WESCO INTERNATIONAL INC
Form 10-K
February 27, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
o 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 incorporation or organization) | (I.R.S. Employer Identification No.) |
| 225 West Station Square Drive Suite 700 Pittsburgh, Pennsylvania | 15219 (Zip Code) |

(Address of principal executive offices)
(412) 454-2200
(Registrant's telephone number, including area code)
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of Class | Name of Exchange on which registered |
|---|---|
| Common Stock, par value $.01 per share | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ
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 þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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. (Check one):

| | |
|---|---|
| Large accelerated filer þ | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |
| | Emerging growth company o |

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 Ex-change Act. o

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

The registrant estimates that the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately $2.7 billion as of June 30, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, based on the closing price on the New York Stock Exchange for such stock.

As of February 26, 2019, 45,195,593 shares of Common Stock, par value $.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of this Form 10-K incorporates by reference portions of the registrant’s Proxy Statement for its 2019 Annual Meeting of Stockholders.

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# PART I

## Item 1. Business.

In this Annual Report on Form 10-K, “WESCO” refers to WESCO International, Inc., and its subsidiaries and its predecessors unless the context otherwise requires. References to “we,” “us,” “our” and the “Company” refer to WESCO and its subsidiaries.

### The Company

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 primarily located in North America, with operations in 15 additional countries and 10 distribution centers located in the United States and Canada. The Company employs approximately 9,100 employees worldwide. We distribute over 1,000,000 products, grouped into six categories, from approximately 30,000 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.

### Industry Overview

We operate in highly fragmented markets that include thousands of small regional and locally based, privately owned competitors. The total potential in North America for purchases of MRO and OEM supplies and services across all industrial distribution market segments and channels is estimated to be approximately $880 billion per a combination of industry sources. According to one industry publication, the five largest full-line electrical distributors in North America, including WESCO, account for approximately one-third of an estimated $100 billion-plus of electrical sales in North America. Our global account, integrated supply and OEM programs provide customers with regional, national, North American and global supply chain consolidation opportunities. The demand for these programs is driven primarily by the desire of companies to reduce operating expenses by outsourcing operational and administrative functions associated with the procurement, management and utilization of MRO supplies and OEM components. We believe that opportunities exist for expansion of these programs.

According to various industry sources, electrical distribution industry sales have grown mid-single-digits on average over the past three years. Growth has been influenced by trends in the wider economy, including MRO and OEM purchasing, investments in infrastructure and construction activity. It is estimated that approximately 75% of electrical products sold in the United States are delivered to the end user through the distribution channel.

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Markets and Customers

We have a large base of approximately 70,000 active customers across a diverse set of end markets. Our top ten customers accounted for approximately 18% of our sales in 2018. No one customer accounted for more than 4% of our sales in 2018.

The following table outlines our sales breakdown by end market:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| (percentages based on total sales) | | | |
| Industrial | 36% | 37% | 36% |
| Construction | 33% | 33% | 34% |
| Utility | 16% | 16% | 16% |
| Commercial, Institutional and Government | 15% | 14% | 14% |

Industrial. Sales to industrial customers of MRO, OEM, and construction products and services accounted for approximately 36% of our sales in 2018, compared to 37% in 2017. Industrial sales product categories include a broad range of electrical equipment and supplies as well as lubricants, pipe, valves, fittings, fasteners, cutting tools, power transmission, and safety products. In addition, OEM customers require a reliable supply of assemblies and components to incorporate into their own products as well as value-added services such as supplier consolidation, design and technical support, just-in-time supply and electronic commerce, and supply chain management.

Construction. Sales of electrical and communications products to construction customers accounted for approximately 33% of our sales in 2018 and 2017. Customers include a wide array of contractors and engineering, procurement and construction firms for industrial, infrastructure, commercial and data and broadband communications projects. Specific applications include projects for refineries, railways, wastewater treatment facilities, data centers, security installations, offices, and modular and mobile homes. In addition to a wide array of electrical products, we offer contractors communications products for projects related to IT/network modernization, physical security upgrades, broadband deployments, network security, and disaster recovery.

Utility. Sales to utilities and utility contractors accounted for approximately 16% of our sales in 2018 and 2017. Customers include large investor-owned utilities, rural electric cooperatives, municipal power authorities and contractors that serve these customers. We provide our utility customers with products and services to support the construction and maintenance of their generation, transmission and distribution systems along with an extensive range of products that meet their power plant MRO and capital projects needs. Materials management and procurement outsourcing arrangements are also important in this market, as cost pressures and deregulation have caused utility customers to seek improvements in the efficiency and effectiveness of their supply chains.

Commercial, Institutional and Government. Sales to CIG customers accounted for approximately 15% of our sales in 2018, compared to 14% in 2017. Customers include schools, hospitals, property management firms, retailers and federal, state and local government agencies of all types, including federal contractors.

Business Strategy

Our goal is to grow organically at a rate greater than that of our industry while making accretive acquisitions. Our organic growth strategy focuses on enhancing our sales, technical expertise and customer service capabilities to acquire new customers and increase our sales to current customers, broaden our product and service offerings and expand our geographic footprint. We utilize LEAN continuous improvement initiatives on a company-wide basis to deliver operational excellence and improve productivity. We also extend our LEAN initiatives to customers to improve the efficiency and effectiveness of their operations and supply chains. In addition, we seek to develop a distinct competitive advantage through talent management and employee development processes and programs.

We have identified certain growth engines that we believe provide substantial opportunities for above-market growth, and have developed strategies to address each of these areas of opportunity. These growth engines are a combination of business models, selected end markets and product categories, as discussed below.

Grow Our Global Account Customer Relationships and Base. Our typical global account customer is a large, multi-location industrial or commercial company, a large utility, a major contractor, or a government or institutional customer. Our global account program is designed to provide customers with supply chain management services and cost reductions by coordinating and standardizing activity for MRO materials and OEM direct materials across their multiple locations, utilizing our broad geographic footprint and our largely integrated information technology platform. Comprehensive account plans are developed and managed at the local, national and international levels to prioritize activities, identify key performance measures, and track progress against

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objectives. We involve our preferred suppliers early in the implementation process to contribute expertise and product knowledge to accelerate program implementation and deliver cost savings and process improvements.

Through our growth initiatives, we plan to continue to expand the suite of products and services we offer to current customer sites, while increasing our reach to serve additional customer locations. We plan on expanding our customer base by capitalizing on our industry expertise and supply chain optimization capabilities.

Extend Our Position in Integrated Supply Programs. Our integrated supply programs focus on optimizing the supply chain and replacing the traditional multi-vendor, resource-intensive procurement process with a single, outsourced, automated process. Each integrated supply program employs our product and distribution expertise to reduce the number of suppliers, total procurement costs, and administrative expenses, while meeting the customers' service needs and improving their operating controls. We believe that large customers will seek to utilize such services to consolidate and simplify their MRO and OEM supply chains.

We are expanding our position in North America as an integrated supply service provider by building upon established relationships within our large customer base and premier supplier network, and extending our services to additional customers and locations around the world. Our services are offered across all four of our end markets.

Expand Our Relationships with Construction Contractors. We support new construction, renovation and retrofit projects across a wide variety of vertical markets, including manufacturing, healthcare, education, enterprise data communications, telecommunications, energy and government infrastructure. We believe that significant cross selling opportunities exist for our electrical and communications products and expertise, and we are utilizing our global account and integrated supply programs, LEAN initiatives and project management expertise to capitalize on new non-residential construction opportunities.

Expand Products and Services for Utilities. Our investor-owned, public power and utility contractor customers continue to focus on improving grid reliability and operating efficiency, while reducing costs. As a result, we anticipate opportunities from distribution grid improvement, storm hardening, renewable generation installation and transmission expansion projects as well as the continued adoption of integrated supply programs. Accordingly, we are focused on expanding our logistical and project services and supply chain management programs to increase our scope of supply on the distribution grid, generation and other energy projects, including alternative energy projects.

Grow Industrial MRO and Safety Sales. Our sales of industrial MRO materials include a broad range of electrical and non-electrical products used in the ongoing maintenance and repair of equipment used in production processes. These products are also used for facility upkeep in manufacturing, commercial, institutional, and other operations. In addition, we have safety products, personal protection safety equipment, first aid supplies, and OSHA compliance categories to complement the industrial MRO product lines.

Expand International Operations. We seek to capitalize on existing and emerging international market opportunities through the expansion of our global product and service platforms. We follow large existing global customers into international markets, extending our procurement outsourcing, integrated supply programs and supplier relationships. Once established, we also seek to develop new business opportunities in these markets. We believe this strategy of working with well-developed customer and supplier relationships significantly reduces risk and provides the opportunity to establish profitable business. Our priorities are focused on global vertical markets including energy, mining and metals, manufacturing, and infrastructure, as well as key product categories such as communications and security.

Grow Our Communications Products Position. Over the last several years, there has been a convergence of electrical and data communications contractors. Our ability to provide both electrical and communications products and services as well as automation, electromechanical, non-electrical MRO, physical security and utility products has presented cross selling opportunities across WESCO. Communications products are in continual demand due to network upgrades, low voltage security investments, data center upgrades and increasing broadband and telecommunications usage.

Grow Lighting System and Sustainability Sales. Lighting applications are undergoing significant innovation, driven by energy efficiency and sustainability trends. We have expanded our sales team and marketing initiatives and

increased our presence and customer base with recent acquisitions. We have also developed capabilities to provide complete turn-key solutions for the installation of LED equipment and controls. We expect to continue to add product and service offerings to provide lighting and energy-saving solutions.
Pursue Strategic Acquisitions. Since 2010, we have made fourteen acquisitions that have helped us broaden and strengthen our product and services portfolio, increase our customer base, and provide an important source of talent. We believe that the highly fragmented nature of the electrical and industrial distribution industry will continue to provide acquisition opportunities.
Drive Operational Excellence. LEAN continuous improvement is a set of company-wide strategic initiatives to increase efficiency and effectiveness across the entire business enterprise, including sales, operations and administrative processes. The basic principles behind LEAN are to systematically identify and implement improvements through simplification, elimination of

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waste and reduction in errors. We apply LEAN in our distribution environment, and develop and deploy numerous initiatives through the Kaizen approach targeting improvements in sales, margin, warehouse operations, transportation, purchasing, working capital management and administrative processes. Our objective is to continue to implement LEAN initiatives across our business enterprise and to extend LEAN services to our customers and suppliers.

Manage Our Talent. We seek to develop a distinct competitive advantage through talent management, and employee engagement and development. We believe our ability to attract, develop and retain diverse human capital is imperative to ongoing business success. We improve workforce capability through various programs and processes that identify, recruit, develop and promote our talent base. Significant enhancements in these programs have been made over the last several years, and we expect to continue to refine and enhance these programs in the future.

Products and Services

Products

Our network of branches and distribution centers stock approximately 220,000 unique product stock keeping units and we provide customers with access to more than 1,000,000 different products. Each branch tailors its inventory to meet the needs of its local customers.

Representative product categories and associated product lines that we offer include:

- General Supplies. Wiring devices, fuses, terminals, connectors, boxes, enclosures, fittings, lugs, terminations, wrap, splicing and marking equipment, tools and testers, safety, personal protection, sealants, cutting tools, adhesives, consumables, fasteners, janitorial and other MRO supplies;
- Wire, Cable and Conduit. Wire, cable, raceway, metallic and non-metallic conduit;
- Communications and Security. Structured cabling systems, broadband products, low voltage specialty systems, specialty wire and cable products, equipment racks and cabinets, access control, alarms, cameras, paging and voice solutions;
- Electrical Distribution and Controls. Circuit breakers, transformers, switchboards, panel boards, metering products and busway products;
- Lighting and Sustainability. Lamps, fixtures, ballasts and lighting control products, and
- Automation, Controls and Motors. Motor control devices, drives, surge and power protection, relays, timers, pushbuttons, operator interfaces, switches, sensors, and interconnects.

The following table sets forth sales information by product category:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| (percentages based on total sales) | | | |
| General Supplies | 40% | 40% | 40% |
| Wire, Cable and Conduit | 14% | 15% | 14% |
| Communications and Security | 16% | 15% | 15% |
| Electrical Distribution and Controls | 11% | 10% | 11% |
| Lighting and Sustainability | 11% | 12% | 12% |
| Automation, Controls and Motors | 8% | 8% | 8% |

We purchase products from a diverse group of approximately 30,000 suppliers. In 2018, our ten largest suppliers accounted for approximately 32% of our purchases. Our largest supplier in 2018 was Eaton Corporation, accounting for approximately 11% of our purchases. No other supplier accounted for more than 4% of our total purchases.

Our supplier relationships are important to us, providing access to a wide range of products, services, technical training, and sales and marketing support. We have approximately 300 commercial agreements with more than 200 preferred suppliers and purchase nearly 60% of our products pursuant to these arrangements. Consistent with industry practice, most of our agreements with suppliers, including both distribution agreements and commercial agreements, are terminable by either party on 60 days notice or less.

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Services

As part of our overall offering, we provide customers a comprehensive portfolio of value-added solutions within a wide range of service categories including construction, e-commerce, energy and sustainability, engineering services, production support, safety and security, supply chain optimization, training, and working capital. These solutions are designed to address our customers' business needs through:

- Technical advisory strategies, including product lifecycle management and migration planning;
- Supply chain and inventory optimization programs, including just-in-time delivery and vendor managed inventory;
- Consultation on production and operational efficiencies from cross-functional, cost saving teams;
- Transactional process improvements utilizing a suite of e-commerce solutions;
- Energy-saving solutions, including lighting renovation and retrofit;
- Operational safety and product training for customer's employees, and
- Dedicated on-site support personnel.

Competitive Strengths

As a leading electrical distributor in a highly fragmented North American market, we compete directly with global, national, regional, and local distributors of electrical and other industrial supplies, along with buying groups formed by smaller distributors. Competition is generally based on product line breadth, product availability, service capabilities and price. We believe that our market leadership, broad product offering, value-added services, technical expertise, extensive distribution network and low-cost operator status provide distinct competitive advantages.

Market Leadership. Our ability to manage complex global supply chains, and multi-site facility maintenance programs and construction projects, which require special sourcing, technical advice, logistical support and locally based service, has enabled us to establish a strong presence in the competitive and fragmented North American electrical distribution market.

Broad Product Offering and Value-added Services. We provide a wide range of products, services, and procurement solutions, which draw on our product knowledge, supply and logistics expertise, system capabilities and supplier relationships to enable our customers to maximize productivity, minimize waste, improve efficiencies, reduce costs and enhance safety. Our broad product offering and stable source of supply enables us to consistently meet customers' wide-ranging capital project, MRO and OEM requirements.

Extensive Distribution Network. We operate approximately 500 geographically dispersed branch locations and ten distribution centers (six in the United States and four in Canada). Our distribution centers add value for our customers, suppliers, and branches through the combination of a broad and deep selection of inventory, online ordering and next-day shipment capabilities, and central order handling and fulfillment. Our distribution center network reduces the lead time and cost of supply chain activities through its automated replenishment and warehouse management system, and provides economies of scale in purchasing, inventory management, administration and transportation. This extensive network, which would be difficult and expensive to replicate, allows us to:

- Enhance local customer service, technical support and sales coverage;
- Tailor individual branch products and services to local customer needs, and
- Offer multi-site distribution capabilities to large customers and global accounts.

Low-Cost Operator. Our competitiveness has been enhanced by our consistent favorable operating cost position, which is based on the use of LEAN, strategically-located distribution centers, and purchasing economies of scale. As a result of these and other factors, we believe our operating costs as a percentage of sales has historically been one of the lowest in our industry. Our selling, general and administrative expenses as a percentage of revenues for 2018 were 14.1%.

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## Geography

Our network of branches and distribution centers are located primarily in North America. To serve our customers in the United States, we operate a network of approximately 340 branches supported by six distribution centers located in Arkansas, Mississippi, Nevada, Pennsylvania, Texas and Wisconsin. To serve our Canadian customers, we operate a network of approximately 130 branches in nine provinces. Branch operations are supported by four distribution centers located in Alberta, British Columbia, Ontario and Quebec. We have seven branch locations in Mexico that provide various supply chain services to a broad range of end markets.

We also sell to global customers through export sales offices located in Calgary, Houston, Miami, Montreal and Pittsburgh within North America and sales offices and branch operations in various international locations. Our branches in Aberdeen, Scotland; Dublin, Ireland; and, Manchester, England support sales efforts in Europe and the Middle East. We have branches in Singapore and Thailand to support our sales in Asia and a branch near Shanghai to serve customers in China. Furthermore, we support sales in South America through our branches in Chile, Ecuador and Peru, and we have operations in six additional countries. Many of our international locations have been established to serve our growing list of customers with global operations.

## Intellectual Property

We currently have trademarks, patents and service marks registered with the U.S. Patent and Trademark Office and Canadian Intellectual Property Office. The trademarks and service marks registered in the U.S. include: “WESCO®”, our corporate logo and the running man logo. The Company's "EECOL" trademark is registered in Canada. In addition, trademarks, patents, and service mark applications have been filed in various foreign jurisdictions, including Argentina, Australia, Brazil, Chile, Colombia, Costa Rica, Canada, Chile, China, the European Community, Egypt, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Panama, Peru, Philippines, Russia, Singapore, South Africa, Switzerland, Taiwan, Thailand, United Arab Emirates, United Kingdom, Venezuela, and Vietnam.

## Environmental Matters

Our facilities and operations are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose strict, joint and several liabilities on certain persons for the cost of investigation or remediation of contaminated properties. These persons may include former, current or future owners or operators of properties and persons who arranged for the disposal of hazardous substances. Our owned and leased real property may give rise to such investigation, remediation and monitoring liabilities under environmental laws. In addition, anyone disposing of certain products we distribute, such as ballasts, fluorescent lighting and batteries, must comply with environmental laws that regulate certain materials in these products.

We believe that we are in compliance, in all material respects, with applicable environmental laws. As a result, we do not anticipate making significant capital expenditures for environmental control matters either in the current year or in the near future.

## Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first quarter are affected by a reduced level of activity. Sales during the second, third and fourth quarters are generally 6% to 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 seasonal pattern.

## Website Access

Our Internet address is www.wesco.com. Information contained on our website is not part of, and should not be construed as being incorporated by reference into, this Annual Report on Form 10-K. We make available free of charge under the “Investors” heading on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as our Proxy Statements, as soon as reasonably practicable after such documents are electronically filed or furnished, as applicable, with the Securities and Exchange Commission (the “SEC”).

In addition, our charters for our Executive Committee, Nominating and Governance Committee, Audit Committee and Compensation Committee, as well as our Corporate Governance Guidelines, Code of Principles for Senior Executives, Independence Policy, Global Anti-Corruption Policy, and Code of Business Ethics and Conduct for our Directors, officers and employees, are all available on our website in the “Corporate Governance” link under the “Investors” heading.

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Forward-Looking Information

This Annual Report on Form 10-K contains various “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve certain unknown risks and uncertainties, including, among others, those contained in Item 1, “Business,” Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” When used in this Annual Report on Form 10-K, the words “anticipates,” “plans,” “believes,” “estimates,” “intends,” “expects,” “projects,” “will” and similar expressions 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. 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.

Executive Officers

Our executive officers and their respective ages and positions as of February 27, 2019, are set forth below.

| Name | Age | Position |
|---|---|---|
| John J. Engel | 57 | Chairman, President and Chief Executive Officer |
| Diane E. Lazzaris | 52 | Senior Vice President and General Counsel |
| Robert Minicozzi | 57 | Vice President and Chief Information Officer |
| David S. Schulz | 53 | Senior Vice President and Chief Financial Officer |
| Christine A. Wolf | 58 | Senior Vice President and Chief Human Resources Officer |

Set forth below is biographical information for our executive officers listed above.

John J. Engel was elected as Chairman of the Board at the 2011 Annual Meeting and has served as President and Chief Executive Officer since 2009. Previously, Mr. Engel served as our Senior Vice President and Chief Operating Officer from 2004 to 2009. Before joining WESCO in 2004, Mr. Engel served as Senior Vice President and General Manager of Gateway, Inc., Executive Vice President and Senior Vice President of Perkin Elmer, Inc., Vice President and General Manager of Allied Signal, Inc., and also held various engineering, manufacturing and general management positions at General Electric Company.

Diane E. Lazzaris has served as our Senior Vice President and General Counsel since January 2014, and from 2010 to December 2013 she served as our Vice President, Legal Affairs. From 2008 to 2010, Ms. Lazzaris served as Senior Vice President - Legal, General Counsel and Corporate Secretary of Dick’s Sporting Goods, Inc. From 1994 to 2008, she held various corporate counsel positions at Alcoa Inc., including Group Counsel to a group of global businesses.

Robert Minicozzi has served as our Vice President and Chief Information Officer since January 2016. From 2012 to December 2015, Mr. Minicozzi served as Vice President and Global Divisional Chief Information Officer of Arrow Electronics, Inc. and previously held various information systems leadership positions with Arrow Electronics, Inc.

David S. Schulz has served as our Senior Vice President and Chief Financial Officer since October 2016. From April 2016 to October 2016, he served as Senior Vice President and Chief Operating Officer of Armstrong Flooring, Inc. From 2013 to March 2016, he served as Senior Vice President and Chief Financial Officer of Armstrong World Industries, Inc., and as Vice President, Finance of the Armstrong Building Products division from 2011 to 2013. Prior to joining Armstrong World Industries in 2011, he held various financial leadership roles with Procter & Gamble and The J.M. Smucker Company. Mr. Schulz began his career as an officer in the United States Marine Corps.

Christine A. Wolf has served as our Senior Vice President and Chief Human Resources Officer since June 2018. From 2011 to June 2018, Ms. Wolf served as the Chief Human Resources Officer of Orbital ATK, Inc. until its acquisition by Northrop Grumman. From 2008 to 2011, she served as the Chief Human Resources Officer of Fannie Mae and from 2004 to 2008 she served as Chief Human Resources Officer of E*Trade Financial Corporation. Prior to that, she held various positions in human resources with companies in a variety of industries.

Item 1A. Risk Factors.

The following factors, among others, could cause our actual results to differ materially from the forward-looking statements we make. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified by the following factors. This information should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7A, Quantitative and Qualitative Disclosures about Market Risks and the consolidated financial statements and related notes included in this Form 10-K.

Operational Risk Factors

Adverse conditions in the global economy and disruptions of financial markets could negatively impact our results of operations, cash flows or financial position.

Our results of operations are affected by the level of business activity of our customers, which in turn is affected by global economic conditions and market factors impacting the industries and markets that they serve. Certain global economies and markets continue to experience significant uncertainty and volatility, particularly commodity-driven end markets such as oil and gas and metals and mining. Adverse economic conditions or lack of liquidity in these markets, particularly in North America, may adversely affect our revenues and operating results. Economic and financial market conditions may also affect the availability of financing for projects and for our customers' capital or other expenditures, which can result in project delays or cancellations and thus affect demand for our products. There can be no assurance that any governmental responses to economic conditions or disruptions in the financial markets ultimately will stabilize the markets or increase our customers' liquidity or the availability of credit to our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, along with bad debt reserves and net income. In addition, our ability to access the capital markets may be restricted at a time when we would like, or need, to do so. The economic, political and financial environment may also affect our business and financial condition in ways that we currently cannot predict, and there can be no assurance that economic and political instability, both domestically and internationally (for example, resulting from changes to trade policies, tariffs or participation in trade agreements or economic and political unions) will not adversely affect our results of operations, cash flows or financial position in the future.

An increase in competition could decrease sales, profit margins, and earnings.

We operate in a highly competitive industry and compete directly with global, national, regional and local providers of like products and services. Some of our existing competitors have, and new market entrants may have, greater resources than us. Competition is generally based on product line breadth, product availability, service capabilities and price. Other sources of competition are buying groups formed by smaller distributors to increase purchasing power and provide some cooperative marketing capability, as well as e-commerce companies. There may be new market entrants with non-traditional business and customer service models, resulting in increased competition and changing industry dynamics.

Existing or future competitors may seek to gain or retain market share by reducing prices, and we may be required to lower our prices or may lose business, which could adversely affect our financial results. We may be subject to supplier price increases while not being able to increase prices to customers. Also, to the extent that we do not meet changing customer preferences or demands, or to the extent that one or more of our competitors becomes more successful with private label products, on-line offerings or otherwise, our ability to attract and retain customers could be materially adversely affected. Existing or future competitors also may seek to compete with us for acquisitions, which could have the effect of increasing the price and reducing the number of suitable acquisitions. These factors, in addition to competitive pressures resulting from the fragmented nature of our industry, could affect our sales, profit margins and earnings.

Expansion into new business activities, industries, product lines or geographic areas could subject the company to increased costs and risks and may not achieve the intended results.

We have invested significantly in expanding our e-commerce capabilities and online customer experience. If our efforts to expand our capabilities in this area are not successful, we may not realize the return on our investments as anticipated, or our operating results could be adversely affected by slower than expected sales growth or additional costs. Furthermore, engaging in or significantly expanding business activities in product sourcing, sales and services could subject the company to unexpected costs and risks. Such activities could subject us to increased operating costs, product liability, regulatory requirements and reputational risks. Our expansion into new and existing markets, including manufacturing related or regulated businesses, may present competitive distribution and regulatory challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Growth into new markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we are reliant upon expansion into new geographic, industry and product markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be negatively affected.

Certain events or conditions, including a failure or breach of our information security systems, could lead to interruptions in our operations, which may materially adversely affect our business operations, financial condition, and results of operations.

We operate a number of facilities and we coordinate company activities, including information technology systems and administrative services and the like, through our headquarters operations. Our operations depend on our ability to maintain existing systems and implement new technology, which includes allocating sufficient resources to periodically upgrade our information technology systems, and to protect our equipment and the information stored in our databases against both manmade and natural disasters, as well as power losses, computer and telecommunications failures, technological breakdowns, unauthorized intrusions, cyber-attacks, and other events. Conversions to new information technology systems may result in cost overruns, delays or business interruptions. If our information technology systems are disrupted, become obsolete or do not adequately support our strategic, operational or compliance needs, it could result in a competitive disadvantage or adversely affect our business operations and financial condition, including our ability to process orders, receive and ship products, maintain inventories, collect accounts receivable and pay expenses, therefore impacting our results of operations.

Because we rely heavily on information technology both in serving our customers and in our enterprise infrastructure in order to achieve our objectives, we may be vulnerable to damage or intrusion from a variety of cyber-attacks, including computer viruses, worms or other malicious software programs that access our systems. Despite the precautions we take to mitigate the risks of such events, an attack on our enterprise information technology system could result in theft or disclosure of our proprietary or confidential information or a breach of confidential customer, supplier or employee information. Such events could have an adverse impact on revenue and harm our reputation. Additionally, such an event could cause us to incur legal liabilities and costs, which could be significant, in order to address and remediate the effects of an attack and related security concerns.

We also depend on accessible office facilities, distribution centers and information technology data centers for our operations to function properly. An interruption of operations at any of our distribution centers or data centers could have a material adverse effect on the operations of branches served by the affected distribution or data center. Such disaster related risks and effects are not predictable with certainty and, although they typically can be mitigated, they cannot be eliminated. We seek to mitigate our exposures to disaster events in a number of ways. For example, where feasible, we design the configuration of our facilities to reduce the consequences of disasters. We also maintain insurance for our facilities against casualties, and we evaluate our risks and develop contingency plans for dealing with them. Although we have reviewed and analyzed a broad range of risks applicable to our business, the ones that actually affect us may not be those that we have concluded are most likely to occur. Furthermore, although our reviews have led to more systematic contingency planning, our plans are in varying stages of development and execution, such that they may not be adequate at the time of occurrence for the magnitude of any particular disaster event that we may encounter.

Loss of key suppliers, product cost fluctuations, lack of product availability, or inefficient supply chain operations could decrease sales, profit margins, and earnings.

Most of our agreements with suppliers are terminable by either party on 60 days' notice or less. Our 10 largest suppliers in 2018 accounted for approximately 32% of our purchases for the period. Our largest supplier in 2018 was Eaton Corporation, accounting for approximately 11% of our purchases. The loss of, or a substantial decrease in the availability of, products from any of these suppliers, a supplier's change in sales strategy to rely less on distribution channels, the loss of key preferred supplier agreements, or disruptions in a key supplier's operations could have a material adverse effect on our business. Supply interruptions could arise from shortages of raw materials, effects of economic, political or financial market conditions on a supplier's operations, labor disputes or weather conditions affecting products or shipments, transportation disruptions, information system disruptions or other reasons beyond our control.

In addition, certain of our products, such as wire and conduit, are commodity price based products and may be subject to significant price fluctuations which are beyond our control. While increases in the cost of energy or products could have adverse effects, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate. Fluctuations in energy or raw materials costs can also adversely affect our customers. Declines in oil and natural gas prices can negatively impact our customers operating in those industries and, consequently, our sales to those customers. Furthermore, we cannot be certain that particular products or product lines will be available to us, or available in quantities sufficient to meet customer demand. Such limited product access could cause us to be at a competitive disadvantage. The profitability of our business is also dependent upon the efficiency of our supply chain. An inefficient or ineffective supply chain strategy or operations could increase operational costs, decrease sales, profit margins and earnings, which could adversely affect our business.

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We must attract, retain and motivate key employees, and the failure to do so may adversely affect our business.

Our success depends on hiring, retaining and motivating key employees, including executive, managerial, sales, technical, marketing and support personnel. We may have difficulty locating and hiring qualified personnel. In addition, we may have difficulty retaining such personnel once hired, and key people may leave and compete against us. The loss of key personnel or our failure to attract and retain other qualified and experienced personnel could disrupt or adversely affect our business, its sales and operating results. In addition, our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover, which may also result in loss of significant customer business, or increased employee benefit costs.

Acquisitions that we may undertake would involve a number of inherent risks, any of which could cause us not to realize the benefits anticipated to result.

We have expanded our operations through organic growth and selected acquisitions of businesses and assets, and may seek to do so in the future. Acquisitions involve various inherent risks, including: problems that could arise from the integration of the acquired business; uncertainties in assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates; the potential loss of key employees of an acquired business; the ability to achieve identified operating and financial synergies anticipated to result from an acquisition or other transaction; unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition or other transaction rationale; and expansion into new countries or geographic markets where we may be less familiar with operating requirements, target customers and regulatory compliance. Any one or more of these factors could increase our costs or cause us not to realize the benefits anticipated to result from the acquisition of a business or assets.

While there are risks associated with acquisitions generally, including integration risks, there are additional risks more specifically associated with owning and operating businesses internationally, including those arising from import and export controls, foreign currency exchange rate changes, developments in political, regulatory or economic conditions impacting those operations and various environmental and climatic conditions in particular areas of the world.

Financial Risk Factors

Changes in tax laws or challenges to the Company's tax positions by taxing authorities could adversely impact the Company's results of operations and financial condition.

We are subject to taxes in jurisdictions in which we do business, including but not limited to taxes imposed on our income, receipts, stockholders' equity, property, sales, purchases and payroll. As a result, the tax expense we incur can be adversely affected by changes in tax law. We frequently cannot anticipate these changes in tax law, which can cause unexpected volatility in our results of operations. While not limited to the United States (U.S.) and Canada, changes in the tax law at the federal and state/provincial levels in the U.S. and Canada can have a material adverse effect on our results of operations.

Additionally, the tax laws to which the Company is subject are inherently complex and ambiguous. Therefore, we must interpret the applicable laws and make subjective judgments about the expected outcome upon challenge by the applicable taxing authorities. As a result, the impact on our results from operations of the application of enacted tax laws to our facts and circumstances is frequently uncertain. If a tax authority successfully challenges our interpretation and application of the tax law to our facts and circumstances, there can be no assurance that we can accurately predict the outcome and the taxes ultimately owed upon effective settlement, which may differ from the tax expense recognized in our consolidated statements of income and comprehensive income (loss) and accrued in our consolidated balance sheets. Additionally, if we cannot meet liquidity requirements in the U.S., we may have to repatriate funds from overseas, which would result in additional income taxes being incurred on the amount repatriated.

Uncertainties in the interpretation and application of the Tax Cuts and Jobs Act of 2017 could materially affect our tax obligations and effective tax rate.

The Tax Cuts and Jobs Act of 2017 (the "TCJA") was enacted on December 22, 2017, and it significantly affected U.S. tax law by, among other things, changing how the U.S. taxes the income of multinational corporations. The U.S.

Department of Treasury (the "Treasury Department") has broad authority to issue regulations and interpretative guidance that may significantly impact how the TCJA is applied. While the Treasury Department issued many proposed regulations and other guidance in 2018 to clarify certain aspects of the TCJA, these regulations and other guidance are subject to change when issued in their final form. Additionally, the Treasury Department is expected to issue more proposed regulations in 2019 to address other aspects of the TCJA. Furthermore, guidance is expected to be forthcoming with respect to the treatment of the TCJA by the various states. We will continue to monitor the guidance issued by the Treasury Department and the various states and will record any material impact related to it in the period of enactment.

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Fluctuations in foreign currency have an effect on our results from operations.
The results of our foreign operations are reported in the local currency and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between some of these currencies and the U.S. dollar have fluctuated significantly in recent years, and may continue to do so in the future. We may incur losses related to foreign currency fluctuations, and foreign exchange controls may prevent us from repatriating cash in countries outside the U.S. In addition, because our financial statements are stated in U.S. dollars, such fluctuations may also affect the comparability of our results between financial periods.
Our outstanding indebtedness requires debt service commitments that could adversely affect our ability to fulfill our obligations and could limit our growth and impose restrictions on our business.
As of December 31, 2018, excluding debt discount and debt issuance costs, we had $1.2 billion of consolidated indebtedness. We and our subsidiaries may undertake additional borrowings in the future, subject to certain limitations contained in the debt instruments governing our indebtedness. Over the next three years, we will be required to repay or refinance approximately $883.3 million of our currently outstanding indebtedness.
Our debt service obligations impact our ability to operate and grow our business. Our payments of principal and interest on our indebtedness reduce the amount of funds available to us to invest in operations, future business opportunities, acquisitions, and other potentially beneficial activities. Our debt service obligations also increase our vulnerability to adverse economic, financial market and industry conditions. Our ability to service and refinance our indebtedness, make scheduled payments on our operating leases and fund capital expenditures, acquisitions or other business opportunities, will depend in large part on both our future performance and the availability of additional financing in the future. There can be no assurance that our business will continue to generate sufficient cash flows from operations in the future to service our debt, make necessary capital expenditures, or meet other cash needs. If unable to do so, we may be required to refinance all or a portion of our existing debt, sell assets, or obtain additional financing.
Our debt agreements contain restrictions that may limit our ability to operate our business.
Our credit facilities require us to maintain specific earnings to fixed expense ratios and to meet minimum net worth requirements in certain circumstances. In addition, our credit facilities and our other debt agreements contain, and any of our future debt agreements may contain, additional covenant restrictions that limit our ability to operate our business, or are dependent upon our future financial performance.
As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. See the liquidity section in "Item 7. Management's Discussion and Analysis" for further details.
There is a risk that the market value of our common stock may decline.
Stock markets have experienced significant price and trading volume fluctuations, and the market prices of companies in our industry have been volatile. For some issuers, the markets have exerted downward pressure on stock prices and credit capacity. It is impossible to predict whether the price of our common stock will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, political, financial, and other factors.
Regulatory and Legal Risk Factor
We are subject to costs and risks associated with global laws and regulations affecting our business, as well as litigation for product liability or other matters affecting our business.
The global legal and regulatory environment is complex and exposes us to compliance costs and risks, as well as litigation and other legal proceedings, which could materially affect our operations and financial results. These laws and regulations may change, sometimes significantly, as a result of political or economic events, and some changes are anticipated to occur in the coming year. They include tax laws and regulations, import and export laws and regulations, labor and employment laws and regulations, product safety, occupational safety and health laws and regulations, securities and exchange laws and regulations, data privacy laws and regulations (and other laws

applicable to publicly-traded companies such as the Foreign Corrupt Practices Act), and environmental laws and regulations. Furthermore, as a government contractor selling to federal, state and local government entities, we are also subject to a wide variety of additional laws and regulations. Proposed laws and regulations in these and other areas could affect the cost of our business operations.

From time to time we are involved in legal proceedings, audits or investigations which may relate to, for example, product liability, labor and employment (including wage and hour), tax, escheat, import and export compliance, government contracts, worker health and safety, and general commercial and securities matters. While we believe the outcome of any pending matter is

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unlikely to have a material adverse effect on our financial condition or liquidity, additional legal proceedings may arise in the future and the outcome of these as well as other contingencies could require us to take actions, which could adversely affect our operations or could require us to pay substantial amounts of money.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We have approximately 500 branches, of which approximately 340 are located in the United States, approximately 130 are located in Canada, seven are located in Mexico and the remainder are in other countries located in Africa, Asia, Europe and South America. Approximately 14% of our branches are owned facilities, and the remainder are leased.

The following table summarizes our distribution centers:

| Location | Square Feet | Leased/Owned |
|---|---|---|
| Little Rock, AR | 100,000 | Leased |
| Byhalia, MS [1] | 148,000 | Owned |
| Sparks, NV | 199,000 | Leased |
| Warrendale, PA [1] | 194,000 | Owned |
| Dallas, TX | 112,000 | Leased |
| Madison, WI | 136,000 | Leased |
| Edmonton, AB | 101,000 | Leased |
| Burnaby, BC | 65,000 | Leased |
| Mississauga, ON | 246,000 | Leased |
| Montreal, QC | 126,000 | Leased |

(1) Property pledged as collateral under our Term Loan Facility.

We also lease our 109,000 square-foot headquarters in Pittsburgh, Pennsylvania. We do not regard the real property associated with any single branch location as material to our operations. We believe our facilities are in good operating condition and are adequate for their respective uses.

Item 3. 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 litigation relating to commercial, product 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.

Information relating to legal proceedings is disclosed in Note 16, "Commitments and Contingencies," of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market, Stockholder and Dividend Information. Our common stock is listed on the New York Stock Exchange under the symbol "WCC." As of February 26, 2019, there were 45,195,593 shares of common stock outstanding held by approximately 19 holders of record. We have not paid dividends on common stock and do not currently plan to pay dividends. We do, however, evaluate the possibility from time to time. It is currently expected that earnings will be reinvested to support growth initiatives, acquisitions, debt reduction, and share repurchases. In addition, our Revolving Credit Facility, Term Loan Facility, 2021 Notes and 2024 Notes limit our ability to pay dividends and repurchase our common stock. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Issuer Purchases of Equity Securities. On December 13, 2017, WESCO announced that its Board of Directors approved, on December 7, 2017, the repurchase of up to $300 million of the Company's common stock through December 31, 2020. On October 31, 2018, the Company's Board of Directors approved an increase to the authorization from $300 million to $400 million. As disclosed in Note 12 of the Notes to Consolidated Financial Statements, as of December 31, 2018, 2,003,446 shares had been repurchased for $125.0 million under this repurchase authorization.

The following table sets forth all issuer purchases of common stock during the three months ended December 31, 2018, including those made pursuant to publicly announced plans or programs:

| Period | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs(2) (In Millions) |
|---|---|---|---|---|
| October 1 – October 31, 2018 | 64,148 | $ 59.14 | 63,730 | $ 375.0 |
| November 1 – November 30, 2018 | 1,588,868 | $ 53.53 | 1,587,895 | $ 275.0 |
| December 1 – December 31, 2018 | — | $ — | — | $ 275.0 |
| Total | 1,653,016 | $ 53.75 | 1,651,625 | |

(1) There were 1,391 shares purchased in the period that were not part of the publicly announced share repurchase program. These shares were surrendered by stock-based compensation plan participants to satisfy tax withholding obligations arising from the exercise of stock-settled stock appreciation rights and vesting of restricted stock units.

(2) This amount represents the remaining authorization under the Company's share repurchase program that is available to repurchase shares of the Company's common stock. Due to the nature of accelerated share repurchases, the Company receives a certain percentage of shares immediately upon an up-front payment of cash. The remaining shares are delivered by the respective counterparty at the end of the valuation period. The amount authorized under the Company's share repurchase program was reduced at the time of the up-front cash payment.

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Company Performance. The following stock price performance graph illustrates the cumulative total return on an investment in WESCO International, a 2018 Performance Peer Group, and the Russell 2000 Index. The graph covers the period from December 31, 2013 to December 31, 2018, and assumes that the value for each investment was $100 on December 31, 2018, and that all dividends were reinvested.

2018 Performance Peer Group:

| | | |
|---|---|---|
| Anixter International, Inc. | Essendant, Inc. | MSC Industrial Direct Co., Inc. |
| Applied Industrial Technologies, Inc. | Fastenal Company | Rexel SA |
| Arrow Electronics, Inc. | Genuine Parts Company | Rockwell Automation, Inc. |
| Avnet, Inc. | HD Supply Holdings, Inc. | Tech Data Corporation |
| Barnes Group | Hubbell, Inc. | W.W. Grainger, Inc. |
| Eaton Corporation Plc | MRC Global, Inc. | |

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Item 6. Selected Financial Data.

The following selected financial data for the last five fiscal years has been derived from the Company's Consolidated Financial Statements for those years. As described below, certain prior periods have been impacted by the retrospective application of an accounting standard. This financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8, and with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7.

| Income Statement Data: | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (In millions, except per share data) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net sales | $8,176.6 | $7,679.0 | $7,336.0 | $7,518.5 | $7,889.6 |
| Cost of goods sold (excluding depreciation and amortization) | 6,609.2 | 6,194.4 | 5,887.8 | 6,024.8 | 6,278.6 |
| Selling, general and administrative expenses(1) | 1,151.9 | 1,101.5 | 1,050.8 | 1,056.2 | 1,077.7 |
| Depreciation and amortization | 63.0 | 64.0 | 66.9 | 65.0 | 68.0 |
| Income from operations | 352.5 | 319.1 | 330.5 | 372.5 | 465.3 |
| Net interest and other(1) | 71.4 | 66.6 | 75.1 | 68.6 | 81.2 |
| Loss on debt extinguishment(2) | — | — | 123.9 | — | — |
| Income before income taxes | 281.1 | 252.5 | 131.5 | 303.9 | 384.1 |
| Provision for income taxes | 55.7 | 89.3 | 30.4 | 95.5 | 108.7 |
| Net income | 225.4 | 163.2 | 101.1 | 208.4 | 275.4 |
| Net loss attributable to noncontrolling interests | 2.0 | 0.3 | 0.5 | 2.3 | 0.5 |
| Net income attributable to WESCO International | $227.4 | $163.5 | $101.6 | $210.7 | $275.9 |
| Earnings per common share attributable to WESCO International | | | | | |
| Basic | $4.87 | $3.42 | $2.30 | $4.85 | $6.21 |
| Diluted | $4.82 | $3.38 | $2.10 | $4.18 | $5.18 |
| Weighted-average common shares outstanding | | | | | |
| Basic | 46.7 | 47.8 | 44.1 | 43.4 | 44.4 |
| Diluted | 47.2 | 48.4 | 48.3 | 50.4 | 53.3 |
| Other Financial Data: | | | | | |
| Capital expenditures | $36.2 | $21.5 | $18.0 | $21.7 | $20.5 |
| Net cash provided by operating activities | 296.7 | 149.1 | 300.2 | 283.1 | 251.2 |
| Net cash used in investing activities | (34.1) | (5.3) | (70.5) | (170.2) | (144.2) |
| Net cash used in financing activities | (275.1) | (141.2) | (276.3) | (67.8) | (95.5) |
| Balance Sheet Data: | | | | | |
| Total assets | $4,605.0 | $4,735.5 | $4,431.8 | $4,569.7 | $4,754.4 |
| Total debt (including current and short-term debt)(3) | 1,223.5 | 1,348.6 | 1,385.3 | 1,483.4 | 1,415.6 |
| Stockholders' equity | 2,129.7 | 2,116.1 | 1,963.6 | 1,727.5 | 1,881.8 |

(1) 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 resulted in the reclassification of $1.8 million, $1.5 million, $1.2 million and $0.9 million from selling, general and administrative expenses to net interest and other in the Consolidated Statements of Income and Comprehensive Income (Loss) for the years ended December 31, 2017, 2016, 2015 and 2014, respectively.

(2) Represents the loss recognized in 2016 related to the redemption of the then outstanding 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures").

(3) Includes the discount related to the 2029 Debentures and Term Loan Facility. For 2018, 2017, 2016 and 2015, also includes debt issuance costs. See Note 9 of the Notes to Consolidated Financial Statements.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K.

### Company Overview

Our 2018 financial results reflect record sales with growth in all end markets and geographies, operating margin expansion, strong cash flow generation, and effective capital deployment. Sales increased $497.6 million, or 6.5%, over the prior year. Foreign exchange rates positively impacted net sales by 0.3%, resulting in organic sales growth of 6.2%. Cost of goods sold as a percentage of net sales was 80.8% and 80.7% in 2018 and 2017, respectively. Operating income was $352.4 million for 2018, compared to $319.0 million for 2017. Operating income increased primarily due to higher sales volume and operating leverage. Net income attributable to WESCO International of $227.3 million increased by 39.1% compared to 2017 net income of $163.5 million, which included $26.4 million of discrete income tax expense resulting from the application of the TCJA. Earnings per diluted share attributable to WESCO International was $4.82 in 2018, based on 47.2 million diluted shares, compared with earnings per diluted share of $3.38 in 2017, based on 48.4 million diluted shares. Excluding the impact of the TCJA of $0.55, adjusted earnings per diluted share for 2017 was $3.93.

We provide a full-line of electrical, industrial and communications MRO and OEM products, construction materials, and advanced supply chain management and logistics services to customers globally. Approximately 75% of our sales in 2018 were from customers in the United States and 25% were from international customers, primarily in Canada. Our end markets consist of industrial firms, electrical and data communications contractors, utilities, and commercial organizations, institutions and government entities. Our transaction types to these markets can be categorized as stock, direct ship and special order. Stock orders are filled directly from existing inventory and represent approximately 52% of total sales. Approximately 38% of our total sales are direct ship sales. Direct ship sales are typically custom-built products, large orders or products that are too bulky to easily handle and, as a result, are shipped directly to the customer from the supplier. Special orders are for products that are not ordinarily stocked in inventory and are ordered based on a customer's specific request. Special orders represent the remaining 10% of total sales.

We have historically financed our working capital requirements, capital expenditures, acquisitions, share repurchases and new branch openings through internally-generated cash flow, debt issuances, borrowings under our Revolving Credit Facility and funding through our Receivables Facility.

### Cash Flow

We generated $296.7 million in operating cash flow during 2018. Cash provided by operating activities included net income of $225.4 million, adjustments to net income totaling $84.9 million, which were offset by changes in assets and liabilities of $13.6 million. Investing activities primarily included capital expenditures of $36.2 million. Financing activities consisted of borrowings and repayments of $473.1 million and $433.5 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of $720.0 million and $825.0 million, respectively, related to our Receivables Facility, repayments of $60.0 million applied to our Term Loan Facility as well as borrowings and repayments on our various international lines of credit of $142.3 million and $143.7 million, respectively. Financing activities also included the repurchase of $127.2 million of the Company's common stock, of which $125.0 million was pursuant to the share repurchase plan announced on December 13, 2017 and amended on October 31, 2018.

Free cash flow for the years ended December 31, 2018 and 2017 was $260.5 million and $127.6 million, respectively.

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

| | Twelve Months Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| (In millions) | | |
| Cash flow provided by operations | $296.7 | $149.1 |
| Less: Capital expenditures | (36.2 ) | (21.5 ) |
| Free cash flow | $260.5 | $127.6 |

Note: The table above reconciles cash flow provided by operations to free cash flow. 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 December 31, 2018, we had $515.9 million in total available borrowing capacity under our Revolving Credit Facility, which was comprised of $398.1 million of availability under the U.S. sub-facility and $117.8 million of availability under the Canadian sub-facility. Available borrowing capacity under our Receivables Facility was $275.0 million. The Receivables Facility and Revolving Credit Facility both mature in September 2020.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to supplier programs, bad debts, inventories, insurance costs, goodwill, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. If actual market conditions are less favorable than those projected by management, additional adjustments to reserve items may be required. We believe the following critical accounting policies affect our judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our 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 one of our facilities or directly from a supplier. For products that ship directly from suppliers to customers, we act as the principal in the transaction and recognize revenue on a gross basis. Revenue for integrated supply services is recognized over time based on hours incurred as the transfer of control occurs as the services are being performed. We generally satisfy our performance obligations within a year or less. We generally do not have significant financing terms associated with our contracts; payments are normally received within 60 days. There are generally no significant costs associated with obtaining customer contracts. We generally pass through warranties offered by manufacturers or suppliers to our customers. Sales taxes (and value added taxes in foreign jurisdictions) collected from customers and remitted to governmental authorities are excluded from net sales.

Supplier Volume Rebates

We receive rebates from certain suppliers based on contractual arrangements with such suppliers. Since there is a lag between actual purchases and the rebates received from suppliers, we estimate and accrue the approximate amount of rebates available at a specific date based on forecasted purchases and the rebate provisions of the various supplier contracts. We record the amounts as other accounts receivable in the Consolidated Balance Sheets and the corresponding rebate income is recorded as a reduction of cost of goods sold.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We have a systematic procedure using historical data and reasonable assumptions of collectability made at the local branch level and on a consolidated corporate basis to estimate allowances for doubtful accounts.

Excess and Obsolete Inventory

We write down our inventories to the lower of cost and net realizable value based on internal factors derived from historical analysis of actual losses. We use past data to identify items in excess of 36 months supply relative to demand or movement. We then analyze the ultimate disposition of identified excess inventories as they are sold, returned to supplier, or scrapped. This historical item-by-item analysis allows us to develop an estimate of the likelihood that an item identified as being in excess supply ultimately becomes obsolete. We apply the estimate to inventories currently in excess of 36 months supply, and reduce the carrying value of inventories by the derived amount. We revisit and test our assumptions on a periodic basis. Historically, we have not had material changes to our assumptions, nor do we anticipate any material changes in the future.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill and indefinite-lived intangible assets are tested for impairment annually during the fourth quarter using information available at the end of September, or more frequently if triggering events occur, indicating that their carrying value may not be recoverable. We test for goodwill impairment on a reporting unit level and the evaluation involves comparing the fair value of each reporting unit to its carrying value. The fair values of the reporting units are determined using a combination of a discounted cash flow analysis and market multiples. Assumptions used for these fair value techniques are based on a combination of historical results, current forecasts, market data and recent economic events. We evaluate the recoverability of indefinite-lived intangible assets using the relief-from-royalty method based on projected financial information.

The determination of fair value involves significant management judgment and we apply our best judgment when assessing the reasonableness of financial projections. Fair values are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual goodwill and indefinite-lived intangible impairment tests will prove to be an accurate prediction of future results.

We performed our annual impairment tests of goodwill and indefinite-lived intangible assets during the fourth quarter. A possible indicator of goodwill impairment is the relationship of a company's market capitalization to its book value. As of December 31, 2018, our market capitalization exceeded our book value and the fair values of our reporting units exceeded their carrying values. Accordingly, there were no impairment losses identified as a result of our annual test.

Intangible Assets

We account for certain economic benefits purchased as a result of our acquisitions, including customer relations, distribution agreements, technology and trademarks, as intangible assets. Most trademarks have an indefinite life. We amortize all other intangible assets over a useful life determined by the expected cash flows produced by such intangibles and their respective tax benefits. Useful lives vary between 2 and 20 years, depending on the specific intangible asset.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred income taxes for events that have future tax consequences. Under this method, deferred income taxes are recognized (using enacted tax laws and rates) based on the future income tax effects of differences in the carrying amounts of assets and liabilities for financial reporting and tax purposes. The effect of a tax rate change on deferred tax assets and liabilities is recognized in income in the period of change.

We recognize deferred tax assets at amounts that are expected to be realized. To make such determination, management evaluates all positive and negative evidence, including but not limited to, prior, current and future taxable income, tax planning strategies and future reversals of existing temporary differences. A valuation allowance is recognized if it is "more-likely-than-not" that some or all of a deferred tax asset will not be realized. We regularly assess the realizability of deferred tax assets.

We account for uncertainty in income taxes using a "more-likely-than-not" recognition threshold. Due to the subjectivity inherent in the evaluation of uncertain tax positions, the tax benefit ultimately recognized may materially differ from the estimate. We recognize interest and penalties related to uncertain tax benefits as part of interest expense and income tax expense, respectively.

The TCJA imposed a one-time tax on the deemed repatriation of undistributed foreign earnings (the "transition tax"). Except for a portion of the previously taxed foreign earnings that have been repatriated, we continue to assert that the remaining undistributed earnings of our foreign subsidiaries, the majority of which were subject to the transition tax, are indefinitely reinvested. We believe we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriating cash held by these foreign subsidiaries. Upon any future repatriation, additional income taxes may be incurred; however, it is not practicable to determine the amount at this time.

The provisions of the TCJA also introduced U.S. taxation on certain global intangible low-taxed income ("GILTI"). We have elected to account for GILTI tax as a component of income tax expense.

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Future adjustments (if any) resulting from additional regulatory guidance regarding the accounting for the income tax effects of TCJA will be recognized as discrete income tax expense or benefit in the period in which guidance is issued.

Results of Operations

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of goods sold (excluding depreciation and amortization) | 80.8 | 80.7 | 80.3 |
| Selling, general and administrative expenses | 14.1 | 14.3 | 14.3 |
| Depreciation and amortization | 0.8 | 0.8 | 0.9 |
| Income from operations | 4.3 | 4.2 | 4.5 |
| Net interest and other | 0.9 | 0.9 | 1.0 |
| Loss on debt redemption | — | — | 1.7 |
| Income before income taxes | 3.4 | 3.3 | 1.8 |
| Provision for income taxes | 0.6 | 1.2 | 0.4 |
| Net income attributable to WESCO International | 2.8 % | 2.1 % | 1.4 % |

2018 Compared to 2017

Net Sales. Net sales in 2018 increased 6.5% to $8.2 billion, compared with $7.7 billion in 2017. Foreign exchange rates positively impacted net sales by 0.3%, resulting in organic sales growth of 6.2%.

The following table sets forth organic sales growth:

| Organic Sales Growth: | Twelve Months Ended December 31, 2018 |
|---|---|
| Change in net sales | 6.5 % |
| Less: Impact from acquisitions | — % |
| Less: Impact from foreign exchange rates | 0.3 % |
| Less: Impact from number of workdays | — % |
| Organic sales growth | 6.2 % |

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. Cost of goods sold increased 6.7% in 2018 to $6.6 billion, compared with $6.2 billion in 2017. Cost of goods sold as a percentage of net sales was 80.8% and 80.7% in 2018 and 2017, respectively. Cost of goods sold as a percentage of net sales was positively impacted by our ability to effectively pass through supplier price increases to customers and margin improvement initiatives. These benefits were offset by a reclassification of certain labor costs from selling, general and administrative expenses to cost of goods sold.

Selling, General and Administrative ("SG&A") Expenses. SG&A expenses include costs associated with personnel, shipping and handling, travel, advertising, facilities, utilities and bad debts. SG&A expenses increased by $50.3 million, or 4.6%, to $1.2 billion in 2018. SG&A expenses increased primarily as a result of higher payroll expenses and higher operating costs, which were required to support sales volume growth. SG&A expenses as a percentage of net sales improved to 14.1% in 2018 from 14.3% in 2017.

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SG&A payroll expenses for 2018 of $804.2 million increased by $27.9 million compared to 2017. The increase in SG&A payroll expenses was primarily due to increases in salaries, variable compensation and healthcare benefits, which were partially offset by a reclassification of certain labor costs from selling, general and administrative expenses to cost of goods sold.

The remaining SG&A expenses for 2018 of $347.8 million increased by $22.5 million compared to 2017. The increase in the remaining SG&A expenses was primarily due to higher costs driven by sales volume growth and a bad debt charge related to a Canadian customer that ceased operations. These increases were partially offset by gains from the sale of certain long-lived assets.

Depreciation and Amortization. Depreciation and amortization decreased $1.0 million to $63.0 million in 2018, compared with $64.0 million in 2017.

Income from Operations. Income from operations increased by $33.4 million to $352.4 million in 2018, compared to $319.0 million in 2017. Income from operations as a percentage of net sales was 4.3% and 4.2% in 2018 and 2017, respectively. Income from operations as a percentage of net sales increased primarily as a result of higher sales volume, as well as operational efficiencies and cost discipline.

Net Interest and Other. Net interest and other totaled $71.4 million in 2018, compared with $66.6 million in 2017, an increase of 7.2%. The increase was primarily due to a foreign exchange loss of approximately $3.0 million from the remeasurement of a financial instrument, as well as accelerated amortization of debt discount and debt issuance costs due to early repayments on our term loan facility.

Income Taxes. Our effective tax rate was 19.8% in 2018 compared to 35.4% in 2017. The lower effective tax rate for 2018 was primarily due to the permanent reduction of the U.S. federal statutory income tax rate from 35% to 21%, effective January 1, 2018, as well as the completion of the accounting for the income tax effects of the TCJA. In 2017, the effective tax rate was negatively impacted by the discrete income tax expense of $26.4 million related to the application of the TCJA.

Net Income. Net income increased by $62.2 million, or 38.1%, to $225.4 million in 2018, compared to $163.1 million in 2017. The increase in net income was primarily due higher sales volume and lower income taxes.

Net Loss Attributable to Noncontrolling Interests. Net loss attributable to noncontrolling interests in 2018 and 2017 was $2.0 million and $0.3 million, respectively. The change in net loss attributable to noncontrolling interests was primarily due to the effect of foreign currency.

Net Income Attributable to WESCO International. Net income and earnings per diluted share attributable to WESCO International were $227.3 million and $4.82 per share, respectively, in 2018, compared with $163.5 million and $3.38 per share, respectively, in 2017.

2017 Compared to 2016

Net Sales. Net sales in 2017 increased 4.7% to $7.7 billion, compared with $7.3 billion in 2016. Foreign exchange rates and acquisitions positively impacted net sales by 0.4% and 0.2%, respectively, and were partially offset by a 0.4% impact from the number of workdays, resulting in organic sales growth of 4.5%.

The following table sets forth organic sales growth:

| Organic Sales Growth: | Twelve Months Ended December 31, 2017 |
|---|---|
| Change in net sales | 4.7 % |
| Less: Impact from acquisitions | 0.2 % |
| Less: Impact from foreign exchange rates | 0.4 % |
| Less: Impact from number of workdays | (0.4 )% |
| Organic sales growth | 4.5 % |

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. Cost of goods sold increased 5.2% in 2017 to $6.2 billion, compared with $5.9 billion in 2016. Cost of goods sold as a percentage of net sales was 80.7% and 80.3% in 2017 and 2016, respectively. The increase in cost of goods sold as a percentage of net sales was primarily due to geographic mix and competition.

SG&A Expenses. SG&A expenses include costs associated with personnel, shipping and handling, travel, advertising, facilities, utilities and bad debts. SG&A expenses increased by $50.8 million, or 4.8%, to $1.1 billion in 2017. As a percentage of net sales, SG&A expenses were consistent at 14.3% in 2017 and 2016. SG&A expenses increased primarily as a result of higher variable compensation expense.

SG&A payroll expenses for 2017 of $776.3 million increased by $40.0 million compared to 2016. The increase in SG&A payroll expenses was primarily due to an increase in commissions, incentive compensation, healthcare benefits, and temporary labor costs.

The remaining SG&A expenses for 2017 of $325.3 million increased by $10.8 million compared to 2016. The increase in the remaining SG&A expenses was primarily due to an increase in operating costs required to support higher sales volumes.

Depreciation and Amortization. Depreciation and amortization decreased $2.8 million to $64.0 million in 2017, compared with $66.9 million in 2016.

Income from Operations. Income from operations decreased by $11.5 million to $319.0 million in 2017, compared to $330.6 million in 2016. Income from operations as a percentage of net sales was 4.2% and 4.5% in 2017 and 2016, respectively. Income from operations as a percentage of net sales decreased primarily as a result of lower gross margin.

Net Interest and Other. Net interest and other totaled $66.6 million in 2017, compared with $75.1 million in 2016, a decrease of 11.3%. The decrease was primarily due to a reduction in higher-priced debt. Non-cash interest expense, which includes the amortization of debt discounts and debt issuance costs, the non-service cost components of net periodic benefit cost, and interest related to uncertain tax positions, was $2.2 million and $6.4 million for 2017 and 2016, respectively.

The following table sets forth the components of interest expense:

| | Twelve Months Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| (In millions) | | |
| Amortization of debt discounts | $0.3 | $3.1 |
| Amortization of debt issuance costs | 3.7 | 3.6 |
| Non-service cost components of net periodic benefit cost | (1.9) | (1.5) |
| Interest related to uncertain tax positions, net | 0.1 | 1.2 |
| Non-cash interest expense | 2.2 | 6.4 |
| Change in accrued interest | 0.6 | (5.6) |
| Cash interest expense | 63.8 | 74.3 |
| Total interest expense | $66.6 | $75.1 |

Income Taxes. Our effective tax rate was 35.4% in 2017 compared to 23.1% in 2016. Our effective tax rate was impacted by the relative amounts of income earned in the U.S. and foreign jurisdictions, primarily Canada, the tax rates in these jurisdictions, and changes in foreign currency exchange rates. Additionally, as a result of the enactment of the TCJA, we recorded provisional discrete tax expense of $26.4 million, which increased the annual effective tax rate by 10.5%. Without the impact of the TCJA, our 2017 effective tax rate would have been 24.9%.

Net Income. Net income increased by $62.0 million, or 61.3%, to $163.1 million in 2017, compared to $101.1 million in 2016. The increase in net income was primarily due to the loss on debt redemption recognized in 2016 as a result of the early redemption of the 2029 Debentures and an increase in net sales, partially offset by higher cost of goods sold, SG&A and income tax expenses. Adjusted net income for the years ended December 31, 2017 and 2016 was $189.6 million and $183.8 million, respectively.

Net Loss Attributable to Noncontrolling Interests. Net loss attributable to noncontrolling interests in 2017 and 2016 was $0.3 million and $0.5 million, respectively.

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Net Income Attributable to WESCO International. Net income and earnings per diluted share attributable to WESCO International were $163.5 million and $3.38 per share, respectively, in 2017, compared with $101.6 million and $2.10 per share, respectively, in 2016. Adjusted net income and adjusted earnings per diluted share attributable to WESCO International were $189.9 million and $3.93 per share, and $184.3 million and $3.80 per share, for the years ended December 31, 2017 and 2016, respectively.

The following table sets forth the reconciliation of adjusted net income, adjusted income taxes, and adjusted earnings per diluted share:

| | Twelve Months Ended December 31, | |
|---|---|---|
| Adjusted Income Before Income Taxes: | 2017 | 2016 |
| Income before income taxes | $252.5 | $131.5 |
| Loss on debt redemption | — | 123.9 |
| Adjusted income before income taxes | $252.5 | $255.4 |
| Adjusted Tax Provision: | | |
| Provision for income taxes | $89.3 | $30.4 |
| Income tax expense for TCJA[1] | (26.4 ) | — |
| Income tax benefit from loss on debt redemption[2] | — | 41.2 |
| Adjusted provision for income taxes | $62.9 | $71.6 |
| Adjusted Net Income Attributable to WESCO International: | | |
| Adjusted income before income taxes | $252.5 | $255.4 |
| Adjusted provision for income taxes | 62.9 | 71.6 |
| Adjusted net income | 189.6 | 183.8 |
| Net loss attributable to noncontrolling interests | (0.3 ) | (0.5 ) |
| Adjusted net income attributable to WESCO International, Inc. | $189.9 | $184.3 |

| Adjusted Earnings per Diluted Share: | Twelve Months Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Earnings per diluted common share | $3.38 | $2.10 |
| Impact of TCJA[1] | 0.55 | — |
| Loss on debt redemption[3] | — | 2.54 |
| Tax effect of loss on debt redemption[3] | — | (0.84 ) |
| Adjusted earnings per diluted common share | $3.93 | $3.80 |

(1) The application of the TCJA resulted in a provisional discrete income tax expense of $26.4 million, which is comprised of $82.8 million of expense associated with the deemed repatriation of undistributed earnings of foreign subsidiares partially offset by a $56.4 million benefit from the remeasurement of U.S. deferred income tax balances.

(2) Represents the third quarter of 2016 income tax benefit related to the loss on debt redemption.

(3) The loss on debt redemption and related income tax benefit are based on the third quarter of 2016 diluted shares of 48.7 million.

Note: Adjusted net income attributable to WESCO International, Inc. for the year ended December 31, 2017, does not include provisional discrete income tax expense of $26.4 million associated with the application of the TCJA. For 2016, adjusted net income attributable to WESCO International, Inc. is defined as income before income taxes plus the 2016 third quarter loss on debt redemption, less the provision for income taxes excluding the third quarter benefit of such loss.

For the year ended December 31, 2017, adjusted earnings per diluted share is computed by dividing adjusted net income by the weighted-average common shares outstanding and common share equivalents. For the year ended 2016, adjusted earnings per diluted share is computed

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by adding the loss per diluted share on debt redemption and deducting the related income tax benefit per diluted share recognized in the third quarter of 2016 divided by the weighted-average common shares outstanding and common share equivalents.

The Company believes that these non-GAAP financial measures provide an overall understanding of the Company's current financial performance and a consistent measure for assessing the current and historical financial results.

Liquidity and Capital Resources

Total assets were $4.6 billion and $4.7 billion at December 31, 2018 and 2017, respectively. Total liabilities at December 31, 2018 and 2017 were $2.5 billion and $2.6 billion, respectively. Total stockholders' equity was $2.1 billion at December 31, 2018 and 2017.

The following table sets forth our outstanding indebtedness:

| | As of December 31, 2018 (In millions) | 2017 |
|---|---|---|
| International lines of credit | $ 30.8 | $ 34.1 |
| Term Loan Facility, less debt discount of $0.2 and $0.5 in 2018 and 2017, respectively | 24.6 | 84.2 |
| Accounts Receivable Securitization Facility | 275.0 | 380.0 |
| Revolving Credit Facility | 51.6 | 12.0 |
| 5.375% Senior Notes due 2021 | 500.0 | 500.0 |
| 5.375% Senior Notes due 2024 | 350.0 | 350.0 |
| Capital leases | 1.1 | 2.0 |
| Total debt | 1,233.1 | 1,362.3 |
| Less unamortized debt issuance costs | (9.6) | (13.7) |
| Less short-term debt and current portion of long-term debt | (56.2) | (35.3) |
| Total long-term debt | $ 1,167.3 | $ 1,313.3 |

The required annual principal repayments for all indebtedness for the next five years and thereafter, as of December 31, 2018, is set forth in the following table:

| (In millions) | |
|---|---|
| 2019 | $56.7 |
| 2020 | 326.6 |
| 2021 | 500.0 |
| 2022 | — |
| 2023 | — |
| Thereafter | 350.0 |
| Total payments on debt | 1,233.3 |
| Debt discount | (0.2) |
| Total debt | $1,233.1 |

Our liquidity needs generally arise from fluctuations in our working capital requirements, capital expenditures, acquisitions and debt service obligations. As of December 31, 2018, we had $515.9 million in available borrowing capacity under our Revolving Credit Facility and $275.0 million in available borrowing capacity under our Receivables Facility, which combined with available cash of $33.1 million, provided liquidity of $824.0 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.

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 3.0 and

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3.6 as of December 31, 2018 and 2017, respectively. In addition, we are in compliance with all covenants and restrictions contained in our debt agreements as of December 31, 2018.

The following table sets forth the Company's financial leverage ratio as of December 31, 2018 and 2017:

| | Twelve months ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| (In millions, except ratios) | | |
| Net income | $225.4 | $ 163.1 |
| Provision for income taxes | 55.7 | 89.3 |
| Net interest and other[(1)] | 71.4 | 66.6 |
| Depreciation and amortization | 63.0 | 64.0 |
| EBITDA | $415.5 | $ 383.0 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Short-term borrowings and current debt | $56.2 | $ 35.3 |
| Long-term debt | 1,167.3 | 1,313.3 |
| Debt discount and debt issuance costs[(2)] | 9.6 | 14.2 |
| Total debt | $1,233.1 | $ 1,362.8 |
| | | |
| Financial leverage ratio based on total debt | 3.0 | 3.6 |

(1) Due to the adoption of ASU 2017-07 on a retrospective basis in the first quarter of 2018, the Company classified the non-service cost components of net periodic benefit cost as part of net interest and other for the years ended December 31, 2018 and December 31, 2017. These components aggregated to a benefit of $1.9 million for both years.

(2) Long-term debt is presented in the Consolidated Balance Sheets net of debt discount and debt issuance costs.

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

At December 31, 2018, we had cash and cash equivalents totaling $96.3 million, of which $67.7 million was held by foreign subsidiaries. As a result of the TCJA, we reevaluated our intent and ability to repatriate foreign earnings based upon the liquidity of our domestic operations and the cash flow needs of our foreign subsidiaries. Consequently, during the year ended December 31, 2018, we repatriated a portion of the previously taxed earnings attributable to our Canadian operations. We continue to assert that the remaining undistributed earnings of our foreign subsidiaries, the majority of which were subject to the one-time tax imposed by the TCJA, are indefinitely reinvested. We believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriating cash held by these foreign subsidiaries. Upon any future repatriation, additional income taxes may be incurred; however, it is not practicable to determine the amount at this time.

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 2019 to be similar to 2018. 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 expansion needs and growth initiatives.

We finance our operating and investing needs as follows:

International Lines of Credit

Certain foreign subsidiaries of WESCO have entered into uncommitted lines of credit, which serve as overdraft facilities, to support local operations. The maximum borrowing limit varies by facility and ranges between $2.0 million and $21.0 million. The applicable interest rate for borrowings under these lines of credit varies by country and is governed by the applicable loan agreement. The international lines of credit are renewable on an annual basis and certain facilities are fully and unconditionally guaranteed by WESCO Distribution. Accordingly, borrowings under these lines directly reduce availability under the Revolving Credit Facility. The average interest rate for these facilities was 8.78% and 5.42% at December 31, 2018 and 2017, respectively.

Term Loan Facility

On December 12, 2012, WESCO Distribution, as U.S. borrower, WDCC Enterprises Inc. ("WDCC" and together with WESCO Distribution, the “Borrowers”), as Canadian borrower, and WESCO International entered into a Term Loan Agreement (the “Term Loan Agreement”) among WESCO Distribution, WDCC, the Company, the lenders party thereto and Credit Suisse AG Cayman Islands Branch, as administrative agent and as collateral agent.

The Term Loan Agreement provided a seven-year term loan facility (the “Term Loan Facility”), which consisted of two separate sub-facilities: (i) a Canadian sub-facility in an aggregate principal amount of CAD150 million, issued at a 2.0% discount, and (ii) a U.S. sub-facility in an aggregate principal amount of $700 million, issued at a 1.0% discount. The proceeds of the Term Loan Facility were used to finance the acquisition of EECOL, and to pay fees and expenses incurred in connection with the acquisition and certain other transactions. Subject to the terms of the Term Loan Agreement, the Borrowers may request incremental term loans from time to time in an aggregate principal amount not to exceed at any time $300 million, with an equivalent principal amount in U.S. dollars being calculated for any incremental term loan denominated in Canadian dollars.

On November 19, 2013, the Borrowers and WESCO International entered into an amendment (the “Term Loan Amendment”) to the Term Loan Agreement. The Term Loan Amendment, among other things, reduced the applicable margin on U.S. term loans by 0.50% and the LIBOR floor applicable to the U.S. sub-facility from 1.00% to 0.75%. The modified pricing terms were effective December 13, 2013.

On November 26, 2013, WESCO Distribution sold $500 million aggregate principal amount of 5.375% Senior Notes due 2021 (the “2021 Notes”), and used the net proceeds plus excess cash to prepay $500 million under the Company's U.S. sub-facility of the Term Loan Facility (see discussion below under “5.375% Senior Notes due 2021” for additional information). The prepayment satisfied all remaining quarterly repayment obligations under the U.S. sub-facility. As of December 31, 2018, the amount outstanding under the U.S. sub-facility was $24.8 million. The Canadian sub-facility was fully repaid in 2015 using cash provided by Canadian operations.

Borrowings under the Term Loan Facility bear interest at base rates plus applicable margins. At December 31, 2018, the interest rate on borrowings under the U.S. sub-facility was 7.5%. To the extent not previously paid, the outstanding U.S. sub-facility will become due and payable on December 12, 2019, with any unpaid incremental term loans becoming due and payable on the respective maturity dates applicable to those incremental term loans. At any time or from time to time, the Borrowers may prepay borrowings under the Term Loan Facility in whole or in part without premium or penalty. The Borrowers' obligations under the Term Loan Facility are secured by substantially all of the assets of the Borrowers, the Company and certain of the Company's other subsidiaries; provided that, with respect to borrowings under the U.S. sub-facility, the collateral does not include assets of certain foreign subsidiaries or more than 65% of the issued and outstanding equity interests in certain foreign subsidiaries.

The Term Loan Facility contains customary affirmative and negative covenants for credit facilities of this type. The Term Loan Facility also provides for customary events of default.

Accounts Receivable Securitization Facility

On November 8, 2017, WESCO Distribution amended its accounts receivable securitization facility (the "Receivables Facility") pursuant to the terms and conditions of a Fifth Amendment to Fourth Amended and Restated Receivables Purchase Agreement, by and among WESCO Receivables Corp. (“WESCO Receivables”), WESCO Distribution, the various purchasers from time to time party thereto and PNC Bank, National Association, as Administrator (the "Amendment"). The Amendment extended the term of the Receivables Facility to September 24, 2020 and added and amended certain other defined terms. Substantially all other terms and conditions of the Receivables Facility were unchanged.

The Receivables Facility has a purchase limit of $550 million with the opportunity to exercise an accordion feature that permits increases in the purchase limit of up to $100 million. The interest rate spread and commitment fee of the Receivables Facility is 0.95% and 0.45%, respectively.

Under the Receivables Facility, WESCO sells, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables, a wholly owned special purpose entity (the “SPE”). The SPE sells, without recourse, a senior undivided interest in the receivables to financial institutions for cash while maintaining a subordinated undivided interest in the receivables, in the form of overcollateralization. Since WESCO maintains control of the transferred receivables, the transfers do not qualify for “sale” treatment. As a result, the transferred receivables remain on the balance sheet, and WESCO recognizes the related secured borrowing. WESCO has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded. The expenses associated with the Receivables Facility are reported as a component of net interest and other in the Consolidated Statements of Income and Comprehensive Income.

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As of December 31, 2018 and 2017, accounts receivable eligible for securitization totaled $758.3 million and $751.2 million, respectively. The Consolidated Balance Sheets as of December 31, 2018 and 2017 include $275.0 million and $380.0 million, respectively, of account receivable balances legally sold to third parties, as well as borrowings for equal amounts. At December 31, 2018, the interest rate for this facility was approximately 2.0%.

Revolving Credit Facility

On September 24, 2015, WESCO International, WESCO Distribution and certain other subsidiaries of the Company entered into a $600 million revolving credit facility (the “Revolving Credit Facility”), which contains a letter of credit sub-facility of up to $125 million, pursuant to the terms and conditions of a Second Amended and Restated Credit Agreement (the "Credit Agreement"). The Revolving Credit Facility contains an accordion feature allowing WESCO Distribution to request increases to the borrowing commitments of up to $200 million in the aggregate, subject to customary conditions.

The Revolving Credit Facility matures in September 2020 and consists of two separate sub-facilities: (i) a Canadian sub-facility with a borrowing limit of up to $400 million, which is collateralized by substantially all assets of WESCO Canada and the other Canadian Borrowers, other than, among other things, real property, in each case, subject to customary exceptions and limitations, and (ii) a U.S sub-facility with a borrowing limit of up to $600 million less the amount of outstanding borrowings under the Canadian sub-facility. The U.S. sub-facility is collateralized by substantially all assets of WESCO Distribution and its domestic subsidiaries which are party to the Credit Agreement, other than, among other things, real property and accounts receivable sold or intended to be sold pursuant to the Receivables Purchase Agreement. The applicable interest rate for borrowings under the Revolving Credit Facility includes interest rate spreads based on available borrowing capacity that range between 1.25% and 1.75% for LIBOR-based borrowings and 0.25% and 0.75% for prime rate-based borrowings. At December 31, 2018, the interest rate for this facility was approximately 3.5%.

The Credit Agreement requires ongoing compliance with certain customary affirmative and negative covenants. The Credit Agreement also contains customary events of default.

During 2018, WESCO borrowed $473.1 million under the Revolving Credit Facility and made repayments in the aggregate amount of $433.5 million. During 2017, aggregate borrowings and repayments were $834.4 million and $826.4 million, respectively. WESCO had $515.9 million available under the Revolving Credit facility at December 31, 2018, after giving effect to $27.2 million of outstanding letters of credit, $19.5 million of surety bonds, and $5.3 million of other reserves, as compared to $562.9 million available under the Revolving Credit facility at December 31, 2017, after giving effect to $18.0 million of outstanding letters of credit, $19.1 million of surety bonds, and $7.1 million of other reserves.

5.375% Senior Notes due 2021

In November 2013, WESCO Distribution issued $500 million aggregate principal amount of 2021 Notes through a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). The 2021 Notes were issued at 100% of par and are governed by an indenture (the “2021 Indenture”) entered into on November 26, 2013 between WESCO International and U.S. Bank National Association, as trustee. The 2021 Notes are unsecured senior obligations of WESCO Distribution and are guaranteed on a senior unsecured basis by WESCO International. The 2021 Notes bear interest at a stated rate of 5.375%, payable semi-annually in arrears on June 15 and December 15 of each year. In addition, WESCO incurred costs related to the issuance of the 2021 Notes totaling $8.4 million, which were recorded as a reduction to the carrying value of the debt and are being amortized over the life of the notes. The 2021 Notes mature on December 15, 2021. The net proceeds of the 2021 Notes were used to prepay a portion of the U.S. sub-facility of the term loans due 2019.

Under the terms of a registration rights agreement dated as of November 26, 2013 among WESCO Distribution, WESCO International and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of the initial purchasers of the 2021 Notes, WESCO Distribution and WESCO International agreed to register under the Securities Act notes having terms identical in all material respects to the 2021 Notes (the “2021 Exchange Notes”) and to make an offer to exchange the 2021 Exchange Notes for the 2021 Notes. WESCO Distribution launched the exchange offer on June 12, 2014 and the exchange offer expired on July 17, 2014.

At any time WESCO Distribution may redeem all or a part of the 2021 Notes. Between December 15, 2018 and December 14, 2019, WESCO Distribution may redeem all or a part of the 2021 Notes at a redemption price equal to 101.344% of the principal amount. On and after December 15, 2019, WESCO Distribution may redeem all or a part of the 2021 Notes at a redemption price equal to 100% of the principal amount.

The 2021 Indenture contains customary covenants and customary events of default. In addition, upon a change of control, the holders of 2021 Notes have the right to require WESCO Distribution to repurchase all or any part of the 2021 Notes at a redemption price equal to 101% of the principal amount, plus accrued and unpaid interest.

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5.375% Senior Notes due 2024

In June 2016, WESCO Distribution issued $350 million aggregate principal amount of 5.375% Senior Notes due 2024 (the "2024 Notes") through a private offering exempt from the registration requirements of the Securities Act. The 2024 Notes were issued at 100% of par and are governed by an indenture (the “2024 Indenture”) entered into on June 15, 2016 among WESCO Distribution, as issuer, WESCO International, as parent guarantor, and U.S. Bank National Association, as trustee. The 2024 Notes are unsecured senior obligations of WESCO Distribution and are guaranteed on a senior unsecured basis by WESCO International. The 2024 Notes bear interest at a rate of 5.375% per annum, payable semi-annually in arrears on June 15 and December 15 of each year. WESCO incurred costs totaling $6.0 million to issue the 2024 Notes, which were recorded as a reduction to the carrying value of the debt and are being amortized over the life of the note. The notes mature on June 15, 2024. The Company used the net proceeds to redeem its 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures") on September 15, 2016.

Under the terms of a registration rights agreement dated as of June 15, 2016 among WESCO Distribution, as the issuer, WESCO International, as parent guarantor, and Goldman, Sachs & Co., as representative of the initial purchasers of the 2024 Notes, WESCO Distribution and WESCO International agreed to register under the Securities Act notes having terms identical in all material respects to the 2024 Notes (the “2024 Exchange Notes”) and to make an offer to exchange the 2024 Exchange Notes for the 2024 Notes. WESCO Distribution launched the exchange offer on December 28, 2016 and the exchange offer expired on January 31, 2017.

At any time on or after June 15, 2019, WESCO Distribution may redeem all or a part of the 2024 Notes. Between June 15, 2019 and June 14, 2020, WESCO Distribution may redeem all or a part of the 2024 Notes at a redemption price equal to 104.031% of the principal amount. Between June 15, 2020 and June 14, 2021, WESCO Distribution may redeem all or a part of the 2024 Notes at a redemption price equal to 102.688% of the principal amount. Between June 15, 2021 and June 14, 2022, WESCO Distribution may redeem all or a part of the 2024 Notes at a redemption price equal to 101.344% of the principal amount. On and after June 15, 2022, WESCO Distribution may redeem all or a part of the 2024 Notes at a redemption price equal to 100% of the principal amount.

The 2024 Indenture contains customary covenants and events of default. Upon a change of control, the holders of the 2024 Notes have the right to require WESCO Distribution to repurchase all or any part of the 2024 Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

6.0% Convertible Senior Debentures due 2029

On August 27, 2009, WESCO International completed an exchange offer pursuant to which it issued $345 million in aggregate principal amount of the 2029 Debentures. On September 15, 2016, the Company redeemed the 2029 Debentures. Holders of the 2029 Debentures received cash totaling $344.8 million, which was equal to the principal amount of the then-outstanding debentures, in addition to accrued and unpaid interest. Holders who surrendered the 2029 Debentures for conversion received 18 shares of WESCO stock for each $1,000 principal amount of 2029 Debentures converted. In total, 6,267,688 shares were issued on the redemption date. The redemption resulted in a non-cash loss of $123.9 million, which included the write off of unamortized debt issuance costs.

WESCO separately accounted for the liability and equity components of its 2029 Debentures in a manner that reflected its non-convertible debt borrowing rate. WESCO utilized an interest rate of 13.875% to reflect the non-convertible debt borrowing rate of its offering upon issuance, which was determined based on discussions with its financial institutions and a review of relevant market data, and resulted in a $181.2 million discount to the 2029 Debenture balance and a net increase in additional capital of $106.5 million. In addition, the financing costs incurred to issue the 2029 Debentures were allocated between the instrument's debt and equity components. The debt discount was amortized to interest expense, using the effective interest method, over the implicit life of the debentures. WESCO amortized the financing costs on a straight-line basis over the term of the instrument. For the year ended December 31, 2016, non-cash interest expense for the amortization of the debt discount and debt issuance costs was $3.1 million.

Covenant Compliance

We were in compliance with all relevant covenants contained in our debt agreements as of December 31, 2018.

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Cash Flow
An analysis of cash flows for 2018 and 2017 follows:
Operating Activities. Cash provided by operating activities for 2018 totaled $296.7 million, compared with $149.1 million of cash generated in 2017. Cash provided by operating activities included net income of $225.4 million and adjustments to net income totaling $84.9 million. Sources of cash in 2018 were generated from an increase in accrued payroll and benefit costs related to incentive compensation of $18.8 million, and an increase in accounts payable of $9.2 million. Primary uses of cash in 2018 included a $22.9 million and a $8.7 million increase in trade receivables and inventories, respectively, as a result of sales growth, an increase in other current and noncurrent assets of $4.3 million, and a decrease in other current and noncurrent liabilities of $5.7 million.
Cash provided by operating activities for 2017 totaled $149.1 million, compared with $300.3 million of cash generated in 2016. Cash provided by operating activities included net income of $163.1 million and adjustments to net income totaling $28.5 million. Sources of cash in 2017 were generated from an increase in accounts payable of $102.9 million, as a result of the increase in sales, an increase in noncurrent liabilities of $64.8 million, due to an accrued tax liability related to the taxation of undistributed earnings of foreign subsidiares under the TCJA, and an increase in accrued payroll and benefit costs of $24.7 million related to incentive compensation. Primary uses of cash in 2017 included a $119.0 million and a $113.0 million increase in inventory and trade receivables, respectively, as a result of an increase in customer backlog as well as an increase in sales, and a $2.9 million increase in other current and noncurrent assets.
Investing Activities. Net cash used in investing activities in 2018 was $34.1 million, compared with $5.3 million of net cash used in 2017. Capital expenditures in 2018 of $36.2 million increased from $21.5 million in 2017 to support the growth of our business. Proceeds from the sale of assets were $12.5 million and $6.8 million in 2018 and 2017, respectively. Other investing activities in 2018 included $10.4 million of cash outflows, the majority of which was for the purchase of a foreign investment.
Net cash used in investing activities in 2017 was $5.3 million, compared with $70.5 million of net cash used in 2016, which included a payment of $50.9 million primarily related to the acquisition of Atlanta Electrical Distributors, LLC. Capital expenditures were $21.5 million and $18.0 million in 2017 and 2016, respectively. Proceeds from the sale of assets were $6.8 million and $8.4 million in 2017 and 2016, respectively. Other investing activities in 2017 included $9.4 million of cash inflows from the maturity of a foreign investment.
Financing Activities. Net cash used in financing activities in 2018 was $275.1 million, compared with $141.2 million in 2017. During 2018, financing activities consisted of borrowings and repayments of $473.1 million and $433.5 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of $720.0 million and $825.0 million, respectively, related to our Receivables Facility, repayments of $60.0 million related to our Term Loan Facility, as well as borrowings and repayments of $142.3 million and $143.7 million, respectively, related to our international lines of credit. Financing activities in 2018 also included the repurchase of $127.2 million of the Company's common stock, of which $125.0 million was pursuant to the share repurchase plan announced on December 13, 2017 and amended on October 31, 2018.
Net cash used in financing activities in 2017 was $141.2 million, compared with $276.3 million in 2016. During 2017, financing activities consisted of borrowings and repayments of $834.4 million and $826.4 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of $670.2 million, related to our Receivables Facility, repayments of $60.0 million related to our Term Loan Facility, as well as borrowings and repayments of $175.8 million and $164.0 million, respectively, related to our international lines of credit. Financing activities in 2017 also included the repurchase of $106.8 million of the Company's common stock, of which $100.0 million was pursuant to the share repurchase plan announced on December 17, 2014.

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Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations at December 31, 2018, including interest, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

| | 2019 | 2020 to 2021 | 2022 to 2023 | 2024 - After | Total |
|---|---|---|---|---|---|
| (In millions) | | | | | |
| Contractual cash obligations (including interest): | | | | | |
| Debt, excluding debt discount and debt issuance costs | $56.7 | $826.6 | $— | $350.0 | $1,233.3 |
| Interest on indebtedness(1) | 57.3 | 95.6 | 37.6 | 9.4 | 199.9 |
| Non-cancelable operating leases | 71.6 | 106.9 | 59.0 | 40.3 | 277.8 |
| Taxes due on deemed repatriation of foreign earnings(2) | 2.6 | 5.2 | 5.2 | 30.2 | 43.2 |
| Total contractual cash obligations | $188.2 | $1,034.2 | $101.8 | $430.0 | $1,754.3 |

(1) Interest on the variable rate debt was calculated using the rates and balances outstanding at December 31, 2018.

(2) Includes the U.S. federal income taxes due under the deemed repatriation provisions of the TCJA, net of available foreign tax credits, that will be paid over 8 years.

Purchase orders for inventory requirements and service contracts are not included in the table above. Generally, our purchase orders and contracts contain clauses allowing for cancellation. We do not have significant agreements to purchase material or goods that would specify minimum order quantities. Also, we do not consider liabilities for uncertain tax benefits to be contractual obligations requiring disclosure due to the uncertainty surrounding the ultimate settlement and timing of these liabilities. As such, we have not included liabilities for uncertain tax benefits of $2.1 million in the table above.

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 year ended December 31, 2018, pricing related to inflation impacted our sales by less than 2%.

Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first quarter are affected by a reduced level of activity. Sales during the second, third and fourth quarters are generally 6% to 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.

Impact of Recently Issued Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

Foreign Currency Risks

Approximately 25% of our sales in 2018 were from our foreign subsidiaries located in North America, South America, Europe, Africa, and Asia and are denominated in foreign currencies. We may establish additional foreign subsidiaries in the future. Accordingly, we may derive a larger portion of our sales from international operations, and a portion of these sales may be denominated in foreign currencies. As a result, our future operating results could become subject to fluctuations in foreign exchange rates relative to the U.S. dollar. Furthermore, to the extent that we engage in international sales denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. We have monitored and will continue to monitor our exposure to currency fluctuations.

Interest Rate Risk

Fixed Rate Borrowings: As of December 31, 2018, approximately 69% of our debt portfolio is comprised of fixed rate debt. At various times, we have refinanced our debt to mitigate the impact of interest rate fluctuations. As the 2021 Notes and 2024 Notes were issued at fixed rates, interest expense would not be impacted by interest rate fluctuations, although market value would be. For the 2021 Notes and 2024 Notes, fair value approximated carrying value (see Note 4 to the Consolidated Financial Statements).

Floating Rate Borrowings: The Company's variable rate borrowings at December 31, 2018 were comprised of the amounts outstanding under the Term Loan Facility, Receivables Facility, Revolving Credit Facility, and the international lines of credit. The fair value of these debt instruments at December 31, 2018 approximated carrying value. We entered into the Term Loan Facility on December 12, 2012 and the proceeds were primarily used to finance the acquisition of EECOL. Borrowings under the U.S. sub-facility of the Term Loan Facility bear interest at 0.75% or, if greater, the applicable LIBOR (London Interbank Offered Rate) or base rates plus applicable margins and therefore are subject to fluctuations in interest rates. We borrow under our Revolving Credit Facility and Receivables Facility for general corporate purposes, including working capital requirements and capital expenditures. Borrowings under our Revolving Credit Facility bear interest at the applicable LIBOR / CDOR (Canadian Dealer Offered Rate) or base rates plus applicable margins, whereas borrowings under the Receivables Facility bear interest at the 30 day LIBOR plus applicable margins. A 100 basis point increase or decrease in interest rates would not have a significant impact on future earnings under our current capital structure.

Defined Benefit Pension Plan: The interest rate used to discount future estimated cash flows is determined using the Canadian Institute of Actuaries ("CIA") methodology, which references yield curve information provided by Fiera Capital. The discount rate used to determine the projected benefit obligations for the Canadian pensions was 4.0% at December 31, 2018. An increase in the discount rate of one percent would decrease the projected benefit obligations by $18.6 million, and a decrease in the discount rate of one percent would increase the projected benefit obligations by $24.8 million. The impact of a change in the discount rate of one percent would be either a charge of $1.5 million or a credit of $1.1 million to earnings in the following year.

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Item 8. Financial Statements and Supplementary Data.

The information required by this item is set forth in our Consolidated Financial Statements contained in this Annual Report on Form 10-K. Specific financial statements can be found at the pages listed below:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of WESCO International, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of WESCO International, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, of stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 27, 2019

We have served as the Company's auditor since 1994.

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | As of December 31, 2018 | 2017 |
|---|---|---|
| | (In thousands, except share data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $96,343 | $117,953 |
| Trade accounts receivable, net of allowance for doubtful accounts of $24,468 and $21,313 in 2018 and 2017, respectively | 1,166,607 | 1,170,080 |
| Other accounts receivable | 96,984 | 101,229 |
| Inventories | 948,726 | 956,148 |
| Income taxes receivable | 24,873 | 23,250 |
| Prepaid expenses and other current assets | 52,107 | 40,189 |
| Total current assets | 2,385,640 | 2,408,849 |
| Property, buildings and equipment, net (Note 8) | 160,878 | 156,445 |
| Intangible assets, net (Note 5) | 316,016 | 367,104 |
| Goodwill (Note 5) | 1,722,603 | 1,771,877 |
| Deferred income taxes (Note 11) | 16,374 | 24,203 |
| Other assets | 3,525 | 6,990 |
| Total assets | $4,605,036 | $4,735,468 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $794,348 | $799,520 |
| Accrued payroll and benefit costs (Note 13) | 88,105 | 72,686 |
| Short-term debt (Note 9) | 30,785 | 34,075 |
| Current portion of long-term debt, net of debt discount and debt issuance costs of $488 in 2018 (Note 9) | 25,429 | 1,224 |
| Bank overdrafts | 17,818 | 37,644 |
| Other current liabilities (Note 2) | 105,461 | 95,820 |
| Total current liabilities | 1,061,946 | 1,040,969 |
| Long-term debt, net of debt discount and debt issuance costs of $9,243 and $14,224 in 2018 and 2017, respectively (Note 9) | 1,167,311 | 1,313,261 |
| Deferred income taxes (Notes 2 and 11) | 143,967 | 136,858 |
| Other noncurrent liabilities | 102,086 | 128,237 |
| Total liabilities | $2,475,310 | $2,619,325 |
| Commitments and contingencies (Note 16) | | |
| Stockholders' Equity: | | |
| Preferred stock, $.01 par value; 20,000,000 shares authorized, no shares issued or outstanding (Note 10) | — | — |
| Common stock, $.01 par value; 210,000,000 shares authorized, 59,157,696 and 59,045,762 shares issued and 45,106,085 and 47,009,540 shares outstanding in 2018 and 2017, respectively (Note 10) | 592 | 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 (Note 2) | 993,666 | 999,156 |
| Retained earnings | 2,307,462 | 2,079,697 |

| | | |
|---|---|---|
| Treasury stock, at cost; 18,391,042 and 16,375,653 shares in 2018 and 2017, respectively | (758,018) | (647,158) |
| Accumulated other comprehensive loss | (408,435) | (312,590) |
| Total WESCO International, Inc. stockholders' equity | 2,135,310 | 2,119,739 |
| Noncontrolling interests | (5,584) | (3,596) |
| Total stockholders’ equity | 2,129,726 | 2,116,143 |
| Total liabilities and stockholders’ equity | $4,605,036 | $4,735,468 |

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | (In thousands, except per share data) | | |
| Net sales | $8,176,601 | $7,679,021 | $7,336,017 |
| Cost of goods sold (excluding depreciation and amortization) | 6,609,220 | 6,194,366 | 5,887,814 |
| Selling, general and administrative expenses (Note 13) | 1,151,944 | 1,101,598 | 1,050,799 |
| Depreciation and amortization | 62,997 | 64,017 | 66,858 |
| Income from operations | 352,440 | 319,040 | 330,546 |
| Net interest and other (Notes 13 and 15) | 71,415 | 66,600 | 75,062 |
| Loss on debt redemption (Note 9) | — | — | 123,933 |
| Income before income taxes | 281,025 | 252,440 | 131,551 |
| Provision for income taxes (Note 11) | 55,670 | 89,307 | 30,431 |
| Net income | 225,355 | 163,133 | 101,120 |
| Less: Net loss attributable to noncontrolling interests | (1,988) | (327) | (468) |
| Net income attributable to WESCO International, Inc. | $227,343 | $163,460 | $101,588 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (99,643) | 85,762 | 38,275 |
| Post retirement benefit plan adjustments, net of tax (Note 13) | 3,798 | (6,381) | (2,485) |
| Comprehensive income attributable to WESCO International, Inc. | $131,498 | $242,841 | $137,378 |
| | | | |
| Earnings per share attributable to WESCO International, Inc. (Note 12) | | | |
| Basic | $4.87 | $3.42 | $2.30 |
| Diluted | $4.82 | $3.38 | $2.10 |

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Class B Common Stock | | Additional | Retained Earnings | Treasury Stock | | Noncontrolling | Accumulated Other Comprehensive Income |
|---|---|---|---|---|---|---|---|---|---|---|
| (In thousands) | Amount | Shares | Amount | Shares | Capital | (Deficit) | Amount | Shares | Interests | (Loss) |
| Balance, December 31, 2015 | $586 | 58,597,380 | $ | | | | | | | |