



WESCO®

# Q4 & Full Year 2018 Earnings

Webcast Presentation – January 31, 2019



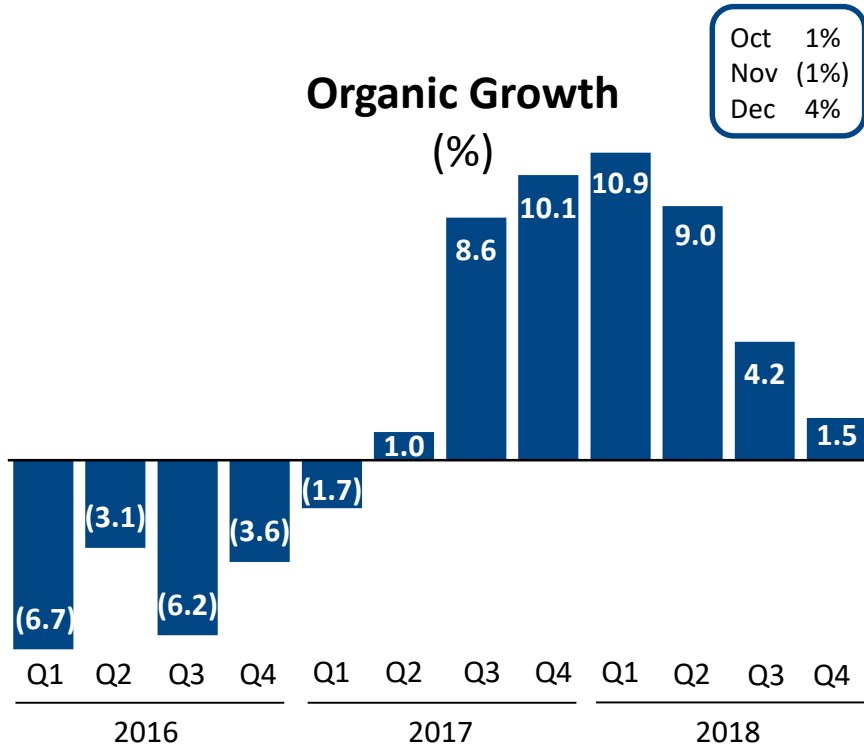
# Safe Harbor Statement

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All statements made herein that are not historical facts should be considered as “forward-looking statements” within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to: adverse economic conditions; disruptions in operations or information technology systems; increase in competition; expansion of business activities; supply chain disruptions, changes in supplier strategy or loss of key suppliers; personnel turnover or labor cost increases; risks related to acquisitions, including the integration of acquired businesses; tax law changes or challenges to tax matters, including uncertainties in the interpretation and application of the Tax Cuts and Jobs Act of 2017; exchange rate fluctuations; debt levels, terms, financial market conditions or interest rate fluctuations; stock market, economic or political instability; legal or regulatory matters; litigation, disputes, contingencies or claims; and other factors described in detail in the Form 10-K for WESCO International, Inc. for the year ended December 31, 2017 and any subsequent filings with the Securities & Exchange Commission. The following presentation includes a discussion of certain non-GAAP financial measures. Information required by Regulation G with respect to such non-GAAP financial measures can be found in the appendix and obtained via WESCO’s website, [www.wesco.com](http://www.wesco.com).



# Q4 & Full Year 2018 Highlights



Note: Organic growth excludes the impact of: acquisitions in the first year of ownership, foreign exchange rates and number of workdays. See appendix for non-GAAP reconciliations.

## Fourth Quarter

- Continued strong results in the fourth quarter
  - Double digit EBIT (+12%) and adjusted EPS (+22%) growth vs. prior year
  - Gross margin expansion of 20 bps year-over-year and sequentially
  - Operating margin expansion of 40 bps year-over-year
- Reported sales were up 1%, organic sales were up 2% (flat in the U.S., up 5% in Canada, and up 11% in International)
- Organic sales up 12% on a two year stack basis
- Estimated pricing impact +1%
- MTD sales as of January 29<sup>th</sup> up low single digits
- Free cash flow at 189% of net income
- Repurchased \$100 million of shares

## Full Year

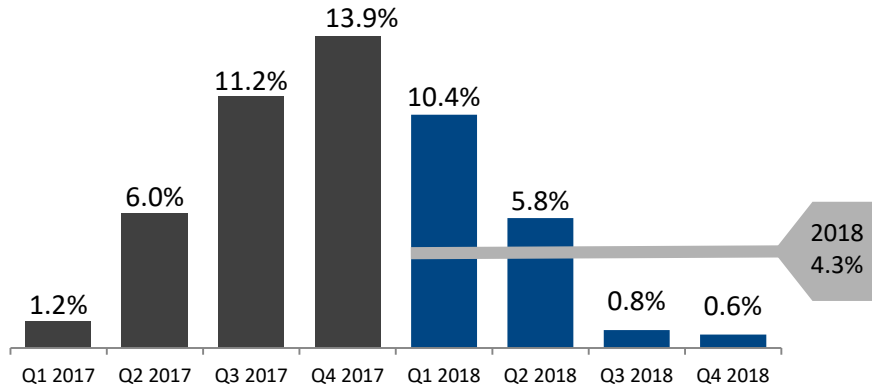
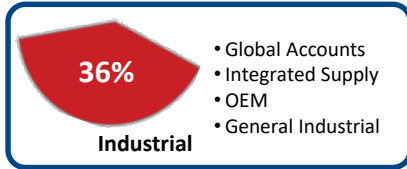
- Record sales up 6.5% versus prior year
- Operating margin expansion of 10 bps versus prior year
- Double digit EBIT (+10%) and adjusted EPS (+23%) growth vs. prior year
- Free cash flow at 116% of net income
- Repurchased \$125 million of shares
- Reduced financial leverage to lowest level since Q1 2015

**...double digit operating profit, net income and EPS growth versus prior year**



# Industrial End Market

## Organic Sales Growth versus Prior Year



Note: See appendix for non-GAAP reconciliations.

- Q4 2018 Sales
  - Organic sales were up 1% versus prior year (flat in the U.S. and up 10% in Canada in local currency)
  - Up 4% sequentially
- Industrial market growth continues, driven by increasing production and capacity utilization; labor constraints support higher capital spending
- Global Account and Integrated Supply opportunity pipeline and bidding activity levels remain strong
- Customer trends include continued high expectations for supply chain process improvements, cost reductions, and supplier consolidation

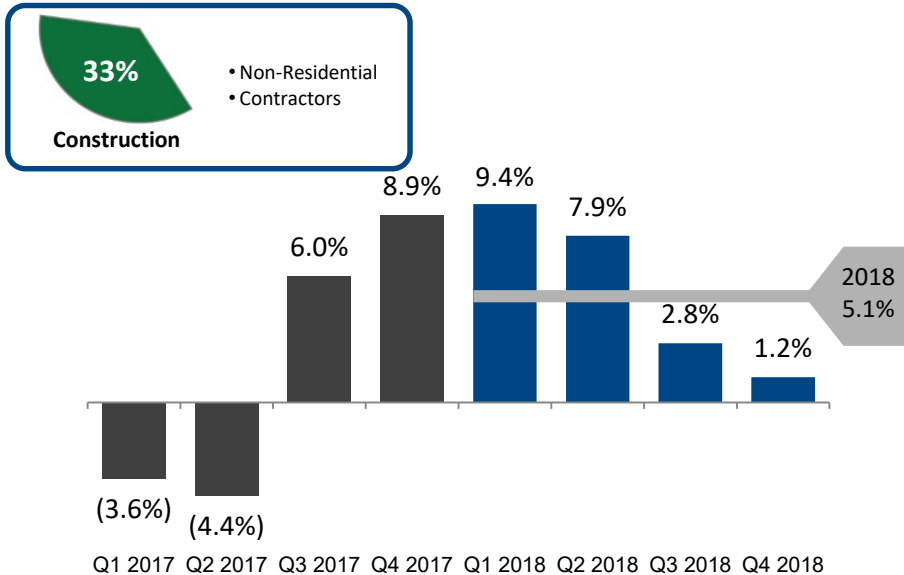


Awarded a three-year contract valued at more than \$30 million to provide an integrated supply solution for MRO materials to support multiple facilities for a metals manufacturer in the U.S.



# Construction End Market

## Organic Sales Growth versus Prior Year



Note: See appendix for non-GAAP reconciliations.

- Q4 2018 Sales
  - Organic sales were up 1% versus prior year (up 1% in the U.S. and up 3% in Canada in local currency)
  - Flat sequentially
- Strong backlog and business momentum continues with construction/contractor customers
- Backlog down 3% versus prior year and down 5% from Q3 (in line with normal seasonality)
- Expecting moderate growth and uptrend in non-residential construction market to continue

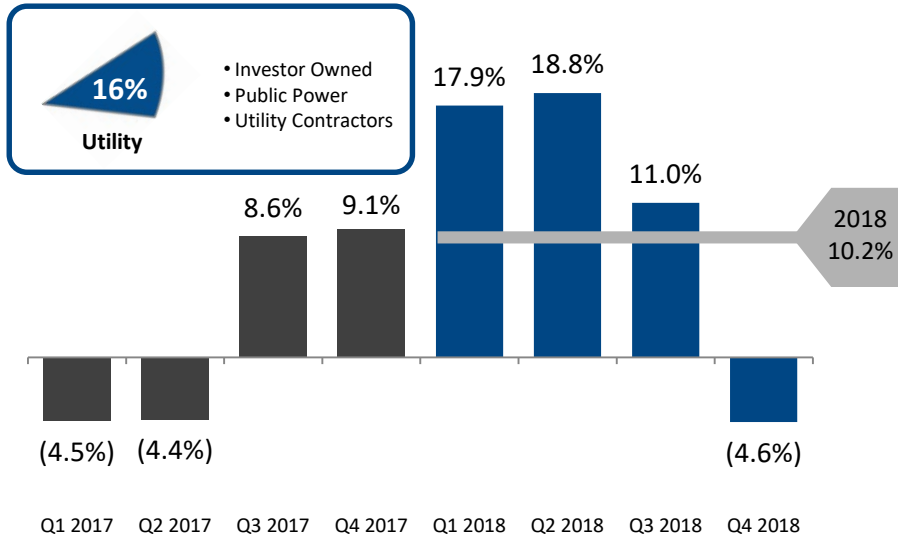


Awarded a multi-million dollar contract to provide electrical equipment to support the construction of a new LNG facility in North America.



# Utility End Market

## Organic Sales Growth versus Prior Year



Note: See appendix for non-GAAP reconciliations.

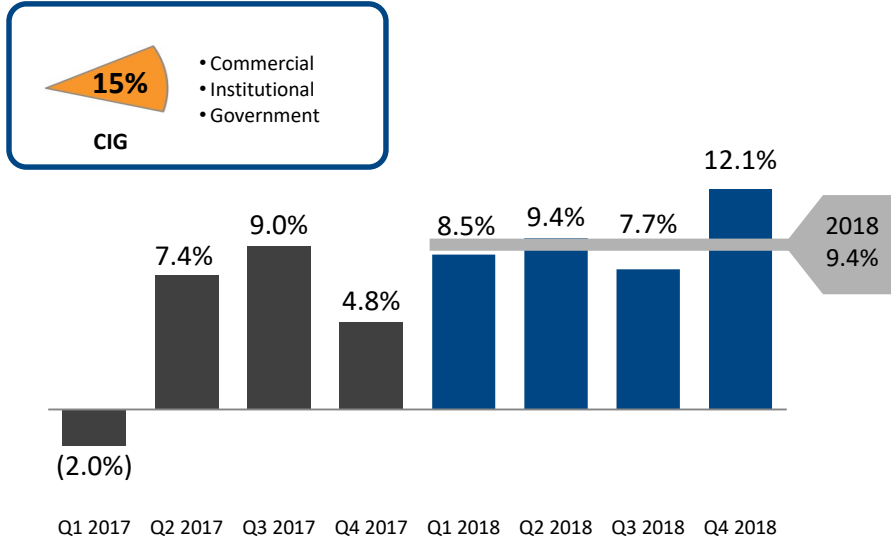
- Q4 2018 Sales
  - Organic sales were down 5% versus prior year (down 3% in the U.S. and down 23% in Canada in local currency)
  - Down 10% sequentially
- Continued scope expansion and value creation with investor owned utility, public power, and generation customers
- Continued interest in Integrated Supply solution offerings
- Favorable economic conditions, continued improvement in construction market, renewables growth, and consolidation trend within Utility industry remain positive catalysts for future spending



Awarded a five-year contract with estimated revenues of \$35 million to provide electrical and MRO materials to an investor-owned utility in the U.S.



## Organic Sales Growth versus Prior Year



Note: See appendix for non-GAAP reconciliations.

- Q4 2018 Sales
  - Organic sales were up 12% versus prior year (up 1% in the U.S. and up 27% in Canada in local currency)
  - Down 5% sequentially
- Technical expertise and supply chain solutions driving positive momentum in datacenter, broadband, and cloud technology projects
- Continued positive momentum seen in LED lighting retrofits, FTTX deployments, broadband build outs, and cyber and physical security for critical infrastructure protection

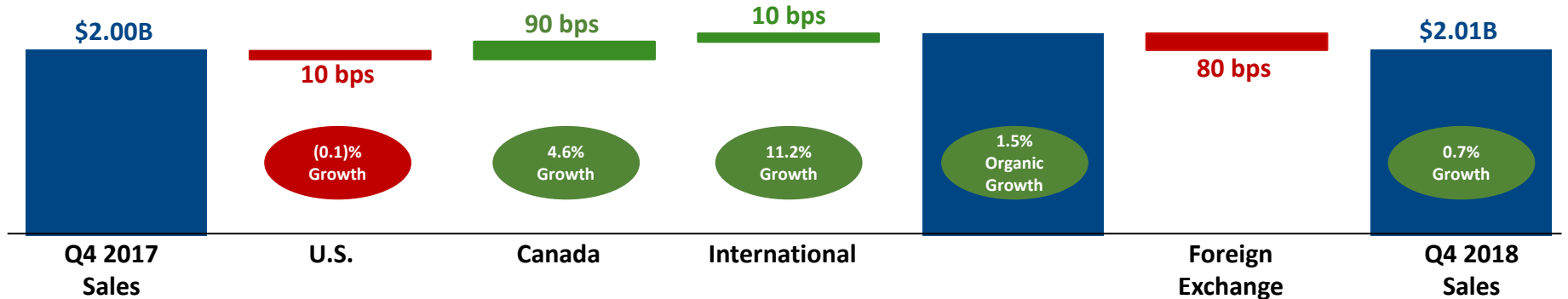


Awarded a multi-million dollar contract to provide data communications products for an upgrade to a U.S. federal government facility.



# Q4 2018 Results

	Outlook	Actual	YOY
Sales	1% to 4%	\$2.0B	Up 0.7%
Gross Margin		19.4%	Up 40 bps <sup>(1)</sup>
SG&A		\$284M, 14.1%	Up 1%, improved 20 bps
Operating Profit		\$91M	Up 12%
Operating Margin	4.3% to 4.6%	4.5%	Up 40 bps
Effective Tax Rate	~21%	21.2%	Down 270 bps, as adjusted
EPS		\$1.26	Up 22%, as adjusted



Note: See appendix for non-GAAP reconciliations.

<sup>(1)</sup> On a reported basis, gross margin was up 20 basis points. As previously noted in the prior quarters of 2018, the Company reclassified certain labor costs from selling, general and administrative expenses to cost of goods sold. Excluding this reclassification, gross margin for the fourth quarter of 2018 was 40 basis points higher than the fourth quarter of 2017.

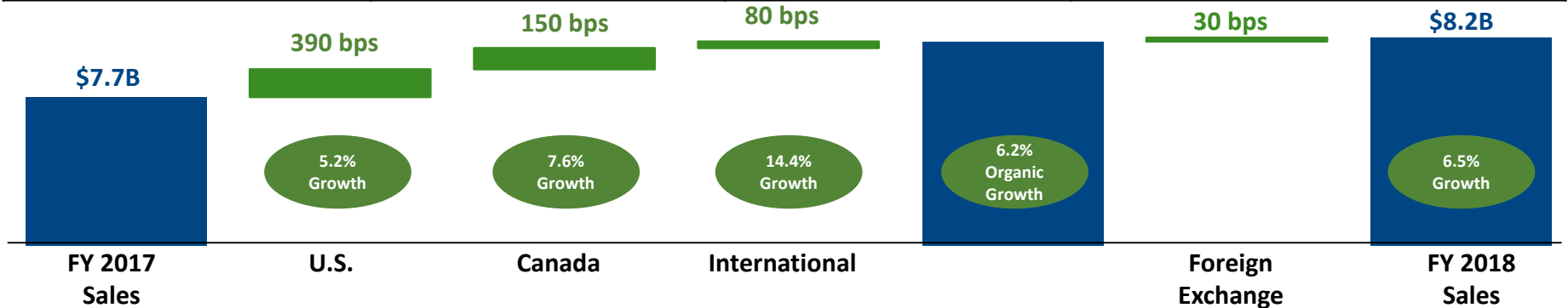
**...margins expanding with strong operating profit pull through**





# Full Year 2018 Results

	Outlook	Actual	YOY
Sales	6% to 8%	\$8.2B	Up 6.5%
Gross Margin		19.2%	Flat <sup>(1)</sup>
SG&A		\$1.15B, 14.1%	Up 5%, improved 20 bps
Operating Profit		\$353M	Up 10%
Operating Margin	4.2% to 4.4%	4.3%	Up 10 bps
Effective Tax Rate	19% to 21%	19.8%	Down 510 bps, as adjusted
EPS	\$4.70 to \$4.90	\$4.82	Up 23%, as adjusted



Note: See appendix for non-GAAP reconciliations.

<sup>(1)</sup> On a reported basis, gross margin was down 10 basis points. As previously noted in the prior quarters of 2018, the Company reclassified certain labor costs from selling, general and administrative expenses to cost of goods sold. Excluding this reclassification, gross margin for 2018 was flat to 2017.

***...margins expanding with strong operating profit pull through***

# Diluted EPS Walk



	Q4	FY
<b>2017 Adjusted</b>	<b>\$1.03</b>	<b>\$3.93</b>
Core operations	0.16	0.49
Foreign exchange	(0.01)	(0.01)
Tax	0.04	0.30
Share count	0.04	0.11
<b>2018</b>	<b>\$1.26</b>	<b>\$4.82</b>

***...23% adjusted EPS growth versus prior year***

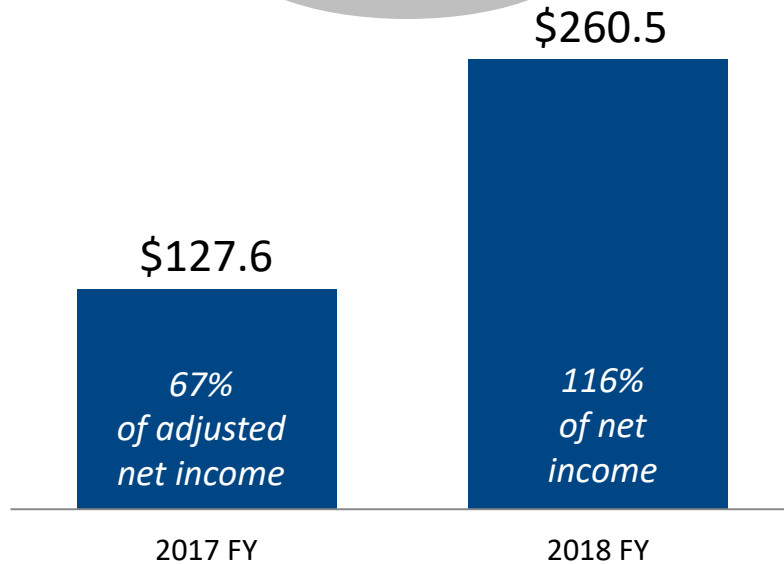


# Free Cash Flow & Leverage

## Free Cash Flow

(\$ Millions)

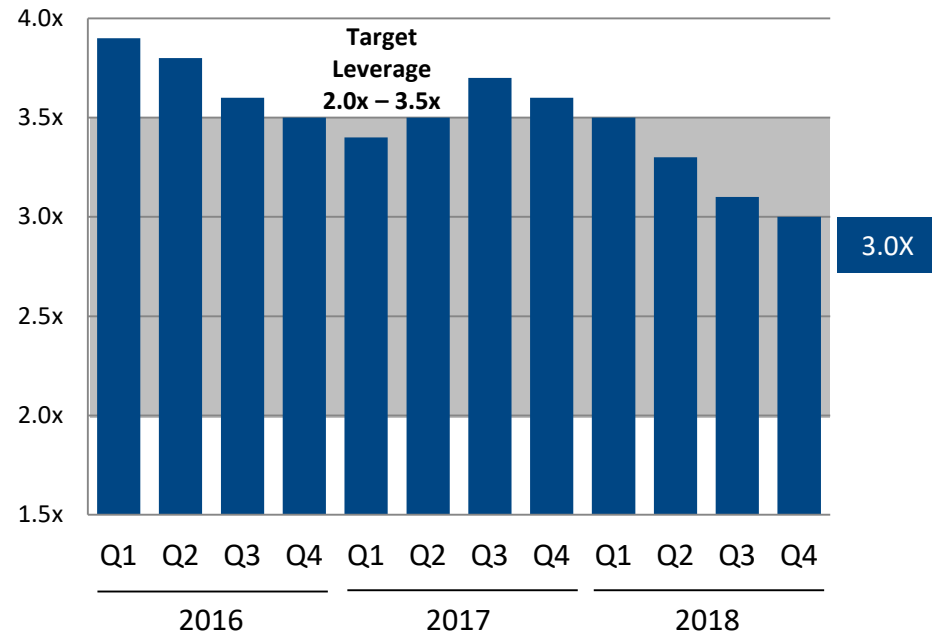
~ \$1.2B of free cash flow over last 5 years



Note: See appendix for non-GAAP reconciliations.

## Leverage

(Total Debt to TTM EBITDA)



**...strong free cash flow generation and financial leverage improvement in 2018**

# 2019 Outlook



	Q1	FY
Sales	(2%) to 2%	3% to 6%
Operating Margin	3.5% to 3.8%	4.3% to 4.7%
Effective Tax Rate	~ 23%	22% to 24%
Diluted EPS		\$5.10 to \$5.70
Free Cash Flow		~ 90% of net income

Notes: Excludes unannounced acquisitions and SLS.  
Assumes a CAD/USD exchange rate of 0.74 in Q1.  
Q1 and FY 2019 have one less workday than Q1 and FY 2018.  
See appendix for non-GAAP reconciliations.



## **SYLVANIA LIGHTING SOLUTIONS**

- A leading provider of LED lighting solutions and turn-key services
- Founded in 1969, currently owned by Osram Sylvania
- Annual revenue of ~\$100 million in the U.S. and Canada with 220 employees
- Will complement WESCO's existing turn-key lighting renovation and retrofit offerings
- Closing is expected to occur in March 2019
- Expect neutral impact to EPS in year one

***...strengthening WESCO's lighting solutions and services***



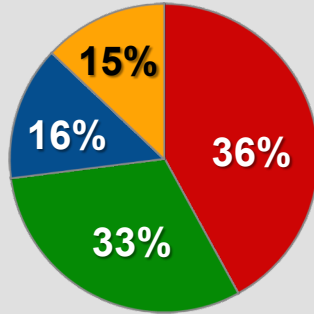
## Appendix

### **NON-GAAP FINANCIAL MEASURES**

This presentation includes certain non-GAAP financial measures. These financial measures include organic sales growth, gross profit, financial leverage, earnings before interest, taxes, depreciation and amortization (EBITDA), free cash flow, adjusted net income and adjusted earnings per diluted common share. The Company believes that these non-GAAP measures are useful to investors as they provide a better understanding of sales performance, and the use of debt and liquidity on a comparable basis. Additionally, certain of the aforementioned non-GAAP measures either focus on or exclude transactions impacting comparability of results, allowing investors to more easily compare the Company's financial performance from period to period. Management does not use these non-GAAP financial measures for any purpose other than the reasons stated above.



## Markets & Customers



### Industrial

Global Accounts | Integrated Supply  
OEM | General Industrial

### Construction

Non-Residential | Contractors

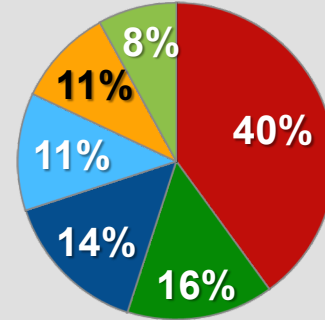
### Utility

Investor Owned | Public Power  
Utility Contractors

### CIG

Commercial | Institutional | Government

## Products & Services



### General Supplies

### Communications & Security

### Wire, Cable & Conduit

### Lighting & Sustainability

### Electrical Distribution & Controls

### Automation, Controls & Motors

# Sales Growth



(%)

	2016					2017					2018				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>
<b>Change in Net Sales</b>	(2.2)	(0.3)	(3.6)	(3.7)	(2.4)	(0.2)	(0.1)	7.8	11.3	4.7	12.5	10.2	3.4	0.7	6.5
Acquisition Impact	3.9	3.7	2.9	1.8	3.1	0.9				0.2					
<b>Core</b>	(6.1)	(4.0)	(6.5)	(5.5)	(5.5)	(1.1)	(0.1)	7.8	11.3	4.5	12.5	10.2	3.4	0.7	6.5
FX Impact	(2.6)	(0.9)	(0.3)	(0.3)	(1.0)	0.6	(1.1)	0.8	1.2	0.4	1.6	1.2	(0.8)	(0.8)	0.3
Workday Impact	3.2			(1.6)	0.4			(1.6)		(0.4)					
<b>Organic</b>	(6.7)	(3.1)	(6.2)	(3.6)	(4.9)	(1.7)	1.0	8.6	10.1	4.5	10.9	9.0	4.2	1.5	6.2

Note: Core sales growth excludes acquisitions during the first year of ownership.





## Q4 2018 Organic Sales Growth by Geography

(%)

	U.S.	Canada	International	WESCO
<b>Change in net sales (USD)</b>	(0.1)	1.7	7.7	0.7
Impact from acquisitions	-	-	-	-
Impact from foreign exchange rates	-	(2.9)	(3.4)	(0.8)
Impact from number of workdays	-	-	-	-
<b>Organic sales growth</b>	(0.1)	4.6	11.2	1.5



# Sales Growth by End Market

(\$ Millions)

	Q4 2018 vs. Q4 2017			Q4 2018 vs. Q3 2018			FY 2018 vs FY 2017		
	Q4 2018	Q4 2017	% Growth	Q4 2018	Q3 2018	% Growth	FY 2018	FY 2017	% Growth
Industrial Core	\$742	\$744	(0.2%)	\$742	\$727	2.2%	\$2,995	\$2,865	4.5%
Construction Core	680	679	0.1%	680	689	(1.3%)	2,696	2,558	5.4%
Utility Core	306	322	(4.8%)	306	347	(11.7%)	1,309	1,187	10.3%
CIG Core	291	261	11.4%	291	312	(7.0%)	1,210	1,104	9.6%
<b>Total Core Gross Sales</b>	<b>\$2,020</b>	<b>\$2,006</b>	<b>0.7%</b>	<b>\$2,020</b>	<b>\$2,075</b>	<b>(2.7%)</b>	<b>\$8,209</b>	<b>\$7,713</b>	<b>6.4%</b>
Total Gross Sales from Acquisitions	-	-		-	-		-	-	
<b>Total Gross Sales</b>	<b>\$2,020</b>	<b>\$2,006</b>	<b>0.7%</b>	<b>\$2,020</b>	<b>\$2,075</b>	<b>(2.7%)</b>	<b>\$8,209</b>	<b>\$7,713</b>	<b>6.4%</b>
Gross Sales Reduction/Discounts	(8)	(9)		(8)	(8)		(33)	(34)	
<b>Total Net Sales</b>	<b>\$2,011</b>	<b>\$1,997</b>	<b>0.7%</b>	<b>\$2,011</b>	<b>\$2,067</b>	<b>(2.7%)</b>	<b>\$8,177</b>	<b>\$7,679</b>	<b>6.5%</b>

Note: The prior period end market amounts noted above may contain reclassifications to conform to current period presentation.



# Q4 2018 Organic Sales by End Market

(%)

	Industrial	Construction	Utility	CIG	WESCO
<b>Core Sales Growth</b>	(0.2)	0.1	(4.8)	11.4	0.7
FX Impact	(0.8)	(1.1)	(0.2)	(0.7)	(0.8)
Workday Impact	-	-	-	-	-
<b>Organic Growth</b>	0.6	1.2	(4.6)	12.1	1.5

# Gross Margin



(\$ Millions)

	Three Months Ended		Twelve Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net sales	\$2,011	\$1,997	\$8,177	\$7,679
Cost of goods sold (excluding depreciation and amortization)	1,621	1,614	6,610	6,194
Gross profit <sup>(1)</sup>	\$390	\$383	\$1,567	\$1,485
Gross margin <sup>(1)</sup>	19.4%	19.2%	19.2%	19.3%

<sup>(1)</sup> Gross profit is calculated by deducting cost of goods sold, excluding depreciation and amortization, from net sales. Gross margin is calculated by dividing gross profit by net sales. Note: For gross margin in prior periods, see quarterly earnings webcasts as previously furnished to the Securities & Exchange Commission, which can be obtained from the Investor Relations page of WESCO's website at [www.wesco.com](http://www.wesco.com).



# 2017 Adjusted Diluted EPS

(\$ millions, except for EPS)

	Q4 2017			FY 2017		
	Reported Results	Adjustments	Adjusted Results	Reported Results	Adjustments	Adjusted Results
Income from operations	\$ 80.9	-	\$ 80.9	\$ 319.1	-	\$ 319.1
Interest, net	17.1	-	17.1	66.6	-	66.6
Income before income taxes	63.8	-	63.8	252.5	-	252.5
Income taxes <sup>(1)</sup>	41.6	(26.4)	15.2	89.3	(26.4)	62.9
Effective tax rate	65.2%		23.9%	35.4%		24.9%
Net income	22.2	26.4	48.6	163.2	26.4	189.6
Less: Non-controlling interests	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Net income attributable to WESCO	\$ 22.5	26.4	\$ 48.9	\$ 163.5	26.4	\$ 189.9
<b>Adjusted Earnings per Diluted Share:</b>						
Earnings per diluted common share (as reported)		\$0.47			\$3.38	
Impact of Tax Cuts and Jobs Act of 2017 (TCJA) <sup>(1)</sup>		0.56			0.55	
Adjusted diluted earnings per common share		\$1.03			\$3.93	

<sup>1</sup> The application of the TCJA in 2017 resulted in a provisional discrete income tax expense of \$26.4 million, which was compromised of \$82.8 million of expense associated with the deemed repatriation of undistributed earnings of foreign subsidiaries partially offset by a \$56.4 million benefit from the remeasurement of net deferred income tax liabilities.



# Capital Structure

(\$ Millions)

	Outstanding at December 31, 2017	Outstanding at December 31, 2018	Debt Maturity Schedule
AR Revolver <sup>(V)</sup>	380	275	2020
Inventory Revolver <sup>(V)</sup>	12	52	2020
2019 Term Loans <sup>(V)</sup>	85	25	2019
2021 Senior Notes <sup>(F)</sup>	500	500	2021
2024 Senior Notes <sup>(F)</sup>	350	350	2024
Other <sup>(V)</sup>	36	31	N/A
<b>Total Debt</b>	<b>1,363</b>	<b>1,233</b>	

Key Financial Metrics		
	YE 2017	YE 2018
Cash	118	96
Capital Expenditures	22	36
Free Cash Flow <sup>(1)</sup>	128	261
Liquidity <sup>(2)</sup>	794	824

<sup>(V)</sup> Variable Rate Debt

<sup>(F)</sup> Fixed Rate Debt

<sup>(1)</sup> Cash flow provided by operations less capital expenditures.

<sup>(2)</sup> Total availability under asset-backed credit facilities plus cash in investment accounts.



# Financial Leverage

(\$ Millions)

**Twelve Months Ended  
December 31, 2018**

Income from operations <sup>(1)</sup>	\$353
Depreciation and amortization	63
<b>EBITDA</b>	<b>\$416</b>

**December 31, 2018**

Short-term borrowings and current debt	\$56
Long-term debt	1,167
Debt discount and debt issuance costs <sup>(2)</sup>	10
<b>Total debt</b>	<b>\$1,233</b>
Less: cash and cash equivalents	96
<b>Total debt, net of cash</b>	<b>\$1,137</b>

Financial leverage ratio	3.0X
Financial leverage ratio, net of cash	2.7X

(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 twelve months ended December 31, 2018. These components aggregate to a benefit of \$1.9 million.

(2) Long-term debt is presented in the consolidated balance sheet as of December 31, 2018 net of debt discount and debt issuance costs.

Note: For financial leverage ratio in prior periods, see quarterly earnings webcasts as previously furnished to the Securities & Exchange Commission, which can be obtained from the Investor Relations page of WESCO's website at [www.wesco.com](http://www.wesco.com).



# Free Cash Flow Reconciliation

(\$ Millions)

	FY 2017	FY 2018
Cash flow provided by operations	\$149.1	\$296.7
Less: Capital expenditures	(21.5)	(36.2)
Free cash flow	127.6	260.5
Adjusted net income	\$189.6	\$225.4
Percentage of adjusted net income	67%	116%

Note: Free cash flow is provided by the Company as an additional liquidity measure. Capital expenditures are deducted from operating cash flow to determine free cash flow. Free cash flow is available to fund investing and financing activities.



# Work Days



	Q1	Q2	Q3	Q4	FY
<b>2016</b>	64	64	64	62	254
<b>2017</b>	64	64	63	62	253
<b>2018</b>	64	64	63	62	253
<b>2019</b>	63	64	63	62	252