipment	100.8	101.0	101.2	101.4	101.6	101.8	102.0	102.3	102.6	103.5	103.8	104.0	**104.1**	+0.1%	+4.1%

Both baskets: Jan 2025 = 100. YTD is measured from Jan 1, 2026. Copper and aluminum are market-confirmed; steel, components, and all equipment inputs are directional.

PUBLIC COMPS & MACRO INDICATORS

INSTRUMENT	LEVEL / 7-DAY	WHAT IT MEANS
Copper	14,371 · −1.13%	Modest ease from near-highs; still elevated — hold price on coils, motors, linesets, wire, service parts
Aluminum	3,293 · +1.61%	Firmer; coils, sheet metal, equipment casing exposure — refresh quote basis
Diesel (US avg)	$5.599 · −5.3¢	Weekly dip is noise; still +$1.865 YoY. Reprice delivery minimums and fuel surcharges by branch density
WTI oil	~$92.66	Elevated — supports firm freight-cost assumptions and inbound freight risk
Watsco WSO	Q2 GM 27.5%	Revenue +2%, same-store +1%; op margin 11.3% vs 13.2%; e-com 37% of LTM sales — scale + digital protect valuation, not the top line
Ferguson FERG	Distrib. comp	Broad distribution comp; margin discipline is the valuation anchor

Commodity figures from Markets Insider snapshots accessed Sept. 7, 2026 (closes 9/4). Diesel from EIA weekly retail survey release

9/1/26 for 8/31/26. Watsco figures from Q2 2026 release (Jul 29).

HOUSING, CONSTRUCTION & DEMAND DASHBOARD · JULY DATA

SERIES	LATEST	CHANGE	WHAT IT MEANS
HARDI distributor sales (Jul)	+6.7% MoM	12-mo +2.7%	Best month of year on comparable billing days — but weather-tied by HARDI's own commentary; do not extrapolate
HARDI DSO (Jul)	<37 days	~ 2025 level	Contractor payment behavior holding — good signal on credit; watch project-heavy cohorts separately
Construction spending (Jul)	$2.158T SAAR	−0.5% MoM, −3.8% YoY	Residential −1.3% MoM, nonresidential +0.4% MoM — commercial service/retrofit is the better-quality pocket
Housing starts (Jul)	1.239M SAAR	−12.4% MoM, −13.5% YoY	Completions −16.8% YoY. Near-term equipment pull weakens; keep builder part numbers lean
Building permits (Jul)	1.443M SAAR	+5.0% MoM	Future work possible — but permits are not revenue; do not build inventory on the print
AHRI unitary shipments (Jun)	1.024M units	HP 41% of Jun	YTD HP mix 46%; branches need controls, coils, accessories, and training — not just outdoor-unit availability

Sources: HARDI July release (Sept 1); U.S. Census Monthly Construction Spending Jul (Sept 1) and New Residential Construction Jul (Aug 18); AHRI June shipment data (Aug 14). Housing and construction data are national; Sunbelt vs colder markets, and replacement vs new-construction branches, will vary.



05 OPERATOR SCORECARD · YOUR OWN NUMBERS TO WATCH

> **TAKEAWAY** Freight recovery is the cleanest test this week of whether a delivery-heavy branch is turning traffic into contribution — or subsidizing accounts diesel is quietly making unprofitable.

These are your numbers. They decide whether market signals turn into profit.

BRANCH-QUALITY DASHBOARD · SIX NUMBERS THIS WEEK

NUMBER	DEFINITION	WHAT TO WATCH
Freight recovery % ◂ THIS WEEK	Delivery revenue ÷ fully-loaded delivery cost (fuel, driver, vehicle, allocated route overhead). Deep dive below.	Falling trend, or capture rate under ~70% of eligible invoices.
Clean gross margin %	Invoice-level GM by branch and by category (equipment / parts / accessories). Separate rebates so you see execution vs vendor programs.	Down >150 bps MoM — driver is cost-file lag, discounting, or mix.
Aged inventory $	>120-day and >180-day dollars by category and by refrigerant generation (A2L vs legacy).	Rising during peak season — write-down risk before Q4 close.
A2L return rate	A2L-related returns $ ÷ A2L transactions $, by branch and by contractor cohort.	Rising trend at a specific branch or contractor.
Quote age	Days since quote issued, by SKU class. Copper down / aluminum up means both directions of quote risk.	Any cooling or aluminum-heavy quote >14 days old.
AR by customer cohort	Days-to-pay weighted by invoice $, split into service/replacement / builder / commercial / retail. HARDI's blended DSO hides project stretch.	Builder or project cohort stretching past 45 days.

Starting definitions — calibrate to your own mix. Replacement/service-heavy branches sustain higher turns and lower AR days than project or builder-heavy branches. The question is whether each branch is improving against its own baseline, not whether it hits one network target. Extended KPI definitions and watch levels available on request.



THIS WEEK'S DEEP DIVE · FREIGHT RECOVERY %

WHY IT MATTERS NOW

Diesel dipped 5.3¢ this week to $5.599 — but sits $1.865 above last year. That is not going back to 2024. And July's HARDI print produced more delivery runs at every branch that responded to heat. Higher run rate + stale recovery table = contribution walking out on every route.

HOW TO MEASURE IT

Numerator: all delivery revenue — invoice delivery line, fuel surcharge, minimum-order fee, hot-shot premium, jobsite fee. **Denominator:** *fully-loaded* delivery cost — fuel, driver wage/benefits/OT, vehicle depreciation and maintenance, and allocated route overhead. If your ERP only shows fuel, the denominator understates the real bill by roughly 40–60% and the recovery % looks better than it is.

WHERE THE LEAKS LIVE — FOUR INPUTS

(1) Route density — stops per hour; three drops on a rural route is a different problem than twelve on a metro route. **(2) Invoice size per stop** — a $250 capacitor drop and a $12,000 equipment delivery both take an hour. **(3) Surcharge capture rate** — the share of eligible invoices where fuel surcharge or delivery fee actually landed, not waived at the counter. **(4) No-charge exception density** — how many "just this once" waivers stacked into the top 25 accounts. Each is fixable branch by branch. None is fixable without measuring it.

WHAT GOOD LOOKS LIKE — BY BRANCH MODEL

These are **starting points, not industry rules.** Calibrate to your own mix, geography, and route structure.

BRANCH MODEL	RECOVERY FOCUS	MAIN LEAK
Dense metro / high-stop	Full-recovery target achievable; hold surcharge discipline	Counter waivers stacking on top 25 accounts
Rural / long-route	Recovery per stop, minimum order size, will-call incentives	Small-invoice drops with no minimum; single-drop routes at $5.60 diesel
Builder / jobsite-heavy	Jobsite delivery fee, over-threshold pricing, staged-drop premium	Freight buried in job pricing then not honored when scope grows
Emergency / service-parts-heavy	Hot-shot / after-hours premium; emergency delivery fee	Emergency runs treated as goodwill; premium waived to keep contractor happy

The rule: if surcharge capture is under ~70% of eligible invoices, or if the top 25 delivery accounts pay less-than-list on delivery, the branch is subsidizing customers who did not ask to be subsidized. Fix the recovery table before the next diesel move makes the leak visible in EBITDA.

Do this week → pull invoice-level delivery revenue vs fully-loaded cost by branch. Rank the top 25 delivery accounts by "recovery gap $." Set a 30-day plan to reprice, reclassify, or convert to will-call the top 10.

Worked example: 40 delivery stops/day, 5 days/week, 15-mile route legs at 8 MPG and $5.60/gal = ~$210/day in fuel across all stops. Add driver time, vehicle, and overhead, fully-loaded cost per stop is roughly $18–28. A $5 delivery fee on a $250 invoice covers about 20% of that. Fine as a one-off; not as a policy on 500 invoices a week.

Last week: inventory turns / aged stock. Next week: cost-file lag — the copper-down / aluminum-up split as the walk-through.

06 NATIONAL CHANNEL INTELLIGENCE

TAKEAWAY Volume is present but weather-influenced; margin normalization confirmed at the public comp; policy and inventory risk are moving in parallel. Distribution valuations reward margin, digital, and discipline — not headline growth.

DEVELOPMENT	WHY IT MATTERS	WHO SHOULD ACT
HARDI July: sales +6.7%, 12-mo +2.7%, DSO <37 days Sept 1	Best monthly gain of the year on comparable billing days — but HARDI tied strong regions to cooling-degree-day gains. Use the lift; do not extrapolate. **HARDI →**	All operators — segment weather-tied vs recurring before setting September stock
Watsco Q2: revenue +2%, GM 27.5% vs 29.3%; e-com 37% LTM sales Jul 29	~130 bps of the 180 bp GM drop is 2025 pricing/A2L anniversary now gone. Diligence should isolate that windfall from repeatable branch earnings. **WATSCO →**	Buyers/lenders — normalize windfall out of trailing EBITDA
Watsco Jackson Supply: ~$230M 2025 sales, 25 Sunbelt locations Jun 26	Density, contractor relationships, and line-card position still command a premium in a 2,100+ distributor market. Sellers should clean the WC and KPI package now.	Sunbelt operators — benchmark contractor experience against Watsco locally

HVACR coalition urges USTR to preserve USMCA benefits Sept 1	HARDI, AHRI, ACCA, PHCC ask covers Section 232 relief and rules-of-origin exemptions. Whatever the outcome, tariff exposure needs SKU-level visibility before it hits margin. **HARDI →**	Supply chain — build tariff exposure list for top 200 SKUs

AHRI's D.C. Circuit petition on the EPA Technology Transitions rule and Watsco's Q2 A2L SKU expansion (10,000+ new SKUs across 650 locations) are covered in Section 07.

07 REGULATORY & PRODUCT TRANSITION

A2L READINESS — SIX THINGS TO WALK BRANCH BY BRANCH

- ☐ Counter staff trained on approved substitutions and refusal cases
- ☐ Storage, ventilation, and cylinder-handling procedures posted
- ☐ Match-up documentation available at counter; compatibility verified against manufacturer bulletins
- ☐ Returns reason codes coded distinctly for A2L transactions
- ☐ A2L return rate tracked weekly by branch and by contractor
- ☐ Legacy R-410A disposition plan active — return, transfer, discount, or write-down

TAKEAWAY Two policy tracks live: AHRI's AIM Act litigation and USMCA/Section 232 preservation. Both raise the value of inventory and price-file discipline.

A2L / AIM Act litigation POLICY UNCERTAINTY · NEW	AHRI filed a D.C. Circuit petition for review of EPA's Technology Transitions Reconsideration Final Rule. Regardless of outcome, policy churn raises the value of tight inventory discipline and rapid price-file updates. **RESPONSE → KEEP A2L SKU COMMUNICATIONS TIGHT; KEEP LEGACY INVENTORY DISPOSITION PLANS ACTIVE BRANCH BY BRANCH**
USMCA / Section 232 preservation TARIFF RISK · NEW	HARDI/AHRI/ACCA/PHCC coalition asked USTR to preserve USMCA benefits, Section 232 relief, and rules-of-origin exemptions. Trigger to build country-of-origin visibility now — before policy forces reactive repricing. **RESPONSE → TARIFF / USMCA EXPOSURE LIST FOR TOP 200 SKUS**
Metal whipsaw / cost files CONTINUING RISK	Copper eased ~1.1% while aluminum firmed ~1.6%. Basket looks flat but the two moved in opposite directions. Quotes older than 14 days carry risk from either side. **RESPONSE → RECONCILE ERP COST BASIS TO VENDOR FILES WEEKLY ON BOTH COPPER- AND ALUMINUM-HEAVY SKUS**

08 REGIONAL HEAT MAP

TAKEAWAY NOAA CPC 6–10 day valid Sept 12–16 favors above-normal temperatures across most of CONUS, with possible unseasonably warm mid-September conditions in the East. Confidence average (3/5). Read as late-season service/parts pull, not equipment stocking event.

East / Southeast ABOVE-NORMAL · STRENGTHENING	NOAA CPC 6–10 day favors above-normal temperatures across most of CONUS east of the Rockies; unseasonably warm mid-September temperatures possible in the East. Supports emergency parts, capacitors, motors, refrigerant, and replacement quoting. Do not overbuy slow-moving equipment on one late-season heat window. **DEAL READ → FAVOR BRANCHES WITH PROVEN EMERGENCY-PARTS FILL RATE AND DISCIPLINED COUNTER MARGIN; WATCH RUSH-ORDER AND HOT-SHOT DELIVERY PRICING**
Midwest / Central ABOVE-NORMAL · MODERATE	Broad warmth likely across the Midwest and Central Plains through Sept 12–16 with some pattern uncertainty. Supportive for service parts and replacement quotes; do not assume builder / install recovery. Separate service/replacement sales from new-construction backlog in every weekly branch review. **DEAL READ → PRIORITIZE BRANCHES WITH CLEAN SPLIT REPORTING BETWEEN REPLACEMENT/SERVICE AND PROJECT REVENUE**

Pacific Northwest / N. Plains

NEAR- TO BELOW-NORMAL · MONITORING

Near- to below-normal temperatures favored in portions of the Pacific Northwest and Northern Plains. Cooling urgency softer; watch staffing and inventory after hot-weather assumptions. Tighten reorder points and prioritize year-round failure parts.

DEAL READ → TIGHTEN INVENTORY BUYS; MONITOR AGED COOLING ITEMS; DO NOT TRANSFER SLOW EQUIPMENT INTO WEAKER-WEATHER BRANCHES

California / West Coast

FREIGHT COST HIGH · CONTINUING

Diesel remains elevated on the West Coast (well above the $5.599 US average). High fuel cost makes free delivery especially expensive; a route-density-tuned recovery table matters more here than anywhere else.

DEAL READ → BUYERS WILL CARE ABOUT THE RECOVERY TABLE BECAUSE IT SHOWS WHETHER BRANCH ECONOMICS ARE REAL

09 M&A / CAPITAL MARKETS RADAR

> **TAKEAWAY** Public market rewards margin durability, not top-line growth. Private diligence pivots to demand quality, freight recovery, A2L execution, and inventory age by refrigerant generation.

Public comp tone — margin normalization confirmed

CAPITAL MARKETS · CONTINUING

Watsco Q2 quantified what the tape had been telegraphing: revenue +2%, GM down 180 bps (~130 bps of it 2025 pricing/A2L anniversary). Public buyers pay for scale, procurement leverage, and cash conversion — not top-line volume.

WATCH → DO NOT ACCEPT "DISTRIBUTOR" COMPS AS FAIR VALUE FOR PRIVATE ASSETS WITHOUT MARGIN, FREIGHT RECOVERY, AND CASH CONVERSION EVIDENCE

Private-market posture — Jackson Supply as the marker

STRATEGIC COMP · CONTINUING

Watsco's Jackson Supply close (~$230M 2025 sales, 25 Sunbelt locations, ~5,000 customers) remains the strategic comp in a 2,100+ distributor market. Premium: Sunbelt density, balanced mix, defensible OEM lines, branch-manager continuity. Caution: weather-spike revenue with weak margin, legacy inventory, informal pricing, owner-dependent sales.

WATCH → SELLERS, PREPARE THE WC AND BRANCH-KPI PACKAGE NOW; BUYERS, NORMALIZE A2L / PRICING WINDFALLS OUT OF TRAILING EBITDA

Demand quality as diligence focus

DILIGENCE · STRENGTHENING

Diligence pivots to replacement/service mix, invoice-level freight recovery, A2L documentation, inventory aging by refrigerant generation, and AR quality by cohort. "Strong contractor relationships" without process evidence is a caution flag — they may be funded by unrecovered delivery, aged inventory, or stretched terms.

WATCH → REQUIRE THE SELLER TO PRODUCE MARGIN, FREIGHT RECOVERY, INVENTORY AGING, AND DAYS-TO-PAY BY BRANCH AND BY CUSTOMER COHORT

Bottom line

SUMMARY

Premium goes to replacement/service mix, strong parts and accessories attachment, disciplined freight recovery, documented A2L readiness, low aged inventory, clean rebate capture, and branch managers running process. Caution goes to builder-heavy volume, free-freight cultures, stale legacy inventory, contractor concentration, and revenue that depends on the owner staying in the seat.

10 THE DEAL LENS · WHAT THIS WEEK SAYS

WHAT THIS WEEK SAYS TO FAVOR

- Replacement/service-heavy branches with 95%+ fill rate on critical A2L items and same-day availability
- Documented freight recovery by branch and by account — not free-freight culture at $5.60 diesel
- Visible A2L readiness — match-up docs, counter scripts, cylinder/reclaim process, low return rate, active legacy disposition plan

WHAT THIS WEEK SAYS TO AVOID

- Equipment-volume growth created by price concessions or one hot month with no margin bridge
- Builder- and new-construction-heavy branches against −12.4% MoM starts and −16.8% YoY completions
- Aging R-410A or mismatched A2L inventory without an active liquidation plan

- Commercial service/retrofit mix with recurring maintenance demand — supported by Census nonresidential +0.4% MoM
- Branch managers running process — segmented sales reporting, weekly margin reviews, cohort AR discipline

- Free-freight cultures, no fuel surcharge on emergency runs, or long jobsite routes with no over-threshold pricing
- Vendor economics that are not transferable at close, or top-manufacturer relationships owned by the seller personally

THIS WEEK'S KEY DILIGENCE QUESTION

Can management reconcile July/August sales growth to clean branch contribution — after freight, rebates, returns, warranty, inventory aging, and AR — by branch and by customer cohort? If the answer is no, the revenue is not yet underwritable.

11 NEXT MONDAY'S WATCHLIST

MONTHLY	**HARDI August print + regional commentary** — July's +6.7% was weather-tied. *Confirm:* August moderates and strong regions still align with heat. *Weaken:* August also runs hot and starts to look broad-based. *Reverse:* multiple regions post sustained growth independent of weather with clean GM% and stable DSO.
WEEKLY	**NOAA CPC 6–10 / 8–14 day outlook** — late-season heat drives service/replacement urgency east of the Rockies. *Confirm:* heat pattern holds or extends. *Weaken:* heat signal moderates. *Reverse:* broad cool-down cuts emergency call volume.
WEEKLY	**Diesel / freight recovery** — one-week dip does not fix the year-over-year picture. *Confirm:* diesel stays elevated and branches recover surcharges. *Weaken:* diesel keeps dropping and branch recovery improves at pace. *Reverse:* diesel falls materially and customers accept explicit delivery pricing.
WEEKLY	**A2L returns and warranty claims** — transition risk shows up at the branch cost line. *Confirm:* returns, misorders, or tech-support calls rise. *Weaken:* training and match-up docs cut error rates. *Reverse:* D.C. Circuit ruling or EPA action changes the compliance roadmap.
MONTHLY	**Residential starts / permits / construction spending** — builder exposure remains a caution. *Confirm:* starts stay weak, completions keep declining. *Weaken:* permits convert to starts. *Reverse:* builder demand accelerates on better affordability.
INTERNAL	**Operator scorecard** — freight recovery % this week; aged stock carry-forward; quote age and AR by cohort weekly. *Confirm:* recovery % rises and aged buckets shrink. *Weaken:* flat recovery with rising delivery cost. *Reverse:* aged buckets grow while sales moderate.

MANAGEMENT QUESTION FOR THIS WEEK

Of the branches that beat plan in July, which ones improved clean gross margin, freight recovery, and inventory turns at the same time — and which ones grew top line while quietly losing ground on all three?

That second group is where September inventory and December bonus math will lie to you. The Section 05 dashboard is what tells you which is which.

SOURCE NOTES

Sources checked Sept. 7, 2026:

HARDI — "HARDI Distributors Report 6.7% Revenue Increase in July" (Sept 1): July 2026 distributor sales +6.7%; 12-month growth +2.7%; DSO <37 days
HARDI / AHRI / ACCA / PHCC — "HVACR Coalition Urges USTR to Preserve USMCA Benefits" (Sept 1): coalition ask on USMCA, Section 232, rules of origin; cited 1.9M workers
U.S. Census Bureau — Monthly Construction Spending, July 2026 (Sept 1): total $2.1576T SAAR, −0.5% MoM, −3.8% YoY; private residential $859.0B −1.3% MoM; private nonresidential $755.2B +0.4% MoM
U.S. Census Bureau — Monthly New Residential Construction, July 2026 (Aug 18): permits 1.443M SAAR, starts 1.239M SAAR (−12.4% MoM), completions 1.212M (−16.8% YoY)
AHRI — June 2026 U.S. Heating and Cooling Equipment Shipment Data (Aug 14): unitary AC 605,033, heat pumps 418,538; YTD AC 2,560,139, HP 2,156,549 (HP ~46% of YTD unitary)
Watsco — Q2 2026 release (Jul 29): revenue +2%, same-store +1%, GM 27.5% vs 29.3%, op margin 11.3% vs 13.2%; e-commerce $2.7B LTM / 37% of sales; Jackson Supply close (~$230M 2025 sales, 25 Sunbelt locations)
EIA — Gasoline and Diesel Fuel Update (Sept 1): U.S. on-highway diesel $5.599/gal for 8/31/26, −$0.053 WoW, +$1.865 YoY
NOAA Climate Prediction Center — 6–10 day outlook updated Sept 6, valid Sept 12–16; above-normal temperatures across most CONUS; confidence 3/5
AHRI — D.C. Circuit petition for judicial review of EPA Technology Transitions Reconsideration Final Rule (procedural AIM Act challenge)
Markets Insider — commodities and public comps snapshots (accessed Sept 7): copper ~$14,370.85, aluminum ~$3,292.50, WTI ~$92.66
Blue Ops commodity and equipment basket indices (copper and aluminum confirmed; remaining components directional)

HOW THIS BRIEF IS BUILT

Outside view (signals, baskets, market dashboard, channel and regulatory news) paired with an inside view (operator agenda, scorecard). Confidence: **High** = official release or filing; **Medium** = credible trade reporting not independently confirmed. Where equipment basket components lack a public weekly series, we mark them directional. Scorecard targets are starting points — calibrate to your own branches.

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