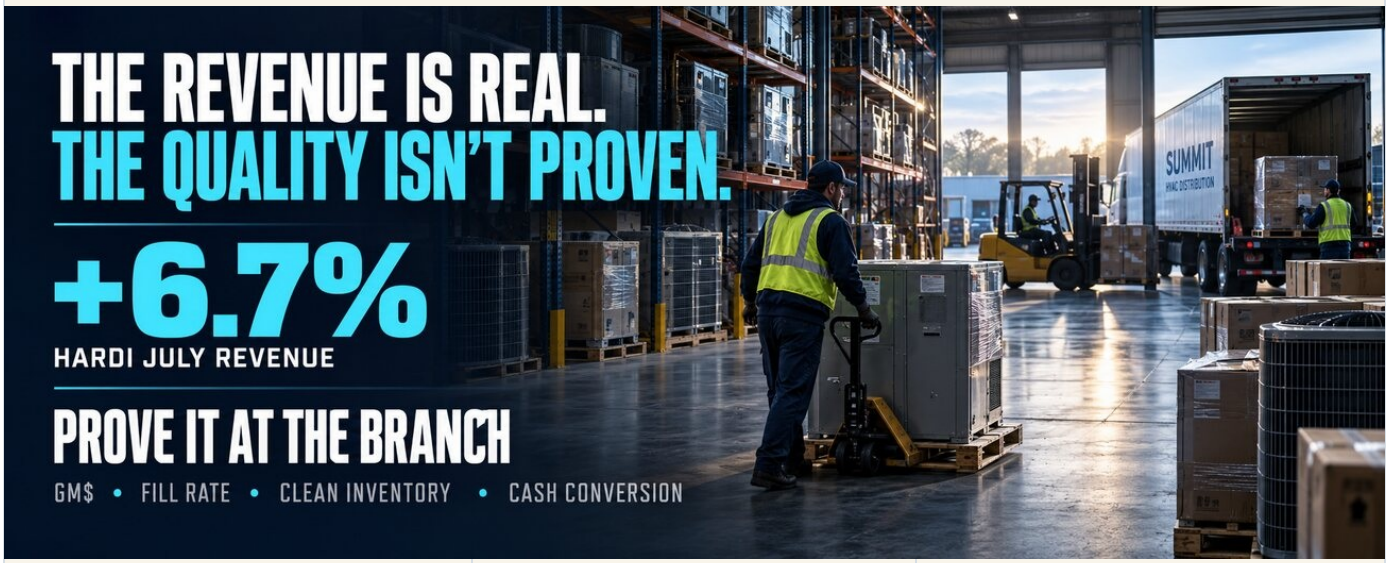
BLUE OPS

ISSUE NO. 38

HVAC DISTRIBUTION · EXECUTIVE INTELLIGENCE · WEEK OF SEPT 14, 2026

Reading July's Growth.

10 MIN FULL · 3 MIN BRIEF · 30 SEC SCAN



+6.7%

HARDI JULY REVENUE

Distributor revenue up July. **Real activity** — but weather, price, and restocking are inside the number.

SEE SIGNAL 1 →

503K · 414K

AHRI JULY · AC + HEAT PUMPS

Upstream moved. **Sell-through, fill rate, and margin capture** are unproven at the branch.

SEE SIGNAL 2 →

6.76%

30-YR MORTGAGE · HMI 35

Freddie Mac Sept 10. NAHB August. **New-construction branches stay discounted**; service/replacement wins the multiple.

SEE SIGNALS 4-5 →

■ THIS WEEK'S DEEP DIVE

~4 MIN · SECTION 05

Reported GM looks good.
What's left after you strip the noise?

Branch (Clean) Gross Margin — the seven adjustments that separate repeatable branch earnings from optical ones: unrealized rebate accruals, one-time SPA windfalls, weather-driven emergency premium, inventory-holding gains from vendor increases, blended-in freight recovery, episodic vendor allowances, prior-period cost adjustments. The maturity table, and a worked branch example.

READ THE DEEP DIVE →

OR THE KPI SCORECARD FIRST →

THE REST OF THE ISSUE

TAP ANY SECTION TO JUMP ↓

01 **Signal Matrix →** 6 SIGNALS · CONFIDENCE LABELS

HARDI +6.7%, AHRI shipments, regional weather, Census split, affordability drag, September prices + A2L. Each with source confidence, KPI that moves first, and a disconfirming indicator.

02 **Thesis of the Week →** 2 MIN READ

Two distributors both grew in July. Only one produced gross-margin dollars, clean DIO, and cash conversion. Which one an experienced buyer wants isn't the one on the press release.

03 **Operator's Agenda →** DO THESE BY FRIDAY

Next 24–72 hours: price-file / quote-to-invoice audit, inventory + fill-rate split, contractor segment review. Each action with expected outcome, management check, and failure mode.

04 **Economic Mechanisms & Market Dashboard →** FIRST / SECOND-ORDER

Six mechanisms (demand · pricing · margin · inventory · contractor behavior · supplier leverage) with leading indicator, watch level, and escalation trigger. Baskets directional this week.

05 **Operator Scorecard →** THIS WEEK: BRANCH (CLEAN) GM

Eight operator metrics on a weekly rotation — fill rate, aged turns, AR by customer, quote age, aged $, freight recovery, clean GM, A2L returns. Your numbers to pull against your own baseline. This week's focus goes deep below.

06 **Regulatory & Product Transition →** WORKING-CAPITAL + LOYALTY EVENT

A2L / R-410A is not compliance work. It is a working-capital and contractor-trust event. Six things to walk branch-by-branch on A2L readiness — miss one, lose the counter relationship.

07 **Regional Weather & Branch Playbook →** ~188 NWS ALERTS

14 heat alerts, 3 frost/freeze, 10 flood. Weather is regional, not national — and copying heat-market stocking to a shoulder-season branch is where distributors get in trouble.

08 **Contractor Segments & M&A Read →** 5 CONTRACTOR TYPES

Residential replacement · service-heavy · commercial mechanical · builder · PE-backed. How each is likely to behave right now — and what that means for wallet share, credit exposure, and the multiple a buyer should pay.

09 **The Deal Lens →** FAVOR · AVOID OR HAIRCUT

Eleven things to favor, nine to walk from. Plus the one diligence question that decides whether the July revenue story is even underwritable — and 15 questions a veteran distribution CEO would already be asking.

10 **Next Monday's Watchlist →** 7 ITEMS

HARDI detail confirmation, AHRI sell-through reconciliation, price-file execution, inventory quality, contractor wallet share, supplier channel power, cash conversion. What confirms or breaks the operating read next Monday.

Prefer to scan the whole thing? Keep scrolling. The 30-second executive read (week in one line · three numbers · three actions) is right below.

THE WEEK IN ONE LINE

Activity improved — HARDI July distributor revenue +6.7% and AHRI July shipments strong. The investable question is not whether demand showed up. It is whether branches converted it into gross-margin dollars, inventory quality, override control, contractor retention, and durable EBITDA. On today's evidence, that is not yet proven.

THREE NUMBERS THAT MATTER THIS WEEK

1. **HARDI July distributor revenue up 6.7%.** Real channel activity — but the public summary does not separate volume, price, weather, and restocking. Do not underwrite as structural recovery without sell-through, gross-margin-dollar growth, DIO, and fill-rate proof.
2. **AHRI July shipments: 503,151 AC units and 413,679 heat pumps** (3.06M and 2.57M YTD); gas warm-air furnaces 265,810 units (1.82M YTD). Equipment moved upstream. That does not prove branch fill-rate quality, gross-margin capture, accessory attach, or contractor pull-through. Reconcile to sell-

through before raising buy targets.

3. **Freddie Mac 30-year fixed 6.76% (Sept 10). NAHB August HMI 35 — 35% of builders cut prices, 63% used incentives.** Affordability is not fixing. New-construction-heavy branches keep their discount; service/replacement mix earns the multiple.

DO THESE THREE BY FRIDAY

1. **Price-file / quote-to-invoice audit — open quotes past vendor effective dates, counter overrides by branch, matrix exceptions, SPA leakage**
2. **Inventory + fill-rate split — DIO by branch/category, fill on fast movers, aged inventory by receipt date, R-410A vs A2L exposure**
3. **Contractor segment review — split top accounts by residential replacement, service-heavy, commercial mechanical, builder, PE-backed; apply the right pricing / credit model to each**

This week's deep dive: Branch (Clean) Gross Margin — the number left after you strip out the noise (Section 05). Full 24–72hr / this-week / this-month agenda in Section 03.

HARDI NEWS → | AHRI JULY RELEASE → | FREDDIE MAC PMMS →

MOST URGENT FOR

Distributor CEOs and CFOs (branch-vs-enterprise contribution) · **pricing leads and counter managers** (September vendor increases + override control) · **service/replacement-heavy branches** (share-gain window while builder-heavy peers are on defense) · **refrigerant-heavy counter businesses** (A2L / R-410A working capital + contractor trust) · **M&A teams underwriting July/August trailing EBITDA** (normalize for weather, restocking, rebate accrual).

FROM LAST WEEK — STILL ACTIVE

Last week we flagged price-file speed as the operational lever. The July HARDI print now gives us the demand context: activity was real, but the pieces that decide quality — margin dollars, DIO by refrigerant platform, override %, cash conversion — are not visible in the public summary. Reconciling them by branch is this week's work.

01 SIGNAL MATRIX

TAKEAWAY HARDI and AHRI say activity was real. Census, Freddie Mac, and NAHB say the split between service/replacement and new-construction persists. September prices and A2L are simultaneously a margin event and a channel-power event. Six signals with source confidence, KPI that moves first, and disconfirming indicator.

Evidence vs inference labeled. Each signal ends with the leading KPI and the observation that would break the read.

1 · **HARDI July revenue** +6.7% · MED-HIGH CONFIDENCE	**Fact:** HARDI public page reports distributors' July revenue +6.7%. **Inference:** Real channel activity, but volume / price / weather / restocking mix is not visible from the public summary. Revenue growth can come from actual demand, price realization, weather-driven urgency, restocking, or mix — only some improve quality of earnings. KPI THAT MOVES FIRST → GROSS-MARGIN DOLLARS BY BRANCH, FILL RATE ON FAST MOVERS, DIO BY CATEGORY. DISCONFIRMING → REVENUE ROSE BUT GM$, FILL RATE, REPEAT ORDERS, AND CASH CONVERSION DID NOT.
2 · **AHRI July shipments** STRONG · HIGH CONFIDENCE	**Fact:** Unitary AC 503,151 July units (3.06M YTD); heat pumps 413,679 (2.57M YTD); gas warm-air furnaces 265,810 (1.82M YTD). Equipment moved upstream. **What it does not prove:** branch fill-rate quality, GM capture, accessory attach, or correct refrigerant-era mix. Manufacturer strength becomes distributor value only through equipment margin, attach, contractor loyalty, and turns. KPI THAT MOVES FIRST → FILL RATE BY EQUIPMENT FAMILY, EQUIPMENT GM, HEAT-PUMP ACCESSORY ATTACH PER TICKET, DIO BY REFRIGERANT PLATFORM. DISCONFIRMING → SHIPMENTS STRONG BUT BRANCH SELL-THROUGH AND TURNS STALL.

3 · **Weather is regional**

~188 ALERTS · HIGH / MED

Fact: NWS active alerts showed ~188 alerts during this run — 14 heat-related, 3 frost/freeze, 10 flood. CPC 6–10 day outlook updated Sept 14 for the Sept 20–24 period. **Inference:** HVAC weather demand is concentrated by region, not national. A national purchasing playbook is dangerous this week — branch climate and contractor mix should override national averages.

KPI THAT MOVES FIRST → EMERGENCY-ORDER MIX, FILL RATE ON TOP 50 FAST MOVERS, HOT-SHOT DELIVERIES PER DAY, DIO AFTER THE DEMAND SPIKE. DISCONFIRMING → INVENTORY RISES AFTER ALERTS FADE.

4 · **Census July housing**

PERMITS ↑ · STARTS ↓ · HIGH

Fact: Building permits 1.443M SAAR (+5.0% MoM, +3.1% YoY); starts 1.239M SAAR (−12.4% MoM, −13.5% YoY); completions 1.212M SAAR (−9.1% MoM, −16.8% YoY). Permits are future intent — starts and completions drive more immediate construction-related HVAC pull-through. Construction-heavy branches and builder-account credit stay pressured.

KPI THAT MOVES FIRST → BUILDER AR / DSO, PROJECT BACKLOG CONVERSION, ROUGH-IN / TRIM-OUT DEMAND, TOP-20 CONCENTRATION IN CONSTRUCTION-HEAVY MARKETS. DISCONFIRMING → STARTS AND COMPLETIONS REBOUND WHILE BUILDER AR STAYS CLEAN.

5 · **Affordability + builder sentiment**

6.76% · HMI 35 · HIGH

Fact: Freddie Mac 30-year fixed averaged 6.76% (Sept 10). NAHB August HMI 35; 35% of builders cut prices; 63% used incentives. Affordability pressure slows new-home demand and squeezes builder margins — slower project pull-through, more price-sensitive builder accounts, higher DSO risk. In M&A, normalize EBITDA for customer mix.

KPI THAT MOVES FIRST → BUILDER AR OVER 45 / 60, PROJECT QUOTE AGING, BRANCH SALES MIX (REPLACEMENT VS NEW CONSTRUCTION), CREDIT-HOLD FREQUENCY, MARGIN BY CUSTOMER COHORT. DISCONFIRMING → HMI RECOVERS, RATES DECLINE, STARTS REBOUND, DSO STABLE.

6 · **Sept prices + A2L**

MARGIN + CHANNEL EVENT · MED-HIGH

Fact: Trade sources continue reporting September HVAC price increases and A2L / code-transition complexity. **Inference:** Supplier actions likely mix margin restoration, transition management, and channel behavior shaping — pushing A2L migration, protecting rebate economics, rewarding clean forecasters, and shifting complexity into the distribution layer. Price increases become distributor margin only through ERP price-file updates, matrix updates, counter compliance, quote resets, SPA / claim-back matching, rebate accuracy, and override control.

KPI THAT MOVES FIRST → OVERRIDE % OF AFFECTED CATEGORY SALES, QUOTE-TO-INVOICE LEAKAGE, OPEN QUOTES PAST EFFECTIVE DATES, SPA LEAKAGE, REBATE ACCRUAL VS REALIZED CASH, MARGIN BY CATEGORY PRE/POST INCREASE. DISCONFIRMING → OVERRIDE RATES STAY CONTROLLED, CATEGORY MARGIN HOLDS, SPA LEAKAGE MINIMAL, CONTRACTOR CHURN DOES NOT RISE.

02 THESIS OF THE WEEK

Two distributors both grew in July. Only one deserves full underwriting confidence.

Distributor A posted +7% revenue in July on the back of Sunbelt heat. Inventory grew faster than fill rate. Overrides ran without limits. September vendor increases hit stale quotes and unmanaged discounts before they hit invoice margin. Rebate accruals held EBITDA steady on paper; cash conversion did not follow. Distributor B posted the same +7%, but gross-margin dollars grew faster than revenue, DIO by refrigerant platform stayed clean, override rates were controlled, SPA capture was intact, and DSO held by contractor segment. Same top line. Different quality of earnings. Different multiple. A buyer who cannot tell them apart is underwriting a headline, not a business.

> **THE SEVEN PULLS THAT SEPARATE THEM**
>
> Gross-margin dollars by branch and category · DIO by refrigerant platform · fill rate on fast movers vs inventory growth · override % of affected category sales · quote aging past vendor effective dates · rebate accrual vs realized cash · DSO by contractor segment. If management cannot produce these by branch, July growth is not underwritable — regardless of what the revenue print says.

03 OPERATOR'S AGENDA

Three by Friday. Three this month. Two this quarter. Each item paired with expected outcome, management check, and failure mode. The point is whether the list holds up under review.

NEXT 24–72 HOURS · THREE NON-NEGOTIABLES

P1	**Price-file / quote-to-invoice audit.** Pull: open quotes past vendor effective date, counter overrides by branch and category, online vs counter price mismatches, customer-specific matrix exceptions, SPA eligibility and leakage. *Failure mode:* vendor increases become distributor leakage instead of margin.	Pricing lead + branch managers	Which branch has the highest override rate in affected categories?
P2	**Inventory + fill-rate split.** Pull: DIO by branch/category, fill rate by fast-mover class, aged inventory by receipt date, R-410A vs A2L exposure, branch transfers on top SKUs. *Failure mode:* weather-driven buying becomes shoulder-season dead stock.	Purchasing + regional ops	Is fill rate improving, or is DIO just rising?
P3	**Contractor segment review.** Split top accounts by residential replacement, service-heavy, commercial mechanical, builder / new construction, PE-backed group. Apply the right pricing, credit, and service model to each. *Failure mode:* one-size-fits-all credit and pricing loses good accounts and subsidizes weak ones.	Sales leadership + CFO / credit	Which segment is shifting wallet share fastest?

THIS WEEK / THIS MONTH · THREE OPERATING REVIEWS

M1 — Supplier / OEM leverage review

Ask: which vendors changed price, rebate, stocking, or allocation behavior? Which programs favor larger distributors? Which lines have change-of-control or assignability issues? Where are rebate thresholds influencing bad inventory decisions? *Failure mode:* distributor accepts inventory or rebate risk to protect a vendor relationship without seeing the true economics.

Owner: Category management + CFO · **Expected outcome:** understand whether suppliers are restoring margin or reshaping channel behavior

M2 — Working capital + receivables review

Pull: DSO by contractor segment, AR over 45 / 60, credit holds, top-20 customer concentration by branch, cash conversion by branch. *Failure mode:* revenue grows while cash conversion and receivables quality deteriorate.

Owner: CFO / credit · **Expected outcome:** separate profitable growth from cash-consuming growth

M3 — Branch contribution scorecard

Build a branch-level scorecard with sales, gross-margin dollars, branch contribution margin, fill rate, DIO, aged inventory, override %, freight recovery, DSO, top-account concentration, counter-staff retention, and A2L readiness. This is the minimum dataset for boardroom-grade branch intelligence. *Failure mode:* the scorecard is produced once, admired, and then not refreshed — the numbers age and nobody notices.

Owner: CFO + regional ops · **Expected outcome:** a single view that separates "good branches" from "revenue branches"

THIS QUARTER · TWO STRUCTURAL IMPROVEMENTS

Q1 — Institutionalize the branch contribution scorecard as ongoing governance

Take the M3 scorecard from monthly diagnostic to weekly cadence. Bake gross-margin dollars, DIO by refrigerant platform, override %, and cash conversion into branch-manager compensation and regional review. What gets measured weekly is what survives Q4 close.

Q2 — Build differentiated pricing, credit, and service models by contractor segment

Residential replacement, service-heavy, commercial mechanical, builder, and PE-backed contractors do not want the same product, service, or credit. Move from one-size-fits-all matrix to segment-specific playbooks — pricing, availability guarantees, credit terms, technical support, digital ordering. This is where wallet-share compounds.

04 ECONOMIC MECHANISMS & MARKET DASHBOARD

> **TAKEAWAY** First-order: HARDI and AHRI say activity is real. Second-order: weather, price, and restocking sit inside that number. Hidden risk: treating temporary strength as structural recovery drives working-capital drag. Baskets directional this week; the mechanisms below matter more than the tick.

HOW TO USE THE DASHBOARD THIS WEEK

Read baskets as an early-warning cost signal, not a price index. Read the public tape as a narrow trading window, not a valuation. What matters more: the six mechanisms table below — each with the leading indicator, the level at which to escalate, and the trigger that changes the story. Both baskets directional this cycle; no confirmed weekly close on copper/aluminum.

SIX MECHANISMS · LEADING INDICATOR · WATCH LEVEL · ESCALATION TRIGGER

MECHANISM	FIRST / SECOND-ORDER	ESCALATION TRIGGER
Demand	1st: HARDI/AHRI suggest real activity. 2nd: weather, price, and restocking may inflate apparent quality. *Leading:* branch sell-through by category. *Watch:* sales growth without gross-margin-dollar growth.	Inventory grows faster than fill rate
Pricing	1st: vendor increases open a margin window. 2nd: they expose stale matrices, counter overrides, ERP lag, SPA leakage, and contractor-relationship risk. *Leading:* override % in affected categories. *Watch:* quotes open past effective dates.	Category margin compresses despite vendor increase
Margin	1st: demand + price support GM dollars. 2nd: freight giveaways, relationship pricing, quote aging, hot-shots, and weak attach erase gains. *Leading:* gross-margin dollars by branch/category. *Watch:* GM rate stable but freight/transfer costs rising.	Branch contribution margin declines during revenue growth
Inventory / working capital	1st: branches need fast-movers to protect fill rate. 2nd: A2L / R-410A creates wrong-era inventory and dead-stock risk. *Leading:* DIO by category and refrigerant platform. *Watch:* DIO rises while fill rate flat.	Aged R-410A or slow A2L grows after weather fades
Contractor behavior	1st: contractors value availability, urgency, counter help, warranty support, credit. 2nd: price shocks and stockouts shift wallet share. *Leading:* repeat / share-of-wallet by contractor segment. *Watch:* top contractors split baskets more.	Service-heavy contractors move emergency-parts spend elsewhere
Supplier leverage	1st: OEMs are setting price + transition terms. 2nd: rebate and allocation programs favor larger distributors with clean forecasting and data. *Leading:* rebate accrual vs realized cash. *Watch:* vendor programs favor volume/compliance over local autonomy.	Line-card economics weaken or change-of-control risk rises

HVAC COMMODITY BASKET

COPPER EASING · CRUDE UP

~105.1

INDEX · JAN 2025 = 100 · DIRECTIONAL

−0.4% WoW (est.) **+15.1%** YTD

Copper ~−3.5% one-month; steel firm; aluminum directional



13-week trend

DIRECTIONAL THIS WEEK · YAHOO ONE-MONTH REFERENCE: COPPER −3.5%, CRUDE +26.5%

Basket eased modestly on continued copper softness — coil, motor, lineset, and wire cost pressure is off recent highs but still ~15% above January 2025 base. The offsetting risk is freight-linked: crude oil up ~26% over the past month reloads diesel and inbound-freight assumptions even before vendor equipment increases hit. Do not price September quotes on August cost files without confirming both metals and freight at the SKU-class level.

COMPONENT	WEIGHT	THIS WEEK	WHAT IT MEANS
Copper	30%	~−3.5% 1-mo	Softer over the month; still elevated YTD — do not give back quoted margin on coils, motors, linesets, wire, service parts
Steel / galvanized	30%	Firm · dir.	S232 keeps domestic steel firm; M&M Manufacturing / Snappy vendor increases Sept 21 confirm sheet-metal cost pressure
Aluminum	15%	~Flat · dir.	Directional this week — coil and equipment-casing exposure remains; refresh quote basis with cost files
Compressors	10%	Firm · dir.	A2L platforms continue to carry premium; cost pressure remains directional
Motors	8%	Firm · dir.	Copper ease helps; aluminum firmness and steel pressure offset
Controls	7%	~Flat · dir.	Directional flat; monitor as A2L system controls evolve

Weighted six-component index; steel, compressors, motors, and controls remain directional. Practical rule: do not price September quotes off stale August cost assumptions — refresh copper/aluminum-heavy and freight-linked SKUs first.

CORE EQUIPMENT BASKET

SEPT VENDOR RESETS LAYERING IN

~104.2

INDEX · JAN 2025 = 100 · DIRECTIONAL

+0.1% WoW (est.) **+4.2%** since base

Sept vendor increases 5–15% + up to 6% later Sept



13-week trend

Equipment basket ~104.2 — directional read, not a rate. ACHR's September list confirms 5–15% vendor moves across service parts and adjacent categories, with an additional up to 6% at M&M Manufacturing / Snappy on Sept 21. Age out cooling-side quotes over 14 days first; sheet-metal and copper-linked SKUs next.

BASKET INDEX · ROLLING 13-WEEK + YTD

INDEX	6/22	6/29	7/6	7/13	7/20	7/27	8/3	8/10	8/17	8/24	8/31	9/7	9/14	WOW	YTD
Commodity	99.2	99.8	100.5	101.1	101.8	102.9	104.2	104.8	104.9	105.1	105.6	105.5	~105.1	−0.4%	+15.1%
Equipment	101.0	101.2	101.4	101.6	101.8	102.0	102.3	102.6	103.5	103.8	104.0	104.1	~104.2	+0.1%	+4.2%

Both baskets: Jan 2025 = 100. YTD measured from Jan 1, 2026. This week's readings directional; one-month reference for copper and crude from Yahoo chart accessed Sept 14. Steel, components, and equipment inputs are directional.

PUBLIC COMPS & MACRO INDICATORS

INSTRUMENT	LEVEL / 1-MONTH	WHAT IT MEANS
Watsco WSO	+0.5% 1-mo	Relative outperformer — market rewards aftermarket density, e-commerce mix, and branch-network stickiness over manufacturer cyclicality
Ferguson FERG	−9.4% 1-mo	Distribution-adjacent but broader construction exposure — softer starts weigh on multiple
Carrier CARR	−9.3% 1-mo	Manufacturer discount widens — cyclicality, A2L platform investment, and margin pressure
Trane TT	−10.8% 1-mo	Same manufacturer discount story; watch commercial commentary next earnings
Lennox LII	−13.6% 1-mo	Sharpest of the manufacturer group — margin outlook and residential mix exposure
Copper	~−3.5% 1-mo	Off recent highs — modest relief on coil/motor/lineset cost basis; hold price on quoted work
Crude oil CL=F	~+26.5% 1-mo	Reloads freight-cost math — reprice delivery minimums, hot-shot premiums, fuel surcharges before Q4

One-month price moves via Yahoo Finance chart API, accessed Sept 14, 2026 14:11 UTC. Directional market signal only — do not infer M&A valuation implications from short public-market trading windows. Use the public tape as a mood check, not a comp.

05 OPERATOR SCORECARD — YOUR OWN NUMBERS TO WATCH

One metric each week, in rotation. The topic changes weekly; the discipline is that you pull the number for your own branches and compare each branch against its own baseline. This week's focus goes deep in the section below.

TOPIC	WHAT IT MEASURES	STATUS
Fill Rate	Percent of order lines shipped complete on first pass. The fastest-moving proxy for contractor trust — the number that decides whether a service tech comes back tomorrow.	◆ COVERED
Aged Inventory Turns	Turns on inventory aged 90+ days by receipt date. Separates fresh flow from stagnation that a healthy-looking aggregate DIO can hide.	◆ COVERED
AR by Customer	Days sales outstanding by top-20 account and by contractor segment. Where working-capital surprises live — the average is almost always a lie.	◆ COVERED
Quote Age	Weighted age of open quotes past vendor effective dates. The leakage window on every vendor increase — old quotes are how a price move goes to die.	◆ COVERED

Aged Inventory $	Dollar exposure sitting 90+ days by branch and refrigerant era. The shoulder-season write-down watch — where A2L transition risk actually shows up on the balance sheet.	◆ COVERED
Freight Recovery %	Freight recovered on invoice versus freight incurred. Tells you whether delivery is a paid service or a hidden subsidy — matters more as diesel firms.	◆ COVERED
Branch (Clean) Gross Margin	Reported branch GM$ stripped of unrealized rebate accruals, one-time SPA windfalls, weather-driven emergency premium, inventory-holding gains from vendor increases, and blended-in freight recovery. The repeatable number — what a diligence buyer would trust and what Q4 close will surface.	▶ THIS WEEK ↓
A2L Return Rate	A2L transactions returned as a percent of A2L sold. Warranty exposure, counter substitution discipline, and contractor confusion all show up in one number — the compact read on A2L operating readiness.	◇ NEXT MONDAY

Each number is yours to pull, by branch, against your own baseline — not a network benchmark. Replacement/service-heavy branches sustain different turns and AR days than project or builder-heavy branches. The question is whether each branch is improving against itself.

THIS WEEK'S DEEP DIVE · BRANCH (CLEAN) GROSS MARGIN



WHY IT MATTERS NOW

HARDI +6.7% and strong July AHRI shipments will show up in most branch P&Ls as a good-looking gross-margin dollar number. The question is how much of that number is *repeatable*. Weather-driven emergency pricing, rebate accruals not yet realized in cash, SPA / claim-back windfalls, freight-recovery markups, inventory-holding gains created by the September vendor increases — each of these can inflate reported branch GM$ without adding to durable earnings. **Branch (Clean) GM** is what remains after you strip them out. It is the number a diligence buyer wants, and it is also the number Q4 close will surface whether you calculate it or not.

THE FORMULA — START WITH REPORTED BRANCH GM$ AND BACK OUT

(1) Unrealized rebate accruals — vendor rebates accrued to the branch but not yet earned in cash; if the threshold slips, this reverses. **(2) One-time SPA / claim-back windfalls** — prior-period true-ups and non-repeatable special-price approvals. **(3) Weather-driven emergency premium** — the pricing lift on heat-driven will-call and hot-shot orders that does not repeat under normal conditions. **(4) Inventory-holding gains from vendor increases** —

selling old-cost inventory at new-price levels is a one-time optical benefit, not an operating improvement. **(5) Freight recovery** — should be tracked on its own line, not blended into GM. **(6) Vendor stocking allowances and marketing co-op** — separate them; they are episodic. **(7) Prior-period cost adjustments** — restatements, corrections, cycle-count catch-ups. What remains is Branch Clean GM — the repeatable earnings power of the branch under normal weather, normal rebate cadence, and normal freight. The purpose is not accounting perfection on day one; it is to separate repeatable branch earnings from temporary optical gains with a consistent branch-by-branch method.

WHY IT MATTERS FOR THE BUSINESS, NOT JUST THE DILIGENCE BOOK

Branch managers who are compensated on reported GM$ are incentivized to accept the noise. Branch managers who are measured on Clean GM$ start managing the drivers — pass-through discipline, override control, SPA capture cadence, aged-inventory disposition, freight-recovery independence. The gap between reported and clean is the noise. The trend in clean is the business. In an ownership transition or a Q4 board review, only the clean number holds up.

WHAT GOOD LOOKS LIKE — BY OPERATING MATURITY

MATURITY LEVEL	HOW BRANCH CLEAN GM IS CALCULATED + USED	MAIN LEAK
Best-in-class	Clean GM$ produced monthly by branch and category; rebate accrual reconciled to cash by vendor; freight recovery on its own line; branch-manager comp tied to Clean GM$ growth and gap-to-reported	Rare — usually a small SPA-timing gap on top-20 accounts
Adequate	Reported branch GM$ produced monthly; clean adjustments made at quarter-end at the total-company level; freight blended into GM	Rebate accruals held steady through Q3; freight-recovery softness hidden inside GM; weather premium not identified
At risk	Only enterprise-level GM$ tracked; branch GM$ estimated; rebate treated as steady annualized accrual; SPA windfalls left in-period; inventory-holding gains celebrated as pricing wins	Reported GM looks stable, clean GM would show contraction; Q4 close or diligence exposes the gap

The rule: if you cannot produce a monthly Branch Clean GM$ number for every owned branch — with the adjustments listed, itemized — you are managing the noise. The gap between reported and clean is not a rounding error; on many branches it is the difference between "growing" and "flat."

Do this week → build the seven-line adjustment schedule for July and August at three representative branches (one high-heat, one shoulder-season, one construction-heavy). Compare reported GM$ to Clean GM$. The distribution of gaps tells you where to look first.

Illustrative worked adjustment: a $20M branch reports July GM$ of $4.8M (24%). Strip out $180K unrealized Q3 rebate accrual, $95K one-time SPA windfall from a prior period, an estimated $140K weather premium on emergency will-call, and $110K inventory-holding gain on the pre-Sept-1 Bard price file. Clean GM$ is ~$4.28M — a 250-bps compression versus reported. Multiply across ten branches and Clean GM$ can move the enterprise number by several points that were invisible in the reported P&L.

Last week: freight recovery %. Next week: A2L return rate — where warranty exposure, contractor confusion, and counter-substitution discipline all show up in one number.

06 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
- ☐ A2L accessory / tool attach tracked weekly by branch — detectors, recovery, labels
- ☐ Returns reason codes coded distinctly for A2L transactions; return rate tracked
- ☐ Legacy R-410A disposition plan active — receipt-date bucketing, transfer / discount / write-down decisions

TAKEAWAY A2L / R-410A is not compliance work. It is simultaneously a working-capital event (wrong-era stock, dead-stock risk, receipt-date discipline) and a loyalty event (weak counter substitution, incomplete accessory attach, or staff confusion burns cash and contractor trust). September vendor increases are the same story from the price-file side — a channel-power event as much as a margin event.

A2L / R-410A economics

SUPPLY VOLATILITY · CONTINUING

AHRI: EPA's delayed refrigerant transition dates for new supermarket refrigeration keep demand for existing refrigerants elevated while AIM Act supply falls. Distributors now manage legacy price/availability volatility *and* A2L product/handling readiness — a working-capital and contractor-trust issue, not just compliance.

RESPONSE → SEPARATE R-410A INVENTORY BY RECEIPT DATE; REVIEW REFRIGERANT PRICING WEEKLY, NOT MONTHLY

September vendor price resets

PASS-THROUGH RISK · NEW

Five OEM/supplier increases live inside three weeks (Bard, OmegaFlex, Jones Stephens, M&M, Snappy). Price-file speed is the operational edge. Distributors with stale quotes, manual overrides, or weak counter discipline will leak gross margin exactly when vendor costs reset.

RESPONSE → FREEZE UNMANAGED DISCOUNTS ON AFFECTED CATEGORIES; RE-PRICE OPEN QUOTES BY EXPIRATION DATE; AUDIT COUNTER OVERRIDES BY BRANCH

Freight / crude reload

FUEL COST · STRENGTHENING

Crude oil ~+26.5% one-month (Yahoo, Sept 14). One-month move likely to feed into diesel and inbound freight. Freight-recovery tables set in early summer are already stale — vendor equipment increases should not carry stale freight assumptions.

RESPONSE → REPRICE DELIVERY MINIMUMS, EMERGENCY FEES, AND FUEL SURCHARGES ALONGSIDE THE SEPTEMBER VENDOR FILE CHANGES

07 REGIONAL HEAT MAP

TAKEAWAY NWS shows ~188 active alerts this run — 14 heat, 3 frost/freeze, 10 flood. Weather demand is regional, not national. NOAA CPC 6–10 day (valid Sept 20–24, updated Sept 14) still favors above-normal across most of CONUS, strongest in the South / Gulf / Southeast / Texas / Florida. A national purchasing playbook is dangerous this week — branch climate and contractor mix should override national averages.

South / Gulf / Texas / Florida

ABOVE-NORMAL · STRONGEST

Strongest warm signal in the Sept 19–23 outlook. NWS Heat Advisories live Sept 14 (including southeast Texas). Cooling is still live demand; branches should pre-stage hot-shot capacity in heat-alert markets and hold fill rate on service parts.

DEAL READ → FAVOR BRANCHES WITH PROVEN EMERGENCY-PARTS FILL RATE AND DISCIPLINED COUNTER MARGIN; WATCH RUSH-ORDER AND HOT-SHOT DELIVERY PRICING

Southeast / Mid-Atlantic

ABOVE-NORMAL · CONTINUING

Broad warmth likely through Sept 19–23. Supports emergency parts, capacitors, motors, refrigerant, and replacement quotes. Do not extrapolate to equipment stocking; segment weather-lift from recurring demand in every weekly branch review.

DEAL READ → PRIORITIZE BRANCHES WITH CLEAN SPLIT REPORTING BETWEEN REPLACEMENT/SERVICE AND PROJECT REVENUE

West / Northern Rockies

ABOVE-NORMAL · SELECTIVE

Parts of the West and Northern Rockies favored for above-normal temperatures in the CPC outlook. Hot inland Western markets can still treat cooling as live demand; combine with elevated diesel to justify tighter freight recovery on delivery routes.

DEAL READ → BUYERS WILL CARE ABOUT THE RECOVERY TABLE BECAUSE IT SHOWS WHETHER BRANCH ECONOMICS SURVIVE FREIGHT COST

Northern New England

COOLER · HEATING RAMP

Main cool exception in the outlook. Begin heating-inventory rotation and tighten reorder points on aged cooling SKUs. Do not transfer slow cooling equipment into weaker-weather branches without a sell-through plan.

DEAL READ → TIGHTEN INVENTORY BUYS; MONITOR AGED COOLING ITEMS; HEATING-SIDE SKU READINESS BY BRANCH

08 M&A / CAPITAL MARKETS RADAR

> **TAKEAWAY** Underwriting a distributor without knowing its contractor mix is underwriting the wrong number. Five contractor segments — each behaves differently right now on price acceptance, wallet share, and credit. A caution on public comps: do not infer valuation from short trading windows.

Residential replacement contractors

AVAILABILITY-SENSITIVE

Behavior: availability-sensitive; will pay for urgency if counter trust and fill rate hold. **Distributor opportunity:** capture accessory / tool / control attach and emergency-order margin. **Risk:** price shocks or poor stockouts push wallet share to a competitor overnight.

Service-heavy contractors

COUNTER-LOYAL

Behavior: need parts fast; loyalty driven by counter competence and warranty help. **Distributor opportunity:** win repeat spend through fill rate and technical triage. **Risk:** digital-only model or weak counter support destroys loyalty — this segment does not forgive stockouts.

Commercial mechanicals

PROJECT-DRIVEN

Behavior: schedule- and project-driven; care about technical support, submittals, delivery reliability, and credit terms. **Distributor opportunity:** capture controls, applied, refrigeration, and service parts. **Risk:** slow pay, change orders, and project timing distort DSO — treat the average as a lie.

Builder / new-construction accounts

PRICE-SENSITIVE · AR RISK

Behavior: price-sensitive and schedule-dependent; under pressure this week from HMI 35, 35% of builders cutting prices, 63% using incentives. **Distributor opportunity:** disciplined share with tight credit and project inventory. **Risk:** AR stretch and low-margin volume — the exact combination that quietly kills quality of earnings.

PE-backed contractor groups

DATA-DRIVEN · MOBILE WALLET

Behavior: more centralized purchasing, more data-driven, more likely to shift wallet share if service level or pricing slips. **Distributor opportunity:** programmatic loyalty, consistent fill rate, digital ordering plus branch trust. **Risk:** larger groups pressure price and terms — the fastest-shifting wallet in the mix.

Public tape · caution on inferring valuation

MOOD CHECK ONLY

Distribution names have held up better than manufacturers in the past month — a directional signal about which end of the value chain the tape trusts. **Do not read valuation implications from short public-market trading windows.** M&A valuation implications should be built from the seller's data pack: gross-margin dollars, DIO by refrigerant platform, fill rate, override %, rebate cash, DSO by contractor segment. Not from a one-month chart.

09 THE DEAL LENS · WHAT THIS WEEK SAYS

FAVOR · DISTRIBUTORS WITH

- High fill rate without bloated DIO
- Gross-margin dollars growing faster than revenue
- Clean price-file execution — days from vendor notice to live price file measured and enforced
- Low override behavior at the counter
- Strong counter staff and branch-manager bench

AVOID OR HAIRCUT · DISTRIBUTORS WITH

- Revenue growth from weather with no margin proof
- Inventory growth faster than fill-rate improvement
- High customer-specific matrix exceptions
- Weak counter discipline
- Heavy builder / new-construction exposure with rising DSO

- A2L readiness by branch — not by PowerPoint
- Rebate-normalized EBITDA
- Clean SPA / claim-back process
- Secure OEM line cards
- Diversified contractor base — no single-segment or single-account dependence
- Low dead stock and clean original receipt-date inventory data

- Line-card concentration with change-of-control ambiguity
- Rebates supporting EBITDA without cash conversion
- ERP / SKU data that cannot support branch/category margin analysis
- Owner-dependent contractor relationships

10 NEXT MONDAY'S WATCHLIST

MACRO / HARDI	**1 · HARDI detail confirmation** — what portion of July growth was weather, price, mix, or true volume? *Confirm:* deeper HARDI detail shows volume as durable share of the +6.7%. *Weaken:* the mix is majority weather + restocking. *Reverse:* August moderates hard.
CHANNEL / AHRI	**2 · AHRI sell-through reconciliation** — are shipments translating into branch sell-through, or only upstream movement? *Confirm:* distributor sell-through matches AHRI within 1–2 months. *Weaken:* sell-through lags and DIO climbs. *Reverse:* aged inventory grows across multiple platforms.
PRICING	**3 · Price-file execution** — do category margins hold after September vendor actions? *Confirm:* post-increase category margin holds within 25 bps. *Weaken:* margin compresses despite the vendor move. *Reverse:* override rates spike and category margin turns negative.
INVENTORY	**4 · Inventory quality** — does DIO rise without fill-rate improvement? *Confirm:* fill rate holds and DIO is stable by refrigerant platform. *Weaken:* DIO drifts up on flat fill. *Reverse:* aged R-410A or slow A2L expands into shoulder season.
CONTRACTOR	**5 · Contractor wallet share** — are service-heavy or PE-backed contractors shifting baskets based on price / availability? *Confirm:* repeat share stable by segment. *Weaken:* top accounts splitting more baskets. *Reverse:* service-heavy contractors move emergency-parts spend elsewhere.
SUPPLIER	**6 · Supplier channel power** — are OEMs using price / A2L / rebate programs to shift economics or stocking risk into distribution? *Confirm:* vendor programs remain neutral on stocking risk. *Weaken:* new programs favor volume / compliance over local autonomy. *Reverse:* line-card change-of-control terms tighten.
CASH	**7 · Cash conversion** — are DSO, AR over 60, and branch transfers worsening under the surface? *Confirm:* DSO holds by segment and AR-over-60 flat. *Weaken:* builder AR stretches; PE-backed contractors extend terms. *Reverse:* credit holds rise and cash conversion drops meaningfully.

MANAGEMENT QUESTION FOR THIS WEEK

Show me July and August gross-margin dollars, DIO, fill rate, override %, quote aging, rebate accrual vs cash realization, and DSO — all by branch and by contractor segment. If we cannot produce that this week, the July revenue story is not underwritable yet.

Distribution quality this week is not proven by revenue growth. It is proven by branch-level gross-margin dollars, fill rate, inventory quality, override control, contractor retention and wallet share, supplier economics, and cash conversion. The deep dive in Section 05 walks the seven pulls.

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; **Source-limited** = search-snippet or aggregator signal, verify against primary source. Where equipment basket components lack a public weekly series, we mark them directional. Scorecard targets are starting points — calibrate to your own branches.

Blue Ops supports HVAC distribution companies across the investment lifecycle — from branch-level performance improvement to acquisition diligence and value-creation planning. **See our HVAC practice →**

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SOURCE NOTES · SEPT. 14, 2026 · CONFIDENCE LABELS PER SIGNAL IN SECTION 01

HARDI News · **HARDINET.ORG/NEWS** · AHRI July 2026 shipment data · **AHRINET.ORG** · U.S. Census / HUD · New Residential Construction · **CENSUS.GOV** · NWS / NOAA · Active alerts + CPC 6–10 day · **WEATHER.GOV/ALERTS** · **CPC.NCEP.NOAA.GOV** · Freddie Mac PMMS · **FREDDIEMAC.COM/PMMS** · NAHB / Wells Fargo HMI · **NAHB.ORG** · HVACR Business / ACCA / ACHR — trade context · Yahoo Finance chart API — directional market signal only, do not infer M&A valuation from short trading windows · Blue Ops commodity + equipment basket indices — directional this cycle.

Evidence vs inference labeled per signal in Section 01; reasonable inferences distinguished from source facts throughout.

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