

WESCO INTERNATIONAL INC

Form 10-Q

August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware 25-1723342

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

225 West Station Square Drive 15219  
Suite 700 (Zip Code)  
Pittsburgh, Pennsylvania

(Address of principal executive offices)

(412) 454-2200

(Registrant's telephone number, including area code)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller Smaller reporting company ☐  
reporting company)

Emerging growth company ☐

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If an emerging growth company, indicate by check mark  
if the registrant has elected not to use the extended  
transition period for complying with any new or revised  
financial accounting standards provided pursuant to  
Section 13(a) of the Exchange Act. ☐

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

As of August 2, 2018, 47,099,411 shares of common stock, \$0.01 par value, of the registrant were outstanding.

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The interim financial information required by this item is set forth in the unaudited Condensed Consolidated Financial Statements and Notes thereto in this Quarterly Report on Form 10-Q, as follows:

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## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share data)

(unaudited)

|   | As of<br>June 30,<br>2018 | December 31,<br>2017 |
|---|---------------------------|----------------------|
| Assets  |                           |                      |
| Current assets:   |                           |                      |
| Cash and cash equivalents   | \$110,940                 | \$117,953            |
| Trade accounts receivable, net of allowance for doubtful accounts of \$22,763 and \$21,313 in 2018 and 2017, respectively   | 1,257,330                 | 1,170,080            |
| Other accounts receivable   | 62,361                    | 101,229              |
| Inventories   | 935,231                   | 956,148              |
| Prepaid expenses and other current assets   | 81,078                    | 63,439               |
| Total current assets  | 2,446,940                 | 2,408,849            |
| Property, buildings and equipment, net of accumulated depreciation of \$285,632 and \$278,455 in 2018 and 2017, respectively  | 157,492                   | 156,445              |
| Intangible assets, net of accumulated amortization of \$237,716 and \$223,554 in 2018 and 2017, respectively  | 340,579                   | 367,104              |
| Goodwill  | 1,744,694                 | 1,771,877            |
| Other assets  | 25,281                    | 31,193               |
| Total assets  | \$4,714,986               | \$4,735,468          |
| Liabilities and Stockholders' Equity  |                           |                      |
| Current liabilities:  |                           |                      |
| Accounts payable  | \$818,179                 | \$799,520            |
| Accrued payroll and benefit costs   | 54,353                    | 72,686               |
| Short-term debt   | 35,527                    | 34,075               |
| Current portion of long-term debt   | 1,188                     | 1,224                |
| Bank overdrafts   | 28,296                    | 37,644               |
| Other current liabilities   | 88,366                    | 95,820               |
| Total current liabilities   | 1,025,909                 | 1,040,969            |
| Long-term debt, net of debt discount and debt issuance costs of \$11,441 and \$14,224 in 2018 and 2017, respectively  | 1,261,705                 | 1,313,261            |
| Deferred income taxes   | 140,498                   | 136,858              |
| Other noncurrent liabilities  | 121,119                   | 128,237              |
| Total liabilities   | \$2,549,231               | \$2,619,325          |
| Commitments and contingencies (Note 10)   |                           |                      |
| Stockholders' equity:   |                           |                      |
| Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding   | —                         | —                    |
| Common stock, \$.01 par value; 210,000,000 shares authorized, 59,144,569 and 59,045,762 shares issued and 47,099,031 and 47,009,540 shares outstanding in 2018 and 2017, respectively | 591                       | 591                  |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2018 and 2017, respectively                  | 43                        | 43                   |
| Additional capital  | 1,005,897                 | 999,156              |
| Retained earnings   | 2,182,484                 | 2,079,697            |

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|  |             |             |   |
|--|-------------|-------------|---|
| Treasury stock, at cost; 16,384,969 and 16,375,653 shares in 2018 and 2017, respectively | (647,843    | ) (647,158  | ) |
| Accumulated other comprehensive loss   | (370,105    | ) (312,590  | ) |
| Total WESCO International, Inc. stockholders' equity                                     | 2,171,067   | 2,119,739   |   |
| Noncontrolling interests   | (5,312      | ) (3,596    | ) |
| Total stockholders' equity   | 2,165,755   | 2,116,143   |   |
| Total liabilities and stockholders' equity   | \$4,714,986 | \$4,735,468 |   |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands of dollars, except per share data)

(unaudited)

|  | Three Months Ended<br>June 30 |             | Six Months Ended<br>June 30 |             |
|--|-------------------------------|-------------|-----------------------------|-------------|
|  | 2018                          | 2017        | 2018                        | 2017        |
| Net sales (Note 3)   | \$2,103,994                   | \$1,909,624 | \$4,097,909                 | \$3,682,215 |
| Cost of goods sold (excluding depreciation and amortization)     | 1,704,100                     | 1,543,510   | 3,318,066                   | 2,966,083   |
| Selling, general and administrative expenses (Note 8)            | 292,888                       | 267,735     | 583,717                     | 535,153     |
| Depreciation and amortization                                    | 15,823                        | 15,721      | 31,703                      | 31,686      |
| Income from operations   | 91,183                        | 82,658      | 164,423                     | 149,293     |
| Net interest and other (Notes 8 and 9)                           | 17,741                        | 16,369      | 37,524                      | 32,636      |
| Income before income taxes                                       | 73,442                        | 66,289      | 126,899                     | 116,657     |
| Provision for income taxes                                       | 15,769                        | 16,754      | 26,255                      | 29,323      |
| Net income   | 57,673                        | 49,535      | 100,644                     | 87,334      |
| Less: Net (loss) income attributable to noncontrolling interests | (267                          | ) 25        | (1,717                      | ) 96        |
| Net income attributable to WESCO International, Inc.             | \$57,940                      | \$49,510    | \$102,361                   | \$87,238    |
| Other comprehensive income (loss):                               |                               |             |                             |             |
| Foreign currency translation adjustments                         | (28,715                       | ) 33,381    | (57,515                     | ) 44,949    |
| Post retirement benefit plan adjustments, net of tax             | —                             | —           | —                           | 252         |
| Comprehensive income attributable to WESCO International, Inc.   | \$29,225                      | \$82,891    | \$44,846                    | \$132,439   |
| Earnings per share attributable to WESCO International, Inc.     |                               |             |                             |             |
| Basic  | \$1.23                        | \$1.03      | \$2.18                      | \$1.80      |
| Diluted  | \$1.22                        | \$1.02      | \$2.15                      | \$1.78      |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

(unaudited)

|   | Six Months Ended<br>June 30 |           |
|---|-----------------------------|-----------|
|   | 2018                        | 2017      |
| Operating activities:   |                             |           |
| Net income  | \$ 100,644                  | \$ 87,334 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |           |
| Depreciation and amortization   | 31,703                      | 31,686    |
| Deferred income taxes   | 6,100                       | 6,404     |
| Other operating activities, net   | 11,027                      | 8,306     |
| Changes in assets and liabilities:  |                             |           |
| Trade accounts receivable, net  | (102,567 )                  | (95,978 ) |
| Other accounts receivable   | 38,430                      | 16,425    |
| Inventories   | 11,407                      | (36,877 ) |
| Prepaid expenses and other assets   | (12,866 )                   | (6,360 )  |
| Accounts payable  | 26,073                      | 76,836    |
| Accrued payroll and benefit costs   | (16,588 )                   | (10,786 ) |
| Other current and noncurrent liabilities  | (6,542 )                    | (10,221 ) |
| Net cash provided by operating activities   | 86,821                      | 66,769    |
| Investing activities:   |                             |           |
| Capital expenditures  | (16,384 )                   | (9,795 )  |
| Other investing activities  | (8,684 )                    | 3,467     |
| Net cash used in investing activities   | (25,068 )                   | (6,328 )  |
| Financing activities:   |                             |           |
| Proceeds from issuance of short-term debt   | 87,861                      | 69,257    |
| Repayments of short-term debt   | (85,761 )                   | (68,517 ) |
| Proceeds from issuance of long-term debt  | 794,888                     | 662,078   |
| Repayments of long-term debt  | (848,888 )                  | (692,078) |
| Repurchases of common stock (Note 7)  | (1,891 )                    | (56,665 ) |
| (Decrease) increase in bank overdrafts  | (9,408 )                    | 155       |
| Other financing activities, net   | (550 )                      | (768 )    |
| Net cash used in financing activities   | (63,749 )                   | (86,538 ) |
| Effect of exchange rate changes on cash and cash equivalents                      | (5,017 )                    | 3,765     |
| Net change in cash and cash equivalents   | (7,013 )                    | (22,332 ) |
| Cash and cash equivalents at the beginning of period                              | 117,953                     | 110,131   |
| Cash and cash equivalents at the end of period                                    | \$ 110,940                  | \$ 87,799 |
| Supplemental disclosures:   |                             |           |
| Cash paid for interest  | \$ 32,380                   | \$ 30,776 |
| Cash paid for income taxes  | 33,792                      | 30,664    |

The accompanying notes are an integral part of the condensed consolidated financial statements.



WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. ORGANIZATION

WESCO International, Inc. ("WESCO International") and its subsidiaries (collectively, "WESCO" or the "Company"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical, industrial and communications maintenance, repair and operating ("MRO") and original equipment manufacturer ("OEM") products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. WESCO serves approximately 70,000 active customers globally through approximately 500 branches and 10 distribution centers located primarily in the United States and Canada, with operations in 16 additional countries.

2. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). The unaudited condensed consolidated financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in WESCO's 2017 Annual Report on Form 10-K as filed with the SEC on February 22, 2018. The Condensed Consolidated Balance Sheet at December 31, 2017 was derived from the audited Consolidated Financial Statements as of that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America.

The unaudited Condensed Consolidated Balance Sheet as of June 30, 2018, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2018 and 2017, respectively, and the unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, respectively, in the opinion of management, have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments necessary for the fair statement of the results of the interim periods presented herein. All adjustments reflected in the unaudited condensed consolidated financial information are of a normal recurring nature unless indicated. The results for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

Reclassifications

Effective January 1, 2018, WESCO adopted Accounting Standards Update (ASU) 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The adoption of this ASU, as described below and in Note 8, resulted in the reclassification of amounts reported in the unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2017.

Recently Adopted Accounting Pronouncements

Effective January 1, 2018, WESCO adopted ASU 2014-09, Revenue from Contracts with Customers, and all the related amendments ("Topic 606") using the modified retrospective approach to all open contracts. There was no impact to WESCO's previously reported consolidated financial statements and WESCO does not expect the adoption of Topic 606 to have a material impact on its revenue and results of operations on an ongoing basis.

WESCO's significant accounting policies are disclosed in Note 2 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2017. Changes to the Company's significant accounting policies as a result of adopting Topic 606 are described in Note 3 below.

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU provides guidance on eight specific cash flow issues where there is diversity in practice. The Company adopted this ASU in the first quarter of 2018. The adoption of this guidance did not have an impact on the unaudited condensed consolidated financial information presented herein.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires that an employer disaggregate the service cost from the other components of net benefit cost. The Company adopted this guidance on a retrospective basis in the first quarter of 2018. See Note 8 for a description of the impact of this accounting standard on the unaudited Condensed Consolidated Statements of Income and Comprehensive Income presented herein. The adoption of this guidance did not have an impact on the Company's unaudited Condensed Consolidated Balance Sheets and the unaudited Condensed Consolidated Statements of Cash Flows presented herein.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
 (unaudited)

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The Company adopted this ASU in the first quarter of 2018. The adoption of this guidance did not have an impact on the unaudited condensed consolidated financial information presented herein.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right-of-use asset and a lease liability in the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new leasing standard requires modified retrospective transition, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Management has established a cross-functional team to evaluate and implement the new standard. The team is currently in the process of gathering lease data and selecting a third-party software solution to assist with accounting for leases under the new standard. Upon adoption, right-of-use assets and lease liabilities will be recorded in the Consolidated Balance Sheets.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduces new guidance for the accounting for credit losses on certain financial instruments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Management does not expect the adoption of this accounting standard to have a material impact on its consolidated financial statements and notes thereto.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 of the goodwill impairment test. Under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this ASU on a prospective basis. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management expects to adopt this ASU in the fourth quarter of 2018 when the Company performs its annual impairment testing. The Company does not expect the adoption of this accounting standard to have a material impact on its consolidated financial statements and notes thereto.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to WESCO's financial position, results of operations or cash flows.

### 3. REVENUE

WESCO's revenue arrangements generally consist of single performance obligations to transfer a promised good or service, or a combination of goods and services. Revenue is recognized when control has transferred to the customer, which is generally when the product has shipped from a WESCO facility or directly from a supplier. For products that ship directly from suppliers to customers, WESCO acts as the principal in the transaction and recognizes revenue on a gross basis. Revenue for integrated supply services is recognized over time based on hours incurred. This method reflects the transfer of control as the customer benefits from these services as they are being performed. WESCO generally satisfies its performance obligations within a year or less.

WESCO generally does not have significant financing terms associated with its contracts; payments are normally received within 60 days. There are no significant costs associated with obtaining customer contracts. WESCO

generally passes through the warranties offered by the applicable manufacturer or supplier to its customers. Sales taxes (and value added taxes in foreign jurisdictions) collected from customers and remitted to governmental authorities are excluded from net sales.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

The following tables disaggregate WESCO's revenue by end market and geography:

|  | Three Months Ended |             | Six Months Ended |             |
|--|--------------------|-------------|------------------|-------------|
|  | June 30            |             | June 30          |             |
| (In thousands)                                   | 2018               | 2017        | 2018             | 2017        |
| Industrial                                       | \$760,741          | \$711,305   | \$1,519,723      | \$1,389,601 |
| Construction                                     | 683,752            | 623,763     | 1,321,551        | 1,195,392   |
| Utility  | 336,961            | 282,400     | 652,506          | 548,660     |
| Commercial, Institutional and Government ("CIG") | 322,540            | 292,156     | 604,129          | 548,562     |
| Total by end market                              | \$2,103,994        | \$1,909,624 | \$4,097,909      | \$3,682,215 |

|                      | Three Months Ended |             | Six Months Ended |             |
|----------------------|--------------------|-------------|------------------|-------------|
|                      | June 30            |             | June 30          |             |
| (In thousands)       | 2018               | 2017        | 2018             | 2017        |
| United States        | \$1,563,392        | \$1,451,401 | \$3,046,140      | \$2,794,601 |
| Other <sup>(1)</sup> | 540,602            | 458,223     | 1,051,769        | 887,614     |
| Total by geography   | \$2,103,994        | \$1,909,624 | \$4,097,909      | \$3,682,215 |

<sup>(1)</sup> Other primarily includes net sales to customers in Canada.

WESCO distributes products and provides services to customers globally within the following end markets: (1) industrial, (2) construction, (3) utility, and (4) CIG. Revenue is measured as the amount of consideration WESCO expects to receive in exchange for transferring goods or providing services.

In accordance with certain contractual arrangements, WESCO receives payment from its customers in advance and recognizes such payment as deferred revenue. Revenue for advance payment is recognized when the performance obligation has been satisfied and control has transferred to the customer, which is generally upon shipment. Deferred revenue is usually recognized within a year or less from the date of the customer's advance payment. At June 30, 2018 and December 31, 2017, \$11.6 million and \$15.5 million, respectively, of deferred revenue was recorded as a component of other current liabilities in the Condensed Consolidated Balance Sheets.

WESCO's revenues are adjusted for variable consideration, which includes customer volume rebates, returns, and discounts. WESCO measures variable consideration by estimating expected outcomes using analysis and inputs based upon anticipated performance, historical data, as well as current and forecasted information. Measurement and recognition of variable consideration is reviewed by management on a monthly basis and revenue is adjusted accordingly. Variable consideration reduced revenue for the three months ended June 30, 2018 and 2017 by approximately \$25.0 million and \$21.7 million, respectively, and by approximately \$49.4 million and \$42.3 million for the six months ended June 30, 2018 and 2017, respectively.

Shipping and handling costs are recognized in net sales when they are billed to the customer. These costs are recognized as a component of selling, general and administrative expenses when WESCO does not bill the customer. WESCO has elected to recognize shipping and handling costs as a fulfillment cost. Shipping and handling costs recorded as a component of selling, general and administrative expenses totaled \$18.6 million and \$14.4 million for the three months ended June 30, 2018 and 2017, respectively, and \$36.8 million and \$27.8 million for the six months ended June 30, 2018 and 2017, respectively.

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts, and outstanding indebtedness. The reported carrying amounts of WESCO's financial instruments approximated their fair values as of June 30, 2018 and December 31, 2017.

The Company uses a market approach to determine the fair value of its debt instruments, utilizing quoted prices in active markets, interest rates and other relevant information generated by market transactions involving similar instruments. Therefore, the Company's debt instruments are classified as Level 2 within the fair value hierarchy.



WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

## 5. GOODWILL

The following table sets forth the changes in the carrying value of goodwill:

|  | Six Months Ended |             |
|--|------------------|-------------|
|  | June 30          |             |
| (In thousands)                         | 2018             | 2017        |
| Beginning balance January 1            | \$1,771,877      | \$1,720,714 |
| Foreign currency exchange rate changes | (27,183)         | 20,826      |
| Ending balance June 30                 | \$1,744,694      | \$1,741,540 |

## 6. STOCK-BASED COMPENSATION

WESCO's stock-based employee compensation plans are comprised of stock-settled stock appreciation rights, restricted stock units and performance-based awards. Compensation cost for all stock-based awards is measured at fair value on the date of grant and compensation cost is recognized, net of estimated forfeitures, over the service period for awards expected to vest. The fair value of stock-settled stock appreciation rights and performance-based awards with market conditions is determined using the Black-Scholes and Monte Carlo simulation models, respectively. The fair value of restricted stock units and performance-based awards with performance conditions is determined by the grant-date closing price of WESCO's common stock. The forfeiture assumption is based on WESCO's historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

Effective January 1, 2018, performance-based awards are based on two equally-weighted performance measures, which include the three-year average growth rate of the Company's fully diluted earnings per share and the three-year cumulative return on net assets. From 2015 to 2017, the two equally-weighted performance-based award metrics were the three-year average growth rate of WESCO's net income and WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period.

During the three and six months ended June 30, 2018 and 2017, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted-average fair values:

|   | Three Months Ended |    | Six Months Ended |          |
|---|--------------------|----|------------------|----------|
|   | June 30, 2018      |    | June 30, 2017    |          |
| Stock-settled stock appreciation rights granted | 8,402              | —  | 499,631          | 1443,731 |
| Weighted-average fair value                     | \$17.85            | \$ | —\$18.39         | \$20.65  |
| Restricted stock units granted                  | 2,502              | —  | 116,771          | 198,680  |
| Weighted-average fair value                     | \$59.95            | \$ | —\$62.75         | \$71.65  |
| Performance-based awards granted                | —                  | —  | 44,144           | 39,978   |
| Weighted-average fair value                     | \$—                | \$ | —\$62.80         | \$76.63  |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

The fair value of stock-settled stock appreciation rights was estimated using the following weighted-average assumptions:

|                          | Three Months<br>Ended<br>June 30,<br>2018 |      | Six Months<br>Ended<br>June 30,<br>2018 |       |
|--------------------------|---|------|---|-------|
|                          | 2018                                      | 2017 | 2018                                    | 2017  |
| Risk free interest rate  | 2.8 %                                     | n/a  | 2.5 %                                   | 1.9 % |
| Expected life (in years) | 5   | n/a  | 5                                       | 5     |
| Expected volatility      | 28 %                                      | n/a  | 28 %                                    | 29 %  |

The risk-free interest rate is based on the U.S. Treasury Daily Yield Curve as of the grant date. The expected life is based on historical exercise experience and the expected volatility is based on the volatility of the Company's daily stock prices over a five-year period preceding the grant date.

The following table sets forth a summary of stock-settled stock appreciation rights and related information for the six months ended June 30, 2018:

|                                  | Awards     | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual Term (In years) | Aggregate<br>Intrinsic<br>Value<br>(In<br>thousands) |
|----------------------------------|------------|---|--|--|
| Outstanding at December 31, 2017 | 2,238,607  | \$ 57.75                                  |  |  |
| Granted                          | 499,631    | 62.76                                     |  |  |
| Exercised                        | (158,279 ) | 39.63                                     |  |  |
| Forfeited                        | (135,511 ) | 68.78                                     |  |  |
| Outstanding at June 30, 2018     | 2,444,448  | 59.33                                     | 6.6  | \$ 13,624  |
| Exercisable at June 30, 2018     | 1,523,126  | \$ 58.09                                  | 5.2  | \$ 11,130  |

The following table sets forth a summary of time-based restricted stock units and related information for the six months ended June 30, 2018:

|                               | Awards    | Weighted-<br>Average<br>Fair<br>Value |
|-------------------------------|-----------|---------------------------------------|
| Unvested at December 31, 2017 | 290,054   | \$ 58.11                              |
| Granted                       | 116,771   | 62.75                                 |
| Vested                        | (57,175 ) | 69.44                                 |
| Forfeited                     | (10,710 ) | 56.45                                 |
| Unvested at June 30, 2018     | 338,940   | \$ 57.85                              |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Performance shares are awards for which the vesting will occur based on market or performance conditions. The following table sets forth a summary of performance-based awards for the six months ended June 30, 2018:

|                               | Awards    | Weighted-<br>Average<br>Fair<br>Value |
|-------------------------------|-----------|---------------------------------------|
| Unvested at December 31, 2017 | 148,508   | \$ 60.23                              |
| Granted                       | 44,144    | 62.80                                 |
| Vested                        | —         | —                                     |
| Forfeited                     | (52,342 ) | 65.31                                 |
| Unvested at June 30, 2018     | 140,310   | \$ 59.33                              |

The fair value of the performance shares granted during the six months ended June 30, 2018 and 2017 was estimated using the following weighted-average assumptions:

|                                     | Six Months<br>Ended<br>June 30, June 30,<br>2018 2017 |         |
|-------------------------------------|---|---------|
| Grant date share price              | \$62.80   | \$71.65 |
| WESCO expected volatility           | n/a   | 29 %    |
| Peer group median volatility        | n/a   | 24 %    |
| Risk-free interest rate             | n/a   | 1.5 %   |
| Correlation of peer company returns | n/a   | 114 %   |

The unvested performance-based awards in the table above include 48,805 shares in which vesting of the ultimate number of shares is dependent upon WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period. These awards are accounted for as awards with market conditions; compensation cost is recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Vesting of the remaining 91,505 shares of performance-based awards in the table above is dependent upon the achievement of certain performance targets, including 48,805 that are dependent upon the three-year average growth rate of WESCO's net income, 21,350 that are dependent upon the three-year average growth rate of the Company's fully diluted earnings per share, and 21,350 that are based upon the three-year cumulative return on net assets. These awards are accounted for as awards with performance conditions; compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized \$4.4 million and \$4.1 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended June 30, 2018 and 2017, respectively. WESCO recognized \$8.0 million and \$7.8 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was \$27.0 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$8.3 million is expected to be recognized over the remainder of 2018, \$11.7 million in 2019, \$6.3 million in 2020 and \$0.7 million in 2021.

## 7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to WESCO International by the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is computed by dividing net income attributable to WESCO International by the weighted-average common shares and common

share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of equity awards.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

The following table sets forth the details of basic and diluted earnings per share:

|  | Three Months<br>Ended<br>June 30 |          | Six Months Ended<br>June 30 |          |
|--|----------------------------------|----------|-----------------------------|----------|
| (In thousands, except per share data)  | 2018                             | 2017     | 2018                        | 2017     |
| Net income attributable to WESCO International   | \$57,940                         | \$49,510 | \$102,361                   | \$87,238 |
| Weighted-average common shares outstanding used in computing basic earnings per share                                | 47,085                           | 48,294   | 47,062                      | 48,499   |
| Common shares issuable upon exercise of dilutive equity awards   | 465                              | 482      | 516                         | 582      |
| Weighted-average common shares outstanding and common share equivalents used in computing diluted earnings per share | 47,550                           | 48,776   | 47,578                      | 49,081   |
| Earnings per share attributable to WESCO International   |                                  |          |                             |          |
| Basic  | \$1.23                           | \$1.03   | \$2.18                      | \$1.80   |
| Diluted  | \$1.22                           | \$1.02   | \$2.15                      | \$1.78   |

For the three and six months ended June 30, 2018 the computation of diluted earnings per share attributable to WESCO International excluded stock-based awards of approximately 1.5 million. For the three and six months ended June 30, 2017, the computation of diluted earnings per share attributable to WESCO International excluded stock-based awards of approximately 1.3 million and 1.2 million, respectively. These amounts were excluded because their effect would have been antidilutive.

In December 2014, the Company's Board of Directors authorized the repurchase of up to \$300 million of the Company's common stock through December 31, 2017 (the "2014 Repurchase Authorization"). On May 2, 2017, the Company entered into an accelerated stock repurchase agreement (the "ASR Transaction") with a financial institution to repurchase additional shares of its common stock pursuant to its 2014 Repurchase Authorization. In exchange for an up-front cash payment of \$50.0 million, the Company received 804,291 shares. The total number of shares ultimately delivered under the ASR Transaction was determined by the average of the volume-weighted average prices of the Company's common stock for each exchange business day during the settlement valuation period. WESCO funded the repurchase with available cash and borrowings under the Company's accounts receivable securitization facility. For purposes of computing earnings per share for the three and six months ended June 30, 2017, shares received under the ASR Transaction were reflected as a reduction to common shares outstanding on the respective delivery dates.

#### 8. EMPLOYEE BENEFIT PLANS

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO matches contributions made by employees at an amount equal to 50% of participants' total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO makes contributions in amounts ranging from 3% to 5% of participants' eligible compensation based on years of continuous service. WESCO may also make, subject to the Board of Directors' approval, a discretionary contribution to the defined contribution retirement savings plan covering U.S. participants if certain predetermined profit levels are attained. For the six months ended June 30, 2018 and 2017, WESCO incurred charges of \$21.9 million and \$10.6 million, respectively, for all such plans. Contributions are made in cash to employee retirement savings plan accounts. The deferred compensation plan is an unfunded plan. As of June 30, 2018 and December 31, 2017, the Company's obligation under the deferred compensation plan was \$24.0 million and \$24.3 million, respectively. Employees have the option to transfer balances allocated to their accounts in the defined contribution retirement savings plan and the deferred compensation plan into any of the available investment options.

The Company sponsors a contributory defined benefit plan covering substantially all Canadian employees of EECOL and a Supplemental Executive Retirement Plan (the "SERP") for certain executives of EECOL. During the three and six months ended June 30, 2018, the Company contributed \$0.1 million and \$0.2 million, respectively, to the SERP.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
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The following table sets forth the components of net periodic benefit costs for the defined benefit plans:

|                                | Three Months |          | Six Months |          |
|--------------------------------|--------------|----------|------------|----------|
|                                | Ended        |          | Ended      |          |
|                                | June 30      |          | June 30    |          |
| (In thousands)                 | 2018         | 2017     | 2018       | 2017     |
| Service cost                   | \$1,312      | \$1,049  | \$2,659    | \$2,116  |
| Interest cost                  | 1,039        | 945      | 2,105      | 1,907    |
| Expected return on plan assets | (1,500 )     | (1,343 ) | (3,040 )   | (2,711 ) |
| Recognized actuarial gain      | (12 )        | (48 )    | (24 )      | (97 )    |
| Net periodic benefit cost      | \$839        | \$603    | \$1,700    | \$1,215  |

In accordance with ASU 2017-07, as described in Note 2, the service cost of \$1.3 million and \$2.7 million for the three and six months ended June 30, 2018, respectively, was reported as a component of selling, general and administrative expenses. The other components of net periodic benefit cost totaling a net benefit of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2018, respectively, were presented as a component of net interest and other, as described in Note 9 below. For the three and six months ended June 30, 2017, the Company reclassified a net benefit of \$0.5 million and \$0.9 million, respectively, from selling, general and administrative expenses to net interest and other. The Company used the amounts disclosed in Note 7 of the Notes to Condensed Consolidated Financial Statements in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 as the estimation basis for applying the retrospective presentation requirements.

#### 9. NET INTEREST AND OTHER

Net interest and other includes interest expense, interest income, amortization of debt discount and debt issuance costs, the non-service cost components of net periodic benefit cost, and foreign exchange gains and losses from the remeasurement of certain financial instruments. For the three and six months ended June 30, 2018, a foreign exchange gain of \$0.4 million and a foreign exchange loss of \$2.6 million, respectively, from the remeasurement of financial instruments were reported as a component of net interest and other. Foreign exchange gains and losses were not material for the three and six months ended June 30, 2017.

#### 10. COMMITMENTS AND CONTINGENCIES

From time to time, a number of lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The outcome of any litigation cannot be predicted with certainty, and some lawsuits may be determined adversely to us. However, management does not believe that the ultimate outcome of any such pending matters is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any fiscal period of one or more of these matters may have a material adverse effect on our results of operations for that period.

#### 11. INCOME TAXES

The effective tax rate for the three and six months ended June 30, 2018 was 21.5% and 20.7%, respectively. The effective tax rate for the three and six months ended June 30, 2017 was 25.3% and 25.1%, respectively. WESCO's effective tax rate is typically impacted by the tax effect of intercompany financing, foreign tax rate differences, other nondeductible expenses and state income taxes. The effective tax rates for the current year periods are lower than the prior year periods primarily due to the Tax Cuts and Jobs Act of 2017 (the "TCJA"), which permanently reduced the U.S. federal statutory income tax rate from 35% to 21%, effective January 1, 2018.

The unaudited condensed consolidated financial information presented herein reflects provisional amounts for certain income tax effects of the TCJA for which the accounting is incomplete, but a reasonable estimate can be determined, based on enacted tax laws and rates as of June 30, 2018. On August 1, 2018, the Internal Revenue Service issued proposed regulations regarding Section 965 of the Internal Revenue Code, as amended by the TCJA. We are currently reviewing the proposed regulations and future adjustments (if any) will be recognized as discrete income tax expense

or benefit in the period the adjustments are determined.

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

WESCO Distribution has outstanding \$500 million in aggregate principal amount of 5.375% Senior Notes due 2021 (the "2021 Notes") and \$350 million in aggregate principal amount of 5.375% Senior Notes due 2024 (the "2024 Notes"). The 2021 Notes and 2024 Notes are unsecured senior obligations of WESCO Distribution and are fully and unconditionally guaranteed on a senior unsecured basis by WESCO International.

Condensed consolidating financial information for WESCO International, WESCO Distribution and the non-guarantor subsidiaries is presented in the following tables.

Condensed Consolidating Balance Sheet  
June 30, 2018

| (In thousands)                                 | WESCO<br>International<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|--------------------------------|--------------------------------|-------------------------------|--|--------------|
| Cash and cash equivalents                      | \$—                            | \$ 51,489                      | \$ 59,451                     | \$—  | \$ 110,940   |
| Trade accounts receivable, net                 | —                              | —                              | 1,257,330                     | —  | 1,257,330    |
| Inventories                                    | —                              | 418,944                        | 516,287                       | —  | 935,231      |
| Prepaid expenses and other current assets      | 4,943                          | 23,741                         | 129,279                       | (14,524 )                                      | 143,439      |
| Total current assets                           | 4,943                          | 494,174                        | 1,962,347                     | (14,524 )                                      | 2,446,940    |
| Intercompany receivables, net                  | —                              | —                              | 2,252,907                     | (2,252,907 )                                   | —            |
| Property, buildings and equipment, net         | —                              | 55,181                         | 102,311                       | —  | 157,492      |
| Intangible assets, net                         | —                              | 2,451                          | 338,128                       | —  | 340,579      |
| Goodwill                                       | —                              | 257,623                        | 1,487,071                     | —  | 1,744,694    |
| Investments in affiliates                      | 3,101,741                      | 5,062,631                      | —                             | (8,164,372 )                                   | —            |
| Other assets                                   | —                              | 2,780                          | 22,501                        | —  | 25,281       |
| Total assets                                   | \$ 3,106,684                   | \$ 5,874,840                   | \$ 6,165,265                  | \$ (10,431,803)                                | \$ 4,714,986 |
| Accounts payable                               | \$—                            | \$ 423,735                     | \$ 394,444                    | \$—  | \$ 818,179   |
| Short-term debt                                | —                              | —                              | 35,527                        | —  | 35,527       |
| Other current liabilities                      | —                              | 43,599                         | 143,128                       | (14,524 )                                      | 172,203      |
| Total current liabilities                      | —                              | 467,334                        | 573,099                       | (14,524 )                                      | 1,025,909    |
| Intercompany payables, net                     | 931,797                        | 1,321,110                      | —                             | (2,252,907 )                                   | —            |
| Long-term debt, net                            | —                              | 867,229                        | 394,476                       | —  | 1,261,705    |
| Other noncurrent liabilities                   | 3,820                          | 117,426                        | 140,371                       | —  | 261,617      |
| Total WESCO International stockholders' equity | 2,171,067                      | 3,101,741                      | 5,062,631                     | (8,164,372 )                                   | 2,171,067    |
| Noncontrolling interests                       | —                              | —                              | (5,312 )                      | —  | (5,312 )     |
| Total liabilities and stockholders' equity     | \$ 3,106,684                   | \$ 5,874,840                   | \$ 6,165,265                  | \$ (10,431,803)                                | \$ 4,714,986 |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Balance Sheet  
December 31, 2017

| (In thousands)                                 | WESCO<br>International<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|--------------------------------|--------------------------------|-------------------------------|--|--------------|
| Cash and cash equivalents                      | \$—                            | \$ 50,602                      | \$ 67,351                     | \$—  | \$ 117,953   |
| Trade accounts receivable, net                 | —                              | —                              | 1,170,080                     | —  | 1,170,080    |
| Inventories                                    | —                              | 430,092                        | 526,056                       | —  | 956,148      |
| Prepaid expenses and other current assets      | 4,730                          | 42,547                         | 152,531                       | (35,140)                                       | 164,668      |
| Total current assets                           | 4,730                          | 523,241                        | 1,916,018                     | (35,140)                                       | 2,408,849    |
| Intercompany receivables, net                  | —                              | —                              | 2,189,136                     | (2,189,136)                                    | —            |
| Property, buildings and equipment, net         | —                              | 50,198                         | 106,247                       | —  | 156,445      |
| Intangible assets, net                         | —                              | 2,770                          | 364,334                       | —  | 367,104      |
| Goodwill                                       | —                              | 257,623                        | 1,514,254                     | —  | 1,771,877    |
| Investments in affiliates                      | 3,058,613                      | 5,023,826                      | —                             | (8,082,439)                                    | —            |
| Other assets                                   | —                              | 2,778                          | 28,415                        | —  | 31,193       |
| Total assets                                   | \$3,063,343                    | \$5,860,436                    | \$6,118,404                   | \$(10,306,715)                                 | \$4,735,468  |
| Accounts payable                               | \$—                            | \$417,690                      | \$381,830                     | \$—  | \$799,520    |
| Short-term debt                                | —                              | —                              | 34,075                        | —  | 34,075       |
| Other current liabilities                      | —                              | 80,039                         | 162,475                       | (35,140)                                       | 207,374      |
| Total current liabilities                      | —                              | 497,729                        | 578,380                       | (35,140)                                       | 1,040,969    |
| Intercompany payables, net                     | 939,784                        | 1,249,352                      | —                             | (2,189,136)                                    | —            |
| Long-term debt, net                            | —                              | 934,033                        | 379,228                       | —  | 1,313,261    |
| Other noncurrent liabilities                   | 3,820                          | 120,709                        | 140,566                       | —  | 265,095      |
| Total WESCO International stockholders' equity | 2,119,739                      | 3,058,613                      | 5,023,826                     | (8,082,439)                                    | 2,119,739    |
| Noncontrolling interests                       | —                              | —                              | (3,596)                       | —  | (3,596)      |
| Total liabilities and stockholders' equity     | \$3,063,343                    | \$5,860,436                    | \$6,118,404                   | \$(10,306,715)                                 | \$4,735,468  |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Income and Comprehensive  
Income  
Three Months Ended  
June 30, 2018

| (In thousands)   | WESCO<br>International<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|--------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales  | \$—                            | \$ 921,075                     | \$ 1,222,369                  | \$ (39,450 )                                   | \$ 2,103,994 |
| Cost of goods sold (excluding depreciation and amortization) | —                              | 746,373                        | 997,177                       | (39,450 )                                      | 1,704,100    |
| Selling, general and administrative expenses                 | —                              | 147,566                        | 145,322                       | —  | 292,888      |
| Depreciation and amortization                                | —                              | 4,656                          | 11,167                        | —  | 15,823       |
| Results of affiliates' operations                            | 57,673                         | 51,122                         | —                             | (108,795 )                                     | —            |
| Net interest and other                                       | —                              | 14,259                         | 3,482                         | —  | 17,741       |
| Income tax expense   | —                              | 1,670                          | 14,099                        | —  | 15,769       |
| Net income   | 57,673                         | 57,673                         | 51,122                        | (108,795 )                                     | 57,673       |
| Net loss attributable to noncontrolling interests            | —                              | —                              | (267 )                        | —  | (267 )       |
| Net income attributable to WESCO International               | \$ 57,673                      | \$ 57,673                      | \$ 51,389                     | \$ (108,795 )                                  | \$ 57,940    |
| Other comprehensive income:                                  |                                |                                |                               |  |              |
| Foreign currency translation adjustments                     | (28,715 )                      | (28,715 )                      | (28,715 )                     | 57,430   | (28,715 )    |
| Comprehensive income attributable to WESCO International     | \$ 28,958                      | \$ 28,958                      | \$ 22,674                     | \$ (51,365 )                                   | \$ 29,225    |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Income and Comprehensive  
Income  
Six Months Ended  
June 30, 2018

| (In thousands)   | WESCO<br>International<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|--------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales  | \$—                            | \$1,803,474                    | \$2,372,479                   | \$ (78,044 )                                   | \$4,097,909  |
| Cost of goods sold (excluding depreciation and amortization) | —                              | 1,462,631                      | 1,933,479                     | (78,044 )                                      | 3,318,066    |
| Selling, general and administrative expenses                 | —                              | 298,047                        | 285,670                       | —  | 583,717      |
| Depreciation and amortization                                | —                              | 9,275                          | 22,428                        | —  | 31,703       |
| Results of affiliates' operations                            | 100,644                        | 96,325                         | —                             | (196,969 )                                     | —            |
| Net interest and other                                       | —                              | 28,076                         | 9,448                         | —  | 37,524       |
| Income tax expense   | —                              | 1,126                          | 25,129                        | —  | 26,255       |
| Net income   | 100,644                        | 100,644                        | 96,325                        | (196,969 )                                     | 100,644      |
| Net loss attributable to noncontrolling interests            | —                              | —                              | (1,717 )                      | —  | (1,717 )     |
| Net income attributable to WESCO International               | \$100,644                      | \$100,644                      | \$98,042                      | \$ (196,969 )                                  | \$102,361    |
| Other comprehensive loss:                                    |                                |                                |                               |  |              |
| Foreign currency translation adjustments                     | (57,515 )                      | (57,515 )                      | (57,515 )                     | 115,030  | (57,515 )    |
| Comprehensive income attributable to WESCO International     | \$43,129                       | \$43,129                       | \$40,527                      | \$ (81,939 )                                   | \$44,846     |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Income and  
Comprehensive Income  
Three Months Ended  
June 30, 2017

| (In thousands)   | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--|---------------------------|--------------------------|----------------------------|---------------------------------------|--------------|
| Net sales  | \$—                       | \$ 843,518               | \$ 1,100,661               | \$ (34,555 )                          | \$ 1,909,624 |
| Cost of goods sold (excluding depreciation and amortization) | —                         | 683,064                  | 895,001                    | (34,555 )                             | 1,543,510    |
| Selling, general and administrative expenses                 | —                         | 134,730                  | 133,005                    | —                                     | 267,735      |
| Depreciation and amortization                                | —                         | 4,583                    | 11,138                     | —                                     | 15,721       |
| Results of affiliates' operations                            | 49,535                    | 40,753                   | —                          | (90,288 )                             | —            |
| Net interest and other                                       | —                         | 28,518                   | (12,149 )                  | —                                     | 16,369       |
| Income tax (benefit) expense                                 | —                         | (1,862 )                 | 18,616                     | —                                     | 16,754       |
| Net income   | 49,535                    | 35,238                   | 55,050                     | (90,288 )                             | 49,535       |
| Net income attributable to noncontrolling interests          | —                         | —                        | 25                         | —                                     | 25           |
| Net income attributable to WESCO International               | \$49,535                  | \$ 35,238                | \$ 55,025                  | \$ (90,288 )                          | \$ 49,510    |
| Other comprehensive income:                                  |                           |                          |                            |                                       |              |
| Foreign currency translation adjustments                     | 33,381                    | 33,381                   | 33,381                     | (66,762 )                             | 33,381       |
| Comprehensive income attributable to WESCO International     | \$82,916                  | \$ 68,619                | \$ 88,406                  | \$ (157,050 )                         | \$ 82,891    |
| Reclassification   |                           |                          |                            |                                       |              |

As described in Note 8, the Company reclassified a net benefit of \$0.5 million from selling, general and administrative expenses to net interest and other in the previously reported Condensed Consolidated Statement of Income and Comprehensive Income of the non-guarantor subsidiaries for the three months ended June 30, 2017.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Income and Comprehensive  
Income  
Six Months Ended  
June 30, 2017

| (In thousands)   | WESCO<br>International<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|--------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales  | \$—                            | \$1,622,129                    | \$2,120,315                   | \$ (60,229 )                                   | \$3,682,215  |
| Cost of goods sold (excluding depreciation and amortization) | —                              | 1,304,812                      | 1,721,500                     | (60,229 )                                      | 2,966,083    |
| Selling, general and administrative expenses                 | —                              | 269,986                        | 265,167                       | —  | 535,153      |
| Depreciation and amortization                                | —                              | 9,336                          | 22,350                        | —  | 31,686       |
| Results of affiliates' operations                            | 87,334                         | 75,181                         | —                             | (162,515 )                                     | —            |
| Net interest and other                                       | —                              | 49,525                         | (16,889 )                     | —  | 32,636       |
| Income tax (benefit) expense                                 | —                              | (2,898 )                       | 32,221                        | —  | 29,323       |
| Net income   | 87,334                         | 66,549                         | 95,966                        | (162,515 )                                     | 87,334       |
| Net income attributable to noncontrolling interests          | —                              | —                              | 96                            | —  | 96           |
| Net income attributable to WESCO International               | \$87,334                       | \$66,549                       | \$95,870                      | \$ (162,515 )                                  | \$87,238     |
| Other comprehensive income:                                  |                                |                                |                               |  |              |
| Foreign currency translation adjustments                     | 44,949                         | 44,949                         | 44,949                        | (89,898 )                                      | 44,949       |
| Post retirement benefit plan adjustments, net of tax         | 252                            | 252                            | 252                           | (504 )   | 252          |
| Comprehensive income attributable to WESCO International     | \$132,535                      | \$111,750                      | \$141,071                     | \$ (252,917 )                                  | \$132,439    |
| Reclassification   |                                |                                |                               |  |              |

As described in Note 8, the Company reclassified a net benefit of \$0.9 million from selling, general and administrative expenses to net interest and other in the previously reported Condensed Consolidated Statement of Income and Comprehensive Income of the non-guarantor subsidiaries for the six months ended June 30, 2017.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Cash Flows  
Six Months Ended  
June 30, 2018

| (In thousands)   | WESCO International Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--|--------------------------|--------------------------|----------------------------|---------------------------------------|--------------|
| Net cash provided by operating activities                    | \$9,878                  | \$ 31,192                | \$ 45,751                  | \$ —                                  | \$ 86,821    |
| Investing activities:  |                          |                          |                            |                                       |              |
| Capital expenditures   | —                        | (9,334 )                 | (7,050 )                   | —                                     | (16,384 )    |
| Dividends received from subsidiaries                         | —                        | 95,511                   | —                          | (95,511)                              | —            |
| Other  | —                        | (37,524 )                | (8,684 )                   | 37,524                                | (8,684 )     |
| Net cash provided by (used in) investing activities          | —                        | 48,653                   | (15,734 )                  | (57,987)                              | (25,068 )    |
| Financing activities:  |                          |                          |                            |                                       |              |
| Borrowings   | —                        | 191,888                  | 736,372                    | (45,511)                              | 882,749      |
| Repayments   | (7,987 )                 | (260,888 )               | (673,761 )                 | 7,987                                 | (934,649 )   |
| Repurchases of common stock                                  | (1,891 )                 | —                        | —                          | —                                     | (1,891 )     |
| Decrease in bank overdrafts                                  | —                        | —                        | —                          | —                                     | —            |
| Dividends paid by subsidiaries                               | —                        | —                        | (95,511 )                  | 95,511                                | —            |
| Other  | —                        | (9,958 )                 | —                          | —                                     | (9,958 )     |
| Net cash used in financing activities                        | (9,878 )                 | (78,958 )                | (32,900 )                  | 57,987                                | (63,749 )    |
| Effect of exchange rate changes on cash and cash equivalents | —                        | —                        | (5,017 )                   | —                                     | (5,017 )     |
| Net change in cash and cash equivalents                      | —                        | 887                      | (7,900 )                   | —                                     | (7,013 )     |
| Cash and cash equivalents at the beginning of period         | —                        | 50,602                   | 67,351                     | —                                     | 117,953      |
| Cash and cash equivalents at the end of period               | \$—                      | \$ 51,489                | \$ 59,451                  | \$ —                                  | \$ 110,940   |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)  
(unaudited)

Condensed Consolidating Statement of Cash Flows  
Six Months Ended  
June 30, 2017

| (In thousands)   | WESCO International Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--|--------------------------|--------------------------|----------------------------|---------------------------------------|--------------|
| Net cash provided by (used in) operating activities          | \$9,117                  | \$ 73,130                | \$ (15,478 )               | \$ —                                  | \$ 66,769    |
| Investing activities:  |                          |                          |                            |                                       |              |
| Capital expenditures   | —                        | (4,259 )                 | (5,536 )                   | —                                     | (9,795 )     |
| Dividends received from subsidiaries                         | —                        | 33,818                   | —                          | (33,818)                              | —            |
| Other  | —                        | (72,761 )                | 12,322                     | 63,906                                | 3,467        |
| Net cash (used in) provided by investing activities          | —                        | (43,202 )                | 6,786                      | 30,088                                | (6,328 )     |
| Financing activities:  |                          |                          |                            |                                       |              |
| Borrowings   | 47,548                   | 313,749                  | 442,674                    | (72,636)                              | 731,335      |
| Repayments   | —                        | (348,478 )               | (420,847 )                 | 8,730                                 | (760,595 )   |
| Repurchases of common stock                                  | (56,665)                 | —                        | —                          | —                                     | (56,665 )    |
| Increase in bank overdrafts                                  | —                        | —                        | —                          | —                                     | —            |
| Dividends paid by subsidiaries                               | —                        | —                        | (33,818 )                  | 33,818                                | —            |
| Other  | —                        | (613 )                   | —                          | —                                     | (613 )       |
| Net cash used in financing activities                        | (9,117 )                 | (35,342 )                | (11,991 )                  | (30,088)                              | (86,538 )    |
| Effect of exchange rate changes on cash and cash equivalents | —                        | —                        | 3,765                      | —                                     | 3,765        |
| Net change in cash and cash equivalents                      | —                        | (5,414 )                 | (16,918 )                  | —                                     | (22,332 )    |
| Cash and cash equivalents at the beginning of period         | —                        | 41,552                   | 68,579                     | —                                     | 110,131      |
| Cash and cash equivalents at the end of period               | \$—                      | \$ 36,138                | \$ 51,661                  | \$ —                                  | \$ 87,799    |

### 13. SUBSEQUENT EVENTS

The Company evaluated subsequent events and concluded that no subsequent events have occurred that would require recognition in the unaudited Condensed Consolidated Financial Statements or disclosure in the Notes thereto.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and WESCO International, Inc.'s audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 2017 Annual Report on Form 10-K. The matters discussed herein may contain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. Certain of these risks are set forth in WESCO International, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as well as WESCO International, Inc.'s other reports filed with the Securities and Exchange Commission.

#### Company Overview

WESCO International, Inc. ("WESCO International"), incorporated in 1993 and effectively formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American-based distributor of products and provider of advanced supply chain management and logistics services used primarily in industrial, construction, utility, and commercial, institutional and government ("CIG") markets. We are a leading provider of electrical, industrial, and communications maintenance, repair and operating ("MRO") and original equipment manufacturer ("OEM") products, construction materials, and advanced supply chain management and logistics services. Our primary product categories include general supplies, wire, cable and conduit, communications and security, electrical distribution and controls, lighting and sustainability, and automation, controls and motors. We serve approximately 70,000 active customers globally through approximately 500 branches located primarily in the United States and Canada, with operations in 16 additional countries and 10 distribution centers located in the United States and Canada. We employ approximately 9,100 employees worldwide. We distribute over 1,000,000 products, grouped into six categories, from more than 26,000 suppliers, utilizing a highly automated, proprietary electronic procurement and inventory replenishment system.

In addition, we offer a comprehensive portfolio of value-added capabilities, which includes supply chain management, logistics and transportation, procurement, warehousing and inventory management, as well as kitting, limited assembly of products and system installation. Our value-added capabilities, extensive geographic reach, experienced workforce and broad product and supply chain solutions have enabled us to grow our business and establish a leading position in North America.

Our financial results for the first six months of 2018 reflect sales growth in all end markets and geographies, as well as favorable operating leverage, partially offset by unfavorable business mix. Net sales increased \$415.7 million, or 11.3%, over the same period last year. Cost of goods sold as a percentage of net sales was 81.0% and 80.6% for the first six months of 2018 and 2017, respectively. Selling, general and administrative ("SG&A") expenses as a percentage of net sales were 14.2% and 14.5% for the first six months of 2018 and 2017, respectively. Operating profit was \$164.4 million for the current six month period, compared to \$149.3 million for the first six months of 2017. Operating profit increased primarily due to higher sales volume. Net income attributable to WESCO International for the six months ended June 30, 2018 and 2017 was \$102.3 million and \$87.3 million, respectively.

#### Cash Flow

We generated \$86.8 million of operating cash flow for the first six months of 2018. Investing activities consisted of \$16.4 million of capital expenditures and \$8.8 million for the purchase of a foreign financial instrument. Financing activities were comprised of borrowings and repayments of \$449.9 million and \$458.9 million, respectively, related to our revolving credit facility (the "Revolving Credit Facility"), borrowings and repayments of \$345.0 million and \$330.0 million, respectively, related to our accounts receivable securitization facility (the "Receivables Facility") and repayments of \$60.0 million applied to our term loan facility (the "Term Loan Facility"). Financing activities for the first six months of 2018 also included borrowings and repayments on our various international lines of credit of approximately \$87.9 million and \$85.8 million, respectively. Free cash flow for the first six months of 2018 and 2017 was \$70.4 million and \$57.0 million, respectively.



## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

The following table sets forth the components of free cash flow:

| (In millions)                    | Six Months<br>Ended |          |
|----------------------------------|---------------------|----------|
|                                  | June 30,            | June 30, |
|                                  | 2018                | 2017     |
| Cash flow provided by operations | \$86.8              | \$ 66.8  |
| Less: Capital expenditures       | (16.4 )             | (9.8 )   |
| Free cash flow                   | \$70.4              | \$ 57.0  |

Note: Free cash flow is a non-GAAP financial measure of liquidity. Capital expenditures are deducted from operating cash flow to determine free cash flow. Free cash flow is available to fund investing and financing activities.

## Financing Availability

As of June 30, 2018, we had \$559.8 million in total available borrowing capacity under our Revolving Credit Facility, which was comprised of \$375.8 million of availability under the U.S. sub-facility and \$184.0 million of availability under the Canadian sub-facility. Available borrowing capacity under our Receivables Facility was \$155.0 million. The Revolving Credit Facility and the Receivables Facility both mature in September 2020.

## Critical Accounting Policies and Estimates

Effective January 1, 2018, we adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, and all the related amendments, ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as well as certain other ASUs. See Note 2 of our Notes to the unaudited Condensed Consolidated Financial Statements for information regarding our critical accounting policies.

## Results of Operations

## Second Quarter of 2018 versus Second Quarter of 2017

The following table sets forth the percentage relationship to net sales of certain items in our Condensed Consolidated Statements of Income and Comprehensive Income for the periods presented:

|  | Three Months<br>Ended |        |
|--|-----------------------|--------|
|  | June 30               |        |
|  | 2018                  | 2017   |
| Net sales  | 100.0%                | 100.0% |
| Cost of goods sold (excluding depreciation and amortization) | 81.0                  | 80.8   |
| Selling, general and administrative expenses <sup>(1)</sup>  | 13.9                  | 14.0   |
| Depreciation and amortization                                | 0.8                   | 0.8    |
| Income from operations                                       | 4.3                   | 4.4    |
| Net interest and other <sup>(1)</sup>                        | 0.8                   | 0.9    |
| Income before income taxes                                   | 3.5                   | 3.5    |
| Provision for income taxes                                   | 0.7                   | 0.9    |
| Net income attributable to WESCO International               | 2.8 %                 | 2.6 %  |

As described in Note 8 of the Notes to the unaudited Condensed Consolidated Financial Statements, we adopted Accounting Standards Update (ASU) 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, on a retrospective basis during the first quarter of 2018. This ASU requires the disaggregation of service cost from the other components of net periodic benefit cost. For the three months ended June 30, 2018 and 2017, the non-service cost components of net periodic benefit cost aggregated to a benefit of \$0.5 million and are included in net interest and other.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Net sales were \$2.1 billion for the second quarter of 2018, compared to \$1.9 billion for the second quarter of 2017, an increase of 10.2%. Organic sales for the second quarter of 2018 grew by 9.0% as foreign exchange rates impacted net sales by 1.2%.

The following table sets forth organic sales growth for the period presented:

|                                    | Three<br>Months<br>Ended<br>June 30,<br>2018 |
|------------------------------------|--|
| Change in net sales                | 10.2 %                                       |
| Impact from acquisitions           | — %  |
| Impact from foreign exchange rates | 1.2 %  |
| Impact from number of workdays     | — %  |
| Organic sales growth               | 9.0 %  |

Note: Organic sales growth is a non-GAAP financial measure of sales performance. Organic sales growth is calculated by deducting the percentage impact from acquisitions in the first year of ownership, foreign exchange rates and number of workdays from the overall percentage change in consolidated net sales.

Cost of goods sold for the second quarter of 2018 was \$1.7 billion, compared to \$1.5 billion for the second quarter of 2017. As a percentage of net sales, cost of goods sold was 81.0% and 80.8%, respectively. The increase in cost of goods sold as a percentage of net sales was primarily due to geographic and end market business mix, a reclassification of certain labor costs from SG&A to cost of goods sold, and product cost inflation.

SG&A expenses for the second quarter of 2018 totaled \$292.9 million versus \$267.8 million for the second quarter of 2017. As a percentage of net sales, SG&A expenses were 13.9% and 14.0%, respectively. SG&A expenses reflect higher payroll expenses and transportation costs, a bad debt charge of \$2.5 million related to a Canadian customer that ceased operations, as well as increased costs driven by sales volume growth.

SG&A payroll expenses for the second quarter of 2018 of \$202.1 million increased by \$13.6 million compared to the same period in 2017 primarily due to higher sales volume and variable compensation expense, which was partially offset by a reclassification of certain labor costs from SG&A to cost of goods sold.

Depreciation and amortization for the second quarter of 2018 and 2017 was \$15.8 million and \$15.7 million, respectively.

Net interest and other totaled \$17.7 million for the second quarter of 2018 compared to \$16.3 million for the second quarter of 2017. The increase was primarily due to accelerated amortization of debt discount and debt issuance costs totaling \$0.8 million related to early repayments on our term loan facility.

Income tax expense totaled \$15.8 million for the second quarter of 2018 compared to \$16.8 million in last year's comparable period and the effective tax rate was 21.5% and 25.3%, respectively. The lower effective tax rate in the current quarter is primarily due to the Tax Cuts and Jobs Act of 2017 (the "TCJA"), which permanently reduced the U.S. federal statutory income tax rate from 35% to 21%, effective January 1, 2018.

Net income for the second quarter of 2018 was \$57.7 million, compared to net income of \$49.5 million for the second quarter of 2017.

Net loss of \$0.3 million was attributable to noncontrolling interests for the second quarter of 2018, compared to net income of less than \$0.1 million for the second quarter of 2017. The change in net income (loss) attributable to noncontrolling interests was primarily due to the effect of foreign currency.

Net income and diluted earnings per share attributable to WESCO International were \$58.0 million and \$1.22 per share, respectively, for the second quarter of 2018, compared with net income and diluted earnings per share of \$49.5 million and \$1.02 per share, respectively, for the second quarter of 2017.



## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

## Six Months Ended June 30, 2018 versus Six Months Ended June 30, 2017

The following table sets forth the percentage relationship to net sales of certain items in our Condensed Consolidated Statements of Income and Comprehensive Income for the periods presented:

|  | Six Months<br>Ended<br>June 30 |        |
|--|--------------------------------|--------|
|  | 2018                           | 2017   |
| Net sales  | 100.0%                         | 100.0% |
| Cost of goods sold (excluding depreciation and amortization) | 81.0                           | 80.6   |
| Selling, general and administrative expenses <sup>(1)</sup>  | 14.2                           | 14.5   |
| Depreciation and amortization                                | 0.8                            | 0.8    |
| Income from operations                                       | 4.0                            | 4.1    |
| Net interest and other <sup>(1)</sup>                        | 0.9                            | 0.9    |
| Income before income taxes                                   | 3.1                            | 3.2    |
| Provision for income taxes                                   | 0.6                            | 0.8    |
| Net income attributable to WESCO International               | 2.5 %                          | 2.4 %  |

As described in Note 8 of the Notes to the unaudited Condensed Consolidated Financial Statements, we adopted Accounting Standards Update (ASU) 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, on a retrospective basis

<sup>(1)</sup> during the first quarter of 2018. This ASU requires the disaggregation of service cost from the other components of net periodic benefit cost. For the six months ended June 30, 2018 and 2017, the non-service cost components of net periodic benefit cost aggregated to benefits of \$1.0 million and \$0.9 million, respectively, and are included in net interest and other.

Net sales were \$4.1 billion for the first six months of 2018, compared to \$3.7 billion for the first six months of 2017, an increase of 11.3%. Organic sales for the first six months of 2018 grew by 9.9% as foreign exchange rates impacted net sales by 1.4%.

The following table sets forth organic sales growth for the period presented:

|                                    | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|------------------------------------|--|
| Change in net sales                | 11.3 %                                     |
| Impact from acquisitions           | — %  |
| Impact from foreign exchange rates | 1.4 %                                      |
| Impact from number of workdays     | — %  |
| Organic sales growth               | 9.9 %                                      |

Note: Organic sales growth is a non-GAAP financial measure of sales performance. Organic sales growth is calculated by deducting the percentage impact from acquisitions in the first year of ownership, foreign exchange rates and number of workdays from the overall percentage change in consolidated net sales.

Cost of goods sold for the first six months of 2018 was \$3.3 billion, compared to \$3.0 billion for the first six months of 2017. As a percentage of net sales, cost of goods sold was 81.0% and 80.6%, respectively. The increase in cost of goods sold as a percentage of net sales was primarily due to geographic and end market business mix, a reclassification of certain labor costs from SG&A to cost of goods sold, and product cost inflation.

SG&A expenses for the first six months of 2018 totaled \$583.7 million versus \$535.2 million for the first six months of 2017. As a percentage of net sales, SG&A expenses were 14.2% and 14.5%, respectively. SG&A expenses reflect higher payroll expenses and transportation costs, a bad debt charge of \$2.5 million related to a Canadian customer that

ceased operations, as well as increased costs driven by sales volume growth.

SG&A payroll expenses for the first six months of 2018 of \$403.9 million increased by \$28.6 million compared to the same period in 2017 primarily due to higher sales volume and variable compensation expense, which was partially offset by a reclassification of certain labor costs from SG&A to cost of goods sold.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Depreciation and amortization for the first six months of 2018 and 2017 was \$31.7 million and \$31.6 million, respectively.

Net interest and other totaled \$37.5 million for the first six months of 2018 compared to \$32.6 million for the first six months of 2017. The increase was primarily due to a foreign exchange loss of \$2.6 million from the remeasurement of financial instruments, as well as accelerated amortization of debt discount and debt issuance costs totaling \$0.8 million related to early repayments on our term loan facility.

Income tax expense totaled \$26.3 million for the first six months of 2018 compared to \$29.3 million in last year's comparable period and the effective tax rate was 20.7% and 25.1%, respectively. The lower effective tax rate in the current year is primarily due to the TCJA, which permanently reduced the U.S. federal statutory income tax rate from 35% to 21%, effective January 1, 2018.

Net income for the first six months of 2018 was \$100.6 million, compared to net income of \$87.3 million for the first six months of 2017.

Net loss of \$1.7 million was attributable to noncontrolling interests for the first six months of 2018, compared to net income of \$0.1 million for the first six months of 2017. The change in net income (loss) attributable to noncontrolling interests was primarily due to the effect of foreign currency.

Net income and diluted earnings per share attributable to WESCO International were \$102.3 million and \$2.15 per share, respectively, for the first six months of 2018, compared with net income and diluted earnings per share of \$87.3 million and \$1.78 per share, respectively, for the first six months of 2017.

**Liquidity and Capital Resources**

Total assets were \$4.7 billion at June 30, 2018 and December 31, 2017. Total liabilities were \$2.5 billion and \$2.6 billion at June 30, 2018 and December 31, 2017, respectively. Total stockholders' equity was \$2.2 billion at June 30, 2018 and \$2.1 billion at December 31, 2017.

Our liquidity needs generally arise from fluctuations in our working capital requirements, capital expenditures, acquisitions and debt service obligations. As of June 30, 2018, we had \$559.8 million in available borrowing capacity under our Revolving Credit Facility and \$155.0 million in available borrowing capacity under our Receivables Facility, which combined with available cash of \$57.6 million, provided liquidity of \$772.4 million. Cash included in our determination of liquidity represents cash in deposit and interest bearing investment accounts. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs. In addition, we regularly review our mix of fixed versus variable rate debt, and we may, from time to time, issue or retire borrowings and/or refinance existing debt in an effort to mitigate the impact of interest rate and foreign exchange rate fluctuations, and to maintain a cost-effective capital structure consistent with our anticipated capital requirements. At June 30, 2018, approximately 65% of our debt portfolio was comprised of fixed rate debt.

We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. We also communicate on a regular basis with our lenders regarding our financial and working capital performance, liquidity position and financial leverage. Our financial leverage ratio was 3.3 and 3.6 as of June 30, 2018 and December 31, 2017, respectively. In addition, we are in compliance with all covenants and restrictions contained in our debt agreements as of June 30, 2018.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

The following table sets forth our financial leverage ratio as of June 30, 2018 and December 31, 2017:

| (In millions of dollars, except ratio)               | Twelve months ended |                   |
|--|---------------------|-------------------|
|  | June 30, 2018       | December 31, 2017 |
| Income from operations <sup>(1)</sup>                | \$334.2             | \$ 319.2          |
| Depreciation and amortization                        | 64.0                | 64.0              |
| EBITDA   | \$398.2             | \$ 383.2          |
|  |                     |                   |
|  | June 30, 2018       |                   |
|  | June 30, 2018       | December 31, 2017 |
| Short-term borrowings and current debt               | \$36.7              | \$ 35.3           |
| Long-term debt                                       | 1,261.7             | 1,313.3           |
| Debt discount and debt issuance costs <sup>(2)</sup> | 11.4                | 14.2              |
| Total debt   | 1,309.8             | 1,362.8           |
| Less: cash and cash equivalents                      | 110.9               | 118.0             |
| Total debt, net of cash                              | \$1,198.9           | \$ 1,244.8        |
|  |                     |                   |
| Financial leverage ratio                             | 3.3                 | 3.6               |
| Financial leverage ratio, net of cash                | 3.0                 | 3.2               |

Due to the adoption of ASU 2017-07 on a retrospective basis in the first quarter of 2018, we classified the non-service cost components of net periodic benefit cost as part of net interest and other for the twelve months ended June 30, 2018 and December 31, 2017. These components aggregated to a benefit of \$1.9 million and \$1.8 million, respectively.

Long-term debt is presented in the condensed consolidated balance sheets net of debt discount and debt issuance costs.

Note: Financial leverage is a non-GAAP measure of the use of debt. Financial leverage ratio is calculated by dividing total debt, including debt discount and debt issuance costs, by EBITDA. Financial leverage ratio, net of cash is calculated by dividing total debt, including debt discount and debt issuance costs, net of cash, by EBITDA. EBITDA, which is also a non-GAAP financial measure, is defined as the trailing twelve months earnings before interest, taxes, depreciation and amortization.

At June 30, 2018, we had cash and cash equivalents totaling \$110.9 million, of which \$71.4 million was held by foreign subsidiaries. The cash held by our foreign subsidiaries could be subject to additional income taxes if repatriated. We continue to believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriation of the cash held by these foreign subsidiaries. However, as a result of the TCJA, we are reevaluating our intent and ability to repatriate foreign cash based upon the available liquidity and cash flow needs of our foreign subsidiaries and will disclose in future filings any change in our intention to repatriate undistributed foreign earnings and any resulting income tax impacts.

We did not note any triggering events or substantive changes during the first six months of 2018 that would require an interim evaluation of impairment of goodwill or indefinite-lived intangible assets. We will perform our annual impairment testing of goodwill and indefinite-lived intangible assets during the fourth quarter.

Over the next several quarters, we plan to closely manage working capital, and it is expected that excess cash will be directed primarily at growth initiatives, acquisitions, debt reduction, and share repurchases. We remain focused on maintaining ample liquidity and credit availability. We anticipate capital expenditures in 2018 to be higher than 2017 as we continue to invest in our business. We believe our balance sheet and ability to generate ample cash flow provides us with a durable business model and should allow us to fund growth initiatives and expansion needs.



## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

### Cash Flow

**Operating Activities.** Net cash provided by operating activities for the first six months of 2018 totaled \$86.8 million, compared with \$66.8 million of cash generated for the first six months of 2017. Net cash provided by operating activities included net income of \$100.6 million and adjustments to net income totaling \$48.8 million. Other sources of cash in the first six months of 2018 included a decrease in other accounts receivable of \$38.4 million due primarily to the collection of supplier volume rebates earned in 2017, an increase in accounts payable of \$26.1 million, and a decrease in inventories of \$11.4 million. Primary uses of cash in the first six months of 2018 included: an increase in trade accounts receivable of \$102.6 million resulting from higher sales; a decrease in accrued payroll and benefit costs of \$16.6 million resulting primarily from the payment of management incentive compensation earned in 2017; an increase in prepaid expenses and other assets of \$12.9 million; and, a decrease in other current and noncurrent liabilities of \$6.4 million.

Net cash provided by operating activities for the first six months of 2017 totaled \$66.8 million, which included net income of \$87.3 million and adjustments to net income totaling \$46.4 million. Other sources of cash in 2017 included an increase in accounts payable of \$76.8 million and a decrease in other accounts receivable of \$16.4 million. Primary uses of cash in 2017 included: an increase in trade accounts receivable of \$96.0 million resulting from higher sales in the latter part of the quarter; an increase in inventories of \$36.9 million; a decrease in accrued payroll and benefit costs of \$10.7 million; a decrease in other current and noncurrent liabilities of \$10.2 million; and, an increase in prepaid expenses and other assets of \$6.3 million.

**Investing Activities.** Net cash used in investing activities for the first six months of 2018 was \$25.1 million, compared with \$6.3 million of net cash used during the first six months of 2017. Capital expenditures were \$16.4 million for the six month period ended June 30, 2018, compared to \$9.8 million for the six month period ended June 30, 2017. The first six months of 2018 also included other payments of \$8.8 million for the purchase of a foreign financial instrument.

**Financing Activities.** Net cash used in financing activities for the first six months of 2018 was \$63.7 million, compared to \$86.5 million used in the first six months of 2017. During the first six months of 2018, financing activities consisted of borrowings and repayments of \$449.9 million and \$458.9 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of \$345.0 million and \$330.0 million, respectively, related to our Receivables Facility and repayments of \$60.0 million applied to our Term Loan Facility. Financing activities for the first six months of 2018 also included borrowings and repayments on our various international lines of credit of approximately \$87.9 million and \$85.8 million, respectively.

During the first six months of 2017, financing activities consisted of borrowings and repayments of \$345.9 million and \$341.9 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of \$316.2 million and \$320.2 million, respectively, related to our Receivables Facility, and repayments of \$30.0 million applied to our Term Loan Facility. Financing activities for the first six months of 2017 also included borrowings and repayments on our various international lines of credit of approximately \$69.3 million and \$68.5 million, respectively. Additionally, financing activities for the six months ended June 30, 2017 included the repurchase of \$56.7 million of the Company's common stock, of which \$50.0 million was pursuant to the share repurchase plan announced on December 17, 2014.

### Contractual Cash Obligations and Other Commercial Commitments

There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2017 Annual Report on Form 10-K. Management believes that cash generated from operations, together with amounts available under our Revolving Credit Facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures and other cash requirements for the foreseeable future. However, there can be no assurances that this will continue to be the case.

### Inflation

The rate of inflation, as measured by changes in the producer price index, affects different commodities, the cost of products purchased and ultimately the pricing of our different products and product classes to our customers. For the

six months ended June 30, 2018, pricing related to inflation had an impact of approximately 2% on our sales.

#### Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first quarter are usually affected by a reduced level of activity. Sales during the second, third and fourth quarters are generally 6 - 8% higher than the first quarter. Sales typically increase beginning in March, with slight fluctuations per month through October. During periods of economic expansion or contraction, our sales by quarter have varied significantly from this pattern.

## WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

### Impact of Recently Issued Accounting Standards

See Note 2 of our Notes to Condensed Consolidated Financial Statements for information regarding the effect of new accounting pronouncements.

### Forward-Looking Statements

From time to time in this report and in other written reports and oral statements, references are made to expectations regarding our future performance. When used in this context, the words “anticipates,” “plans,” “believes,” “estimates,” “intend,” “expects,” “projects,” “will” and similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources are based on management’s beliefs, as well as on assumptions made by and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by us or on our behalf. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. Certain of these risks are set forth in the WESCO International’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as well as WESCO International’s other reports filed with the Securities and Exchange Commission. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Item 3. Quantitative and Qualitative Disclosures about Market Risks.

There have not been any material changes to our exposures to market risk during the quarterly period ended June 30, 2018 that would require an update to the relevant disclosures provided in our 2017 Annual Report on Form 10-K.

### Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures and internal control over financial reporting were effective as of the end of the period covered by this report.

Effective January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers, and all the related amendments. Although the adoption of this new revenue standard had no impact on our results of operations, financial position or cash flows, we did expand our controls related to revenue recognition. However, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, a number of lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The outcome of any litigation cannot be predicted with certainty, and some lawsuits may be determined adversely to us. However, management does not believe that the ultimate outcome of any such pending matters is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any fiscal period of one or more of these matters may have a material adverse effect on our results of operations for that period.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in Item 1A. to Part 1 of WESCO's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 6. Exhibits.

(a) Exhibits

(10) Material Contracts

(1) Term Sheet, dated April 6, 2018, memorializing terms of employment of Christine Wolf by WESCO International, Inc.

(31) Rule 13a-14(a)/15d-14(a) Certifications

(1) Certification of Chief Executive Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.

(2) Certification of Chief Financial Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.

(32) Section 1350 Certifications

(1) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(2) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

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.

WESCO International, Inc.

(Registrant)

August 3, 2018 By: /s/ David S. Schulz

(Date)

David S. Schulz

Senior Vice President and Chief Financial Officer