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PRESENTATION

William Ruthrauff - *WESCO International, Inc. - Director of IR*

Good afternoon. Let's go and get started. Welcome to the 2019 WESCO Investor Day. It's great to see a number of familiar faces here with us this afternoon. But for anyone I haven't met, my name is Will Ruthrauff, I'm the Director of Investor Relations at WESCO. On behalf of the entire WESCO team, I just want to say thank you for your presence here this afternoon. We appreciate the investment of your time as well as your interest in learning more about the company.

Safety is at the forefront of what we do at WESCO every day. It's customary for us to begin meetings with a safety minute. So in that light, I just want to point out a couple of things for you. There are 2 emergency exits in the room, one in the back of the room, the door that you entered, and one to the -- behind the stage behind that screen. This exit is connected to a stairwell fire exit. The other stairwell is at the far end of the building.

Couple of quick items before we begin. First to remind you to please silence any mobile devices, if you haven't done so already. Secondly, during the presentation, we ask that you hold any questions you may have until the end. That will help keep us up schedule as well as ensure that the entire team is available to address any questions. And lastly, we hope you will join us for a cocktail reception following the presentation, should be an excellent opportunity to get to know WESCO team a bit better.

Turning to the presentation, I ask that you quickly familiarize yourself with the language found on Page 2 regarding forward-looking statements and non-GAAP measures. We will be discussing WESCO today using forward-looking statements. Important to remember that they include risks and uncertainties that we're unable to predict. And for that reason, actual results may differ materially from expectations.

That's all I have. I'd now like to welcome our next speaker, John Engel, Chairman, President and CEO.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Good afternoon, everyone. Pleasure to be here and welcome to our 2019 Investor Day. Thanks for taking time to join us. We're very pleased to be here, as I said, and very excited to share the next chapter in our WESCO story and our refined strategy for enterprise value creation.

I'd like to start out with a full introduction. Several members of our WESCO Board of Directors are in attendance. So I'd ask them to stand please when I call your name. Jamie Singleton, our Lead Director; Lynn Utter; Bobby Griffin; E. Sundaram, our newest addition to the Board, welcome Eash, and thank you to Directors for joining us as well.

To pick their view as the WESCO leadership team, you'll be hearing from Dave, Nelson, Juan and Hemant this afternoon. Diane, Chris and Rob are also in attendance and they're part of my direct reports, and I'd ask them to stand in the back. They're in the back row, Diane, Chris and Rob. Diane is our General Counsel. Chris Wolf is one of our most recent additions to the team. She is our CHRO, Chief Human Resources Officer, and Rob Minicozzi is our CIO.

I've been at WESCO for 15 years now and CEO for the last 10. This is the strongest leadership team that we've had. And I think it's interesting to note that the majority of these leaders are new to WESCO within the last 3-plus years. Going forward, we are well positioned with this team at the leadership helm of WESCO.

Moving to the agenda, I'll start out with the state of the WESCO businesses and, as I said, share the next chapter of our WESCO story. You're then going to hear from our WESCO leaders as they focus on our key themes of our Investor Day. Our services portfolio, our value proposition for customers and the actions we're taking to digitize our business models and our business processes, all of which will leverage WESCO's big data. You'll also hear some 3 additional voices this afternoon, and we've included a video in each of Nelson's, Juan's and Hemant's presentation. These voices will be from 3 different customers, who will provide their view of WESCO and the value that we provide to their business. So I'm very excited to share those with you today. It's something that we've not done in the past.

When Nelson and Juan present, they'll give an overview of their respective businesses as well as outline our value proposition and our position in each of our 4 end markets at the WESCO enterprise level. They will present their business first and foremost but then rise up to the WESCO enterprise level and take you through those end markets, key position value prop, that being industrial, construction, utility and CIG, which stands for Commercial, Institutional and Governmental. We'll then have a short break. Hemant will bring us back after the break and will address our progress and plans for improving our operation, improving our margins and managing our ESG agenda. Finally, Dave Schulz will present our financial outlook and revised acquisition strategy and capital deployment framework. We'll then open it up for Q&A. And as Will mentioned, we'll conclude with cocktail this evening, and so I hope you'll be able to join us.

These are our key messages. Take a moment and give them a read. WESCO is focused on growth and margin improvement as well as leading the industry consolidation. We're differentiated by our product and service offerings that leverage our supplier partnerships and our big data to provide complete solutions for our customers. And we generate strong and consistent free cash flow across all phases of the economic cycle and have the financial strength to drive multiple sources of value creation.

WESCO is an industry leader. Record sales last year at $8.2 billion. We partner with 30,000 suppliers and shipping a million different products a year. We wrap those in our services, deliver them to customers and then provide complete solution for their operations and supply chain management needs. It is important to note that over 70% of our product sales are tied to our services with our customers. One final point, 2019 is a noteworthy year as we're celebrating some very important milestones. This year is our 25-year anniversary of spinning out of Westinghouse as a stand-alone -- becoming a stand-alone company with a management-backed LBO in 1994. In addition, it's our 20-year anniversary of becoming a publicly traded company. We had our IPO back in 1999.

This page outlines our WESCO mission, our vision and our values. We partner with our top suppliers and industry experts to transform world-class brand of products and industry-leading service capability in the cost-effective innovative supply chain solution. We help our customers build, operate, connect and power those businesses to improve their bottom line and sustain the world we live in.

Our WESCO values can best be summed up with the letters W-E-S-C-O. W stands for winning with customers and suppliers, E stands for our extra-effort workforce, S stands for safety and sustainability, C stands for collaboration and O stands for ownership. And you can see our values outlined at the bottom of this page.

This page outlines our differentiators. It's our products first. Extensive portfolio by partnering with the leading array of suppliers. It's our relationships with blue-chip customers and suppliers who're in the middle of the value chain. It's our geographic reach, a global footprint of service capabilities to serve our multisite customers around the world. It's our services, a broader array of over 50 service offerings, which form the basis of our supply chain solutions for our customers. And I've referred you to this, the handout, that we have available in front of you. This has been updated and represents our latest WESCO value-creation solution selector guide. I think you'll find that very instructive because that provides us an excellent summary of the broad array of services and solutions that we bring to bear on our customers.

It's also our employees, a strong and experienced team, known for extra-effort and a lean continuous culture. And it's our financial position, strong balance sheet and a history of strong free cash flow across all phases of the economic cycle. To sum it up, it's our services, our big data and the financial strength that all are key differentiators and our strong cash flow generation gives us the optionality and the investment ability to fund our growth and future value creation.

Our B2B addressable markets remain large and fragmented, and we're focused on serving 3 demand streams: MRO, OEM and capital projects. Capital projects in lead construction as well as retrofit renovation and upgrades. I've always believed that opportunity is directly proportional to the fragmentation of the industry, to the operator and that you serve. And that is clearly the case for WESCO's addressable markets.

WESCO has evolved with an electrical-only captive distribution on Westinghouse founded in 1922, almost 100 years ago, through a diversified supply chain power house. Phase 1 of our evolution with the LBO spin out to the IPO. That's our first 5 years. The last 15 have been Phase 2, where we diversified our platform capabilities through a whole series of acquisitions and we developed complete supply chain solutions. We completed over 45 acquisitions since spinning out of Westinghouse in 1994. And outlined here, you can see a few of the more notable ones: OEM in 2005, Datacom in 2006, Broadband Communications in 2010, a major electrical consolidation play and move in 2012. We acquired EECOL in Canada. And then strengthening our lightening services platform through a series of moves, giving us a turnkey retrofit renovation and upgrade capability with the acquisition of Aelux/Lumigent, Needham and most recently, SLS.

So what's our next chapter? That's shown on the right-hand side of this page. Over the next decade, and we're very excited to move to this next chapter. First, it includes digitizing our business; second, continuing to expand our broad and extensive services portfolio and supply chain solution offering; third, ensuring delivery to the X. What is that? It's delivering to our customers their solutions whenever and wherever they need them. And finally, leading the consolidation of our sector.

This page outlines WESCO's performance over our first few decades since becoming a public company, strong results over the last 20 years. 5% sales CAGR, 10% EPS CAGR, strong and growing free cash flow. Our first decade since going public generated $1.2 billion in free cash. The second decade, the last 10 years, $2.3 billion. So almost doubling our cash generation capability from decade 1 to decade 2. Again, a hallmark of our company.

So that was a quick overview of WESCO in kind of bringing you current. Now let's shift. And let's shift looking forward. Here is our outlook over the longer term for our markets in competitive ecosystem, and I think they can best be summed up with 1 phrase: digital is accelerating impacting our industry and overall supply chain. I've always believed that industries like products and like companies go through S-curves. And our industry value chain is at the beginning of the steep part of the S-curve of digital transformation. And that's resulting in -- we see trends that are outlined on this page, most notably consolidation where the bigger getting bigger faster. And I know we've talked about that over the years, and I've always said it's going to take an interesting set of conditions to cause that to accelerate. We're clearly seeing that occur in our supplier base and it's incumbent upon distribution to also move with greater speed there.

Overall, I'd say there's many in our industry that view digital as a threat. I view it as an opportunity, particularly for an industry-leader like WESCO. And make no mistake about it, WESCO intends to be a consolidator of our industry and a digital leader.

So given these market outlooks and trends, what does that imply for our business? It's clear that success in the future requires products, services and data. The left-hand side of this page is the price of a mission. The table stakes, so to speak, for a successful distributor historically and many of these are still required today. It's the right-hand side that outlines the future requirements for success, all of which we're working on. The key takeaway is WESCO's big data is an asset to be leveraged.

Now let's shift towards strategy, and I referred to that earlier, what is our refined strategy going forward? It has 6 strategic planks, each is composed of a series of initiatives and these are our 6 planks: digital growth plays; commercial excellence initiatives; operational excellence initiatives; technologies to support digitizing our business and managing WESCO's big data; organization talent and culture, strengthening our team and our capabilities to execute change; and portfolio and M&A, accelerate the building of scale with bigger transformational M&A. We're going to bring a number of these to life this afternoon throughout the various presentations.

So let's start with digital growth plays, that's our first strategic plank. Here are 4 of our key initiatives and these are across the series of our business models as you'll see. So moving from left to right, starting with the first initiative, that's a product category play, which we're initially applying to our lighting category. And it's our view that -- and we're already seeing some great gains. I won't steel the thunder of Juan, who'll address this later, but that can be extended to other categories over time. The second initiative is mobile solutions for contractors. The third is digitizing our global accounts business model and the way we manage those customer relationships. The fourth is digitizing our capital project management process and capabilities. So these are 4 different business models of the business: Capital project management, global accounts, solutions for contractors at the branch level; and then taking a major category. In the case of lighting, it's turnkey retrofit, renovation and upgrade. They're all focused on improving our customers' operations and solutions through digitizing our business and leveraging our big data. And Nelson and Juan will be touching upon each of these in their presentations later this afternoon.

For the second strategic plank, commercial excellence -- and by the way, commercial excellence for us is, these are the initiatives focused on, and I'll use the term the front end of our business, front end being sales, marketing, demand creation, managing the sales force, converting demand to sales and then sales management and execution. Here are 4 of our key strategic initiatives. Again, left to right, sales force transformation; digitizing our customer sales support, so that's focused inside our 4 walls; merchandising and category management for all our major product and service categories; and new strategic, tactical and pricing models. These are all focused on driving sales and profit growth by improving the data and the digital tools that we're providing to our sales force, to our branches and to our function.

Move to the third strategic plank, operational excellence. So I told you Commercial excellence is front end of the business. Operational excellence we think about applying to kind of the middle, back end of our business down the -- our supply chain with our suppliers. And these are 3 of our key strategic initiatives as part of this strategic plank: distribution center and branch network; last mile delivery; and WESCO intelligent automation. The way you should think about this is this expands our lean implementation to include a new tool in our toolbox, RPA, or Robotic Process Automation. So we're well into our second decade of our lean journey, and it's been a key driver of value for us over the years and Robotic Process Automation just fits very nicely to begin with that lean tool set. As we think about process mapping, a process -- streamlining that through redesign, compressing cycle time, eliminating the Muda and driving more efficiency and effectiveness in all processes, including administrative processes. Now you have this tool of toolbox RPA and that allows a degree of automation that further accelerates the efficiency and productivity gain.

As you can see, these are all focused on sales and profit growth through improved supply chain management and improved distribution processes and capabilities. Hemant will be addressing various of our CE, Commercial Excellence, and OE, Operational Excellence initiatives, in his presentation shortly this afternoon.

So that's the first 3 strategic planks. These last 3 strategic planks, I told you there were 6, are outlined here, and these are really foundational to our strategy. I talked about technology. The technology to the better manage our big data and provides business intelligence -- improved business intelligence to our sales force, our branch teams, our operating teams to drive the business. Organization, talent and culture and portfolio and strategic M&A, as I mentioned. These are all focused again on maximizing the potential of our work, our team and the overall portfolio.

So I mentioned that a key element of our strategy is digitizing our business models and our business processes. So in executing this objective, we know we can't do it alone. We're going to need some help and some external service providers to help us. And specifically, leveraging the digital tools and capabilities in a tech ecosystem is what we're focused on. A lot of these partnerships, as outlined here, was announced via a press release last night. So very excited to announce our relationship -- our newly-formed relationship with the company called Plug and Play, who has deep roots in the Silicon Valley as a tech start-up incubator, and we're launching a new vertical with them, which we call B2B, there's a sales and distribution accelerator. They've got over 15 different verticals that have been formed over the last couple of decades and these are well developed. So they have a well-developed series of processes, and we'll be working with them on standing up this new vertical. It turns out that there is a significant amount of investment that's moving in to -- that's in the tech sector, moving in and becoming focused on B2B, the B2B value chain. The B2B value chain is much larger, more diverse, more complex than the B2C retail distribution value chain. So I'm talking B2B wholesale. And again, I think we're just at this interesting point in time, I mentioned, the S-curve analogy of being earlier at the C part of S-curve. So what will this do for WESCO, and you'll hear a lot more about this, obviously, in the coming months and quarters and years, but this will position WESCO to engage in the digital development in the tech ecosystem by giving us early access to start-ups and other high-growth companies focused on technology solutions applications for B2B sales and distribution. So we're looking at it to accelerate the digitization of our business.

Let me shift gears to ESG, Environmental, Social and Governance. We have a comprehensive and sound approach to managing our ESG requirements and our overall agenda. First, starting with the Environmental. We've made good progress on our environmental safety goals over the years, and we'll be issuing our next corporate sustainability report later this year. Hemant will expand on it further in his presentation. I think what's really important to note, and it's critical, is that for WESCO, since we're not a manufacturer, our sustainability goals include delivering sustainable products and services to our customers to help them meet their goals. The reality is we can have a much bigger impact in the value chain than we had inside our own 4 walls because we're not a manufacturer. This is a key differentiator for us, and it's going to -- it's how we will maximize our positive impact on the environment by super serving our customers and helping them meet their sustainability goals.

For Social, we have a comprehensive array of initiatives focused on talent management, development, inclusion and diversity and employing community engagement.

And then for Governance, finally, our thoughtfully composed Board provides outstanding leadership, oversight and management of its duty. Our Board is diverse with a broad and appropriate skills mix and that's evident by the fact that our most recent director addition, Eashu, is sitting in the back row who was announced earlier, and Eash is our recent director addition and brings a very strong set of digital and supply chain management skills to our Board. So what's the takeaway? We're committed to good corporate citizenship and continuous improvement inside our 4 walls and up the value chain with customers.

So now let me shift -- let's look forward to WESCO's next decade. Our financial goals are focused on continuing to drive organic sales growth above the market, delivering double-digit EPS growth and continuing our strong and consistent free cash flow generation, which funds our investment and a return to capital to shareholders. We're also reinforcing that acquisitions remain a very high priority as depicted by here in the gray bar in terms of sales and, I think, future profit contribution. We've refined our acquisition strategy to include larger transformational deals as part of a more focused capital allocation strategy and Dave will outline that in more detail in his presentation.

So with that again, thanks very much for joining us. We're excited about this next chapter of WESCO. And with that, I'd like to now hand it off to Nelson.

Nelson Squires

Good afternoon, everyone. Great to be here with you again, and thank you for joining us today. I want to talk a little bit about Canada, first. A lot going on north of the border. Winter is finally over about a week ago. Although I thank the hotel for giving us a Canadian-like climate here in the auditorium today. So we once again did not have any teams in the Stanley Cup finals. So what we did is rooted -- we rooted for the team that had the most Canadians on its team, which happened to be St. Louis Blues with 20 Canadians on the team, and so we were happy to get that win last night. What's even more impressive though is that we've become a basketball-bad nation. And so on the Sunday game, half of the population tuned into the basketball game, if you can imagine that. And of course, they didn't win. But there's always to light, and so we're keeping our fingers crossed that we can actually have the NBA champion north of the border for the first time.

So I'm going to give you an overview of the businesses that I have direct responsibility for and also talk about a couple of the global platforms that really we're leveraging it where to drive growth here in the U.S., north of the border and in all the countries we operate in around the world. So I'll start first with the largest portion of my responsibility and that is Canada. We have a enviable position north of the border. We're the only supplier that has coast-to-coast capabilities. It's a big country and so having that kind of capability is extremely important. And if you are a customer of WESCO, you can pretty much get what you need same day, worst case, next day. We've leveraged this with key national and global accounts, and we continue to have the largest market share position in Canada. And we continue to expand that business by diversification. I've talked to you about that in the past, and I'm going to update you on some of the progress that we've made there. But it's a great leverage point. It's great to be able to go out, talk about our capabilities and say to a customer, we can be -- we already are and can be everywhere where you operate. And again, it's a great differentiator, and we're unmatched in that capability.

Next, talk about the international footprint. The way I would describe this is WESCO uses a very thoughtful approach as to where to go, but we're typically going to follow a blue-chip customer. We're going to go where they go because they rely on us to provide the value-added services, expertise, technical assistance that we can do for them here in the States, in Canada and elsewhere. And so we've gone to a number of countries around the world to do that. We continue to build that customer base and continue to expand our capabilities.

Another part of the business that I'm responsible for is our Integrated Supply business, and we also leverage that around the world with turnkey solutions, and we're doing that here, in Canada and all around the world.

Talk a little bit more about Canadian landscape. So here you see depicted some dynamics and some current situations. We've had 3 provincial elections in the last 12 months. There's going to be a national or a federal election later this fall. And so far, the changes that have occurred, we will basically rate as more business-friendly. And so that's a good thing for us. And as both a major company and having a large customer and supplier base, we're encouraged by some of the actions that are being taken, not only by the current government but also from some of these new provincial governments that have come into place. One of the things that is a great opportunity for us is high-capacity utilization. We even talked about this a couple of years ago and our businesses and industry continues to get tighter and tighter and it is stimulating new investment. And we're seeing that and we're participating in that with a lot of our solutions. And I'll talk more about that in a bit.

Government infrastructure. This is something certainly that the Trudeau government was very committed to, and we're seeing this happen all across the country. One of the stated goals in Canada is to increase its overall population over the next decade. But to do that, they need to add the capacity, the infrastructure. So like schools, hospitals, roads, buildings, not just high-rises, but apartment buildings, single-family homes, huge opportunity for a company like WESCO, we're well positioned and are really taking advantage of that. LNG is big story these days though. And I'll talk more about that in a second, but it has a multi-decade promise of investment and opportunity for the long haul, we're very excited about that. We're already participating in some of the early stages of the construction that's going on in British Columbia.

Put low employment here, the unemployment rate is as low as it ever has been since they've been keeping records in Canada. And as a matter of fact, I believe, Canada added more jobs in the last month than the U.S. did or certainly in the last quarter. So it's a pretty strong job market. And what that means, of course, is skilled labor is in tight supply. So companies can turn to WESCO and offload some of these things such as product management, supply chain management, procurement, kitting, staging, all these different things that we have that are capable that we can deliver to a project site and really take some of that effort and expense away from a customer, and it's a great value proposition for us. We actually see demand picking up for those kinds of services.

Price of oil and gas, it's an interesting dynamic. We've seen a rebound from where Canadian crude was last fall. I think all of you know the biggest issue is being able to transmit it, i.e., get it out of the ground. No problem getting it to points where it can be shipped to overseas or to the U.S. is a bigger challenge. Our expectation is what the government that's in place in Alberta now and some of the recent court rulings that we're finally going to see some light at the end of the tunnel for these pipelines. And those should get notes over the next several years, and we'll see that resource unlocked to its full extent. That will stimulate more investment. It will stimulate more opportunity. WESCO already has a wonderful market share there. We're in position with strong customers. We're delivering everyday services and value added. There will just be more opportunity over the longer haul.

So back to diversification. I've spoken to you about this a couple of times in the past. John touched on it as well. Prior to 2010, we had not made any acquisitions in Canada and you see the business was about $800 billion. Today, in 2018 numbers, $2.1 billion. So the business has more than doubled. Some of that obviously through acquisition, but the key one being the EECOL acquisition that John referenced, but a lot of good, solid organic growth. And one of the things that we've been focused on the last 3 or 4 years is further diversification of the portfolio is really taking full advantage of these acquisitions, the broad customer mix and the customer base and the opportunity we have and we're building out those, there's still plenty to do and lots of opportunities to do that. But as I've said before, we want to still be the #1 player in oil and gas, but we want to make sure that we're there for multiple other markets whether that's industrial, MRO, OEM, et cetera. And so we've built out our resources, our capabilities. We've added key people to be able to do that, and we're seeing the results of that investment.

So a little bit more about our long-term growth opportunities. We could go on here for a while, but these are the big ones. And first and foremost is Canada LNG. And what's fantastic about that is 2 years ago, even 18 months ago, we would not have had this on the slide. So this is a recent development. It's been talked about for years. It's fought its way to courts. Ground has been broken, and we're often running in Kitimat, British Columbia, building the first 2 trains of which will be a 4-train LNG terminal. And there's also the potential for further investment from brand new sources of investment in Kitimat to build yet another terminal. The good news here is that this will have legs for decades. And probably the majority of the spend occurring from the year 2020 onwards, so next year, and WESCO has already won millions of dollars of orders in some of the preconstruction work here, building the man camps, building out the peer, temporary electrical, et cetera, et cetera. And we're well positioned. We have multiple facilities up there. We have a team on the ground already, and we're there to serve. What's also interesting about this is you can't do a project, and this project is CAD 40 billion, largest project in the world, period, in terms of construction. You can't just do that in one country. So they're executing this all around the world, the JV that's building this plant, and we're positioned everywhere where they are. So if you go to China and you look at the construction yards, WESCO has a presence there, whether -- everywhere where our customer needs us to be to provide a solution.

I talked a little bit about government infrastructure. This is a place where WESCO has always been strong, and we continue to win more than our fair share of opportunities. Multiple multibillion dollar hospitals are being built. There's a huge one in the Calgary Cancer Center, a north of $1 billion stand-alone greenfield investment. A new one larger than that in Oakville, which is in Greater Toronto area. And WESCO is well positioned and already winning some of the key orders to build those facilities. Why are we doing that? It's because we've got the value-added services, we've got the right people on the ground, the contractors rely on the expertise that we can bring to deliver unique solutions, saving them time and money.

Data and Broadband Communications, another huge opportunity. I've spoken in the past about the desire to get high-speed Internet to every far corner of Canada. They're actually doing. I was reading just last night an e-mail where we are providing a specialized cable that has a wire mesh on it, and it's actually going to lay on the permafrost as opposed to be buried underground, and it has a wire mesh around it to keep the polar bears from biting through it, that's true. So unique needs, but unique opportunities, and WESCO is already serving that business. You're going to hear from one of our very important customers in a few minutes as the testimonial, showing how we are a partner. We sit at the table with them, and we've given them scale and capability that they could not create on their own. So a huge opportunity for them, a huge opportunity for us, and we're succeeding together in the Canadian marketplace.

Talked about healthcare already. LED and lighting, a huge opportunity in Canada. Canada has very strong 5-year energy reduction mandates. There's a lot of rebate money available in the province -- in the various provinces, excuse me, and the beauty of this is when a customer wants to do this, they can just place one call to WESCO. We can come in and bring in the capability, the technology, subject matter experts, and we can design a solution for them and help them all the way through filing for their rebates and their credits, et cetera. We were very good at this. And as a matter of fact, before the acquisition, we were already partnering with SLS in Canada to achieve some of the success. Now they're part of the family, and our expectations are as we're going to continue to show significant growth and leadership in that part of the business.

So we had to put a slide in here for Canada LNG to just give you an idea of this. It's the largest private sector investment in Canadian history, and it may be the largest investment of its type in our lifetime. So it's just that big. We are already involved in the project. As I mentioned a few minutes ago, we're winning orders there. It's really everything we can bring. Global capability, we're on the ground in China, we're interacting with purchasing teams in Manila and India. We're all over this. In Japan, it's an unprecedented scale in terms of job, in terms of participation, and we expect to be there for the long haul. As I said earlier, we have had a team on the ground in Kitimat for a long time long before this project was ever announced. We've moved into bigger facilities. We're there. We're ready to go. And so our customers are already relying on us to bring the value that they would expect anywhere else in the country or the world, for that matter, to a place like Kitimat, British Columbia. If you look at it on the map, it's way far in north. It's kind of off the beaten path, but it's going to be an important part of our business and an important part of the Canadian landscape for decades to come.

I'm going to move now to a broader subject and talk about one of the end markets that John highlighted, commercial, institutional and government. You'll see it's 15% of WESCO's sales. And this is where there's a incredible amount of opportunity, very solid growth rate, a very good track record of success. And this is where WESCO truly leverages its capabilities across-the-board. And what's really neat about what we're doing with this is we're digitizing it. John talked a lot about this. We've taken it to the next level. Frankly, when you look at some of these things such as 5G and LED, et cetera, it lends itself. This is new technology. It's at the forefront of what any company is out there doing, and we are right there lockstep with these customers, delivering these great solutions. And why can we do this? You see this on the right, the differentiators. We've got a complete solution for networking and infrastructure. We can do it anywhere in the world. We've got end-to-end LED lighting capabilities that just got stronger with our recent acquisition of SLS. And as I touched on a few times, we have the scale to go with our customers anywhere in the world. And so it's an unmatched capability. It's remarkable when you look at the expertise we have. The experts that we can put in front of a customer, speak the same language, work together on these kind of opportunities, and we're delivering in the market.

We're now going to play a customer testimonial. So Rebecca, please roll the tape.

(presentation)

Nelson Squires

So I want to thank Shazia for doing that for us. They're great customers or a tough customer. They've got tough but logical demands. And I also want to thank our team in Canada for the great work they're doing to support this very important customer. The last comment I would make about this before I move on is that every dollar we do and every transaction we do is all digitally enabled. And so what's wonderful about that is we've been able to scale that up almost infinitely because we're using a digital platform to interact with the customer. Obviously, there's lots of human beings behind the scenes, getting things from point A to point B, but it's great to see that we've both embraced the digitization of the business, and we're really able to take care of them faster and better by doing that. So again, thank you to TELUS for this -- that testimonial.

I want to move on to the construction end market, obviously, an extremely important market for WESCO. It's the third of our business. It's an even bigger share of our business in Canada. This is an area where WESCO has unmatched capabilities, and I'm going to talk in a minute about how we're even enhancing those capabilities by utilizing digital platforms and online collaboration, et cetera, to really drive more efficiency in the process. The -- why are we there? You see the trends and opportunities. Talked about this already, the skilled labor shortage. They need people to help them do what they do. You know there's more demanding. We have an aging infrastructure. We've heard all about that. One of the things though that you know if you've spent time in this industry, it's really just beginning to modernize. The model that they operate on is decades old. It works, but it's got some issues from an efficiency standpoint. That's where WESCO can help. We do everything. We can bring job site services on. So the Calgary Cancer Center, that I just talked about, there's a WESCO on-site presence. We've got vehicles, we've got trailers relax, et cetera. We can take care of the customer as they need something, immediately take care of their needs. It makes them more efficient. It allows them to stick to the schedule so on so forth. We've got great suppliers. Our suppliers work with us very well to make sure their part of this, and so we bring all that connectivity together and the ability then -- we have the ability to scale with them. A perfect example of this would be LNG, once again, where they're relying on us to leverage our capabilities around the world to bring solutions, cut down on cost and squeeze on lead times. You heard Shazia talk about that, that we've exceeded their expectations. And as a result, we've made them more efficient and saved them money.

We're focused on cost and schedule. Well, that's where we should be focused. And what this diagram talks about is the fact that we have active material management. We have people on the ground. We've got centers of excellence that leverage this. It brings unmatched capabilities and this assistance in offloading that we provide to these customers to let them focus on what they need to do. John talked a lot about this. We're utilizing data so we can help them with consumption. We can anticipate their needs. We can also then provide tailor-made solutions to solve some of the challenges they have. Some of the best work that WESCO does is looking at a spec sheet, working with a customer and figuring out a more efficient way of doing what they need done. And we bring value. It creates repeat customers. It creates that stickiness and reliability on us that we want and they need, and it's a great partnership.

We've shown this slide in the past, but it shows the complexity of one of these job sites. So everything from prefabrication, those yards in China supporting Canada LNG. The switchgear, conduit, the things that people don't see that are in the building. And then the various capabilities, having a job trailer outside, physical security, lighting. We're involved in every part of the food chain. And so we are making these customers more efficient, more effective at what they do. And ultimately, that should be able to do is allow not only WESCO but our customer to scale up its capacity, meaning they can take on more because we can take on more, and we become a very reliable, consistent, predictable partner as a result.

Talk a little bit more about digitization. This is really the next step for us. We've actually been using a version of this software for more than 10 years. But we've invested in it. We've fine-tuned it. We've turned it into something now that has taken a paper-laden, paper and pen process and completely digitized it. Our customers love it, but there's lot of other things that there's an online collaboration capability in the tool. So realtime engineer on the job site can pull up a laptop or an iPad and communicate with the WESCO project management team to understand where we are on something, check on the lead time, et cetera, et cetera. This used to be a paperwork drill. And our ability to bring this kind of capacity and capability to them, again, has made them more efficient, has allowed them to take on more opportunities while at the same time, it's made them more cost-efficient. It also helps WESCO because we're able to better manage the project. So think about billing, thinking about change orders, all the things that go on in a complex project like this, we're able to better manage because we have these capabilities.

I'm going to talk about what we're doing for contractors in general. We service contractors of all sizes, small, medium, large, mega size contractors. And what we're trying to do here is essentially enhance their entire experience and build out how they can do business with WESCO. So this is entirely through the digital transformation that's going on with our customers, with our company, with our supply chain. So we do have customers that rely on the in-branch experience. Smaller companies that want to pick up the kit they need for the job today, today. You can go to one of our facilities in -- at 6:00 in the morning, and there's a line-forming at the door. It's a great sight to see. And so what we've done there, though, is we're using tools -- digital tools inside the branch to allow them to find what they need faster, allow us to find technical information to give them a solution faster and really move them through the facility so they can get out of there and go do what they need to do, get to a job site. So that's been something we've worked on over the last 6 months to a year, we've continued to increase those capabilities. But it's really all what happens at the job site that matters. And so what we're trying to do is bring the best of both worlds and say, our branch is there, we've got what you need, warehouse or stock on that location, but we can take care of you regardless of how you want to do business with us. You want to place an order over the phone, you want to send it to us through our portal or do you want to send this via an e-mail, we'll give you a status of the job. We have a automatic texting system. We have all these things that allow us to communicate through the whole cycle, the whole sale cycle with the customer. They want to pick it up, we can do that. We can put it in a lockbox. We can put it in a parcel locker. We can ship it same say. We can ship it same afternoon. We're adding capabilities so that when these contractors need some, they're going to call us first because we can get the job done. And it's a huge differentiator. And again, we're trying to bring the best of both worlds, giving them the branch flexibility. The people there with the decades of product knowledge, helping them find solutions by giving them multiple ability to serve and deliver and take care of them.

The next step, and we're already doing this, is to then fully digitize this so that we can do an end-to-end resource commitment, allow them to do business with us as many different ways as they want, but still give them the technical expertise. And this is the difference between WESCO and the Internet. When you call WESCO, you get solutions, you get people that know their products, they can provide real-time information, help a customer make the right choice, make sure they don't make the right wrong choice. We make them more efficient, and they come back to us because we can solve their problem. And so it's a great position to be in. We're going to build on that and just continue to give them more capabilities and more ways to do business with us.

So I'm going to wrap up and finish with Canada. Talked about this a couple of years ago, but the opportunities are endless and enormous in Canada, and we continue to diversify and continue to build out our capabilities across the business. I gave you some examples today. There's many others, where we're well positioned to build on that to grow and to really build on our leading market share position in the country. We can take what we do around the world. This is very important for customers that they do business and want the same reliability and capability regardless of where they do business. Not all of our competitors can do that. We can do it, and we do it well. And we have a very focused organization that's out there doing that and figuring out ways to bring value to customers around the world.

John talks about this a lot, but the whole reason I believe we're here is because we're a value-added services and solution provider. This is what distinguishes us. It's why we're distinct in the market. It's the capability that we bring. It's these long-time, long-standing customer relationships. People come to us because we know what we're talking about, and we can help them do what they do better. And so just building on those service and value capabilities is something that's -- it's foremost in our thinking. It's how we're organized, it's what we're trying to do in the marketplace and our belief is if we continue to wrap services and bring value added, customers will continue to do business with us, and we see that every day.

We've taken big steps now to digitize the business. We're really still at the forefront of this, but the reaction from our customers has been very positive. They love the fact that we're trying to find new ways to bring them value. If it's a guy on a site that just wants to text back into a system rather than an individual to get an answer, taking care of people I need this by certain date, et cetera, our project management function, these enormous multimillion, now multibillion-dollar projects, we can bring a digital capability that's unmatched out there. We can serve a customer like TELUS anywhere in Canada because of the infrastructure that we have, but then also our digital capabilities that we can do business with each other while we're sleeping in bed. It's fantastic. It's something that we have to continue to grow and leverage and continue to delight our customers.

So last, I want to take another moment to say thank you to all of our employees, all of our team members across the world regardless of the geography you're in, thank you for your work and service and providing this value to customers. It's extremely important and it really distinguishes us from our competition globally. So thank you.

I'm now going to ask Juan Picon to come up, and I'll turn it over to you, Juan.

Juan Picon

Good afternoon, everybody. I'm Juan Picon. It is my pleasure to be here with you today. I will be presenting to you an overview of the U.S. business and I'll talk about some growth opportunities and initiatives that we have. I will also highlight industrial end market, global account and give you some perspective about our utility market.

But before I start, this is the first time that we meet. I'd like to introduce myself. I have the distinct pleasure to be with WESCO since January 2018, and I lead the U.S. business. Prior to WESCO, I was with General Cable and Honeywell where I spent 19 years in multiple roles [which] includes responsibility in aerospace, automotive, what they call today the safety and productivity solutions and home and building technologies. I will be around after the presentation, so it will be my pleasure to meet with you and interact a bit more during the reception.

As you can see in this slide, U.S. business represents 75% of WESCO's total sales by geography. Over $6 billion in revenue

(technical difficulty)

participated in our core end markets. We do have strong position in each of the core market, which gives us a good diversification of the business in the U.S.

On the top right, you can see a map that shows an overall grid structure. With roughly 340 branches, 6 regional distribution centers that will soon become 7 with the opening of Chicago, WESCO has a clear competitive advantage in terms of scope and spread in the U.S. Hemant will give you more detail regarding our regional distribution center strategy for the

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Something that we have stressed in the past, which I believe is important to remember, is that in the U.S., over 50% of our resources are in customer-facing positions. These employees are currently engaging with customers and selling our value proposition all over the U.S.

The U.S. eligible distribution market is highly fragmented, 3,500 distributors, the top 5 with WESCO, who's the second largest, represent roughly 1/3 of the market. With our great position in the large fragmented market, robust customer propositions and a strong balance sheet, WESCO has great opportunity for organic and inorganic growth.

When we look at the U.S. landscape, the growth opportunities don't come without some important challenges. The tariffs, trade war have result in a record number of supplier price increases. After a lag, we have been successful in pushing through these increases and expanded our gross margin. Raising prices is never an easy task, but it is a very critical one in order to preserve and grow our margin.

In spite of some of the challenges, these are fascinating times in the U.S. As John mentioned, the industry is going through transformation that opens up huge amount of opportunity for WESCO to grow while we deliver value to our customers. Infrastructure invest

(technical difficulty)

renewable energy exploration, changes in business models driving productivity and cost efficiency are opportunity that play to WESCO's sweet spot to deliver value to our customers. I will be addressing this topic more in detail in the next few slides.

Talking about some of the growth opportunities, all have long life cycles ahead. For instance, America's infrastructure is desperately in need of investment. According to the American Society of Civil Engineers, they estimate that the U.S. is to spend some $4.5 trillion by 2025 to fix the country roads, which is then another infrastructure.

Related to energy, the majority of the transmission and distribution lines were built in the mid-20th century and have a life expectancy of about 50 years, meaning that they are already outdated. Between 2016 and 2025, there is an investment gap of over $170 billion. This is for infrastructure that supports electricity like power plant or power lines. As we'll discuss in a minute, this represents a great deal of growth opportunity for our utility and construction business in the U.S.

Many U.S. state have renewable portfolio standards that require a certain percentage of electricity to come from renewable sources, mostly wind and solar power. Renewable portfolio standards have already been enacted by 29 states, Washington, D.C. and 3 territories. These mandates are intended to promote economic development within the nation's growing market for wind, solar and other renewable energy sources while we reduce greenhouse gas emission. With a strong team of renewable energy specialists in all the key markets, WESCO is uniquely positioned to support this important market trend.

The same goes with our 5G build-out. New infrastructure requirements will be necessary to launch 5G application to support mobile, broadband, IoT and mission-critical applications like autonomous driving. As a result, experts have predicted that network-related capital expenditures will have to increase 60% from 2020 to 2025. WESCO has excellent capability and has been making significant investment in broadband, telecom and security to capture this growth. The widespread shortage of qualified labor is also driving an increasing investment to reach productivity.

With Industry 4.0, the connected factory or smart factory, changes are expected to be more expensive than ever before in today's manufacturing. Industry 4.0 continued underpinned by further digitalization, technical advances, big data and data analytics, the Internet of Things, robotics and artificial intelligence. WESCO has technical specialists helping solve the solutions for the challenges in the industrial space.

We are very excited about the lighting growth opportunities. According to the U.S. Department of Energy, there is $300 billion of lighting installed base with the potential to be converted to solid state LED applications. The LED adoption rate is approximately 15%, leading a substantial piece of the lighting market available for retrofit. WESCO is very well positioned to further this conversion. Overall, WESCO sales posted $1 billion of lighting material services in our space. This is one of our digital growth plays. And going forward, we will continue leveraging it to capture this LED retrofit market opportunity.

We have made several investments in lighting capability over the past several years. The acquisition of Aelux brought to us penetration in turnkey, retrofit and renovation. For construction, CIG, EESCO, the energy service company another end user

(technical difficulty)

Needham acquisition enhance the lighting capabilities with a focus on national retail. This was further strengthened this year with the SLS acquisition, which I would like to present in the next slide.

SLS is our [most recent] acquisition. We acquired the assets of Sylvania Lighting Solutions in the first quarter of this year. This acquisition was all about (inaudible). We acquired more than 200 lighting professionals distributed across the world that will leverage WESCO's scale and national footprint. We're encouraged by the response we are getting from the market in the early days of ownership. Not only we -- not only are the operators pleased to be the part of the company where lighting is priority and a core competence, but customers have also been very receptive. The integration is on track and the early returns are positive.

Now, I'd like to review the industrial end market. At 36% of sales, WESCO's industrial is our largest end market. We organize this market by historicals like oil and gas, metal and mining, food and beverage, pulp and paper, technology, et cetera, with specialized resources and knowledge around the different challenges and opportunities for each of these verticals. Our largest customers in these markets are global blue-chip companies. We have long-standing product and service-based contracts to support the manufacturing plant and grow the supply chain. Our successes with industrial space are driven by our global accounts and integrated supply business models as well as our OEM capabilities. Many of these customers are large market size and geographically diverse with locations spread all over the world. Our OEM business provides direct material to the product line that use as component parts for original equipment manufacturers.

As Nelson mentioned, WESCO Integrated Supply provides sourcing procurement and logistic solutions to industrial customers looking to optimize their supply chain activity with [our core solution]. Our pipeline of opportunities is the largest it has ever been and our bidding activity is at record level. Customers are actively looking for more solutions and services from WESCO to further optimize their supply chain processes and drive out cost. As represented in our next slide, our Global Account and Integrated Supply capabilities, combined with our point-of-sales and e-commerce solution, allow us to capitalize on those plans.

As I mentioned before, our Global Accounts are our largest and most strategic customers. We have around 500 customers across 16 verticals, including many Fortune 1000 companies. WESCO has been recognized as a leader in Global Accounts for more than 2 decades within the electrical industry. Our success is driven by our ability to take a broad range of customer needs across multiple customer locations and create single consistent programs across all of their operations. Geographically, most of our business is in North America. However, we have followed our technology, oil and gas and mining customers around the world to support their capital projects and business expansion.

Our business is focused on all the electrical, industrial, safety and datacom product that keep customers' facility up and running efficiently. We also support capital projects directly with end-user customers. Capital projects typically are lighting, retrofit and renovation work and electrical distribution system upgrades for existing facilities or new constructions. Additionally, an increasing number of our Global Account customers transact digitally with our branches. This enables us to continue to expand our offering with existing customers and develop new business opportunities.

Going forward, as John mentioned, this is one of our digital growth plays, and we are investing to digitize the Global Account customer experience. The size of WESCO's infrastructure, the products and unique services we have to offer allow us to create sticky relationship with our Global Account customers based on delivery.

When working with potential Global Account customers, we take a conservative approach, and we win because we design programs for them that help them meet their internal goals and objectives. Upon award of an agreement, a dedicated implementation team is dispatched at all of the customer locations to identify the products that are currently [used] and the services WESCO will have to deploy as well to ensure a smooth change management process. The implementation team understands the complexity of supporting multiple customer locations across multiple WESCO branches and professionally executes the agreement. Once the contract was implemented, a dedicated account management team works with an experienced customer service team to deliver on our contractual commitments and create long-term relationships with our customers.

We manage a checkerboard process across the customer base. The checkerboard provides us visibility of the opportunities by product category and by customer location. We know the implementation process

(technical difficulty)

the sales that we expect to receive from each customer location. The checkerboard highlights the areas to focus on with each customer.

For instance, this page represents a view of our sales before and after the checkerboard process for a large metals and mining customer. We're doing a significant amount of business annually with this customer and successfully expanding into new business opportunities. However, when we pulled together all the customer locations and all of the product categories, we could see the amount of opportunities that we're missing.

Now as we began focusing on the individual product categories by location, we were able to help the local branches clearly identify which suppliers and products they needed to leverage to maximize the business opportunities. As a result, we have been able to more than double the annual revenue of the customer. Thanks to our approach, WESCO revenues

(technical difficulty)

its Global Account customers and we had 100% renewable rate in 2017 and 2018. Once implemented and running, we continue to identify opportunities to maximize the revenue and ensure we capture the [awarded score].

The final end market we are going to discuss today is utility. WESCO is the leader in the electrical utility space across 3 major customer segments: Investors-owned utility, public power and utility contractors. These customers are going through substantial changes, including renewable portfolio standards for power generation and the need to modernize and harden the existing grid.

Reliability for utility customers is paramount. They therefore depend on their supply chain service partners to ensure availability of their network and to recover following storms and natural disasters. Similar to Global Account, we are providing solutions for utility under multiyear contracts. We differentiate our services by offering innovative and cost-saving solutions within our partnership. Thanks to our robust value proposition, we have grown our sales in this end market for 7 consecutive years and are posed to continue that trend. The following customer testimonial will provide you with an example of this value proposition. Rebecca, can you please roll the video?

(presentation)

Juan Picon

I want to take the opportunity to thank the U.S. team for doing such a great job everyday supporting customers across the U.S.

In summary, as you could see, WESCO is an industry leader very well positioned to take advantage of many long-term growth opportunities in the industrial and utility end markets. Thanks to our solution-based selling, WESCO has been recognized as a leader in Global Accounts for more than 2 decades within the electrical and distribution industry. And finally, we keep increasing our services and solutions portfolio to meet the needs of our customers. This includes our digitization capabilities to interact better, faster and more efficiently throughout the supply chain.

So with this, I'd like to thank you again for being here. After the break, Hemant will take it over and he will be presenting the supply chain and operations as well as the ESG. We'll break for 15 minutes. Thank you. Be back here soon.

(Break)

Hemant Porwal

All right. We're going to get started here in a minute. Everybody can take their seats. Grab a coffee or drink.

Okay. Good afternoon, everyone. Welcome back. It's good to be back in New York City to give you an update on what I presented to you a couple of years back. I'll also take the opportunity to highlight a full host of initiatives we're working on. So far today, you've heard John, Nelson, Juan outline our strategy and the growth opportunity for WESCO. My focus is to enable this profitable growth. You've heard me say this before, to build the company, have to build the people, to grow a company, have to grow the people. It gives me great pleasure to inform all of you that we've made excellent progress on our journey by putting digital at the heart of everything that we do and in large part due to the extra efforts of our

[9,000] employees. The mandate for my function is the same, deliver on the 7 R's of supply chain. Right product, right cost, right price, right place, right quality, right quantity and at the right time.

So there are 4 key areas that I will cover today: how we're leveraging our big data to build digital solutions that improve margins, which is key to our commercial (inaudible) strategy that John talked about; progress we've made on our network strategy and our operational excellence initiatives; three, safety. Which is just not a priority, it's a core value at WESCO. It's an integral part of our DNA.

I have a belief, if we take care of our employees, our employees will take care of our customers and our customers will take care of our shareholders.

And finally, actions we're taking to drive sustainable business practices to improve sustainability of the customers we serve and the communities we operate in. Our goal at WESCO is to be the true norm of (inaudible) distribution.

This slide is a great visual of the power of (inaudible) WESCO and the synergies we get leveraging our digital and physical assets across the entire supply chain. We have a world-class supply base of 30,000 suppliers, $6 billion in sourcing spend gives us both scale and leverage. Focus for this team is consolidating spend with our preferred suppliers and cost negotiation. We carry $1 billion of inventory, depth and breadth that allows us to meet customer demand for product. The KPIs we posted on for inventory are fill rate at maximizing returns. From a pricing standpoint, we price millions of SKUs every day given our diverse supply base across multiple product categories. The objective for pricing is to maximize margin through segmentation across product categories and end markets. Our operation allow for (inaudible) on inventory optimization, with an objective of reducing safety stocks by cutting lead times and increasing fill rates for our branches and customers. 10 distribution centers, soon to be 11, as Juan talked about earlier, with an extensive network of branches strategically located to deliver services and solutions to customers.

We focus on the sustainability of our operations by continuously evaluating ways to shrink our environmental footprint. The operating (inaudible) is reduce, reuse, recycle, to minimize what eventually goes into landfills. My team manages significant transportation spend with multiple carriers and thousands of physical assets to meet customer needs from the first mile or last mile. Metrics we measure there, our cost to serve as the percentage of sales and margin, fleet safety and on-time delivery.

WESCO (inaudible) comprehensive supply chain working with 70,000 customers and 30,000 suppliers deliver products, services and the solutions that add value for all stakeholders. And you've heard from both Nelson and Juan about specific examples of how we do that.

Leading these physical and digital assets, strong management, we have a good balance of long-standing WESCO employees with decades of distribution experience and new hires who are challenging our thinking. Together, building a sustainable business to deliver on the long-term financial commitments that John outlined earlier. John always reminds us, scale matters in distribution. This slide is all the internally, is a constant reminder of our scale. Now we're starting to exercise our supply chain muscle.

You've heard John talk about the commercial excellence strategy, I'll highlight some specific actions that we're taking for margin improvement. The formula for margin improvement in our business is very simple. One, buy as low as you can to cost side negotiations. And two, sell as high as you can by pricing in our service and solution capabilities. We execute thousands of transactions every single day at WESCO and generally to large amounts (inaudible). Last time I told you about organization changes that were made to better align our pricing resources with our sales lead. The next priority for the team was to build digital assets that we can leverage with big data to generate insight for our customer-facing sales teams and our pricing teams. We've now done that. And as you can see from the chart, our gross margin has been improving over the last several (inaudible) in the face of significant supplier pricing. To give perspective, supplier pricing were 2.5x 2017 level in 2018. Through the first few months of the year, we've seen over a 50% increase in the number of supplier pricing, well paced for another record year of supplier pricing. Since May 10, tariffs on (inaudible) goods imported from China have gone from 10% to 25%. And immediately following that announcement, we started seeing price increases in the double-digit range. Our current view is that the increased percentages in 2019 will be higher than what we experienced in 2018.

Margin in (inaudible) because the process (inaudible) tools we've deployed. One of the tools was vote to manage supplier price increases, something we at WESCO (inaudible). As soon as we receive price increase notifications from our suppliers, reports that calculate the estimated margin impact are generated for our sales teams.

Totally after the announcement of headline increase, we get detailed information at a SKU level of suppliers, immediately following that, (inaudible) applications our sales associates line item detail by customer and SKU during the margin dollar impact that the cost increase would have as the sell price is not adjusted.

Given the higher level of visibility, automation, closed-loop accountability, we're now able to wrap and deploy supplier price (inaudible). Thanks to some excellent work done by (inaudible), thank you, Rob. We've established a branch command center. You can think of it like a cockpit that gives business intelligence with powerful virtualizations to our sales, sourcing and pricing teams. Directing them to areas that have an opportunity to increase all-in margin.

We're also in the early stages of exploring data science to further our journey of prescriptive analytics, to predictive analytics and ultimately, prescriptive analytic. In WESCO, our lean culture perpetuates a mindset where we're laser-focused on making today better than yesterday and tomorrow better than today.

Now I'll give you insight into our operational excellence initiatives. Footprint optimization is a never-ending process and we're agile in responding to the needs of our businesses and customers. You heard Nelson, Juan and John talk about our ability to grow customers globally.

In the last decade, we've consolidated over 120 branches and opened [50] new locations. Since our last Investor Day, we opened 2 large One WESCO branch in Orlando and Denver. Bringing multiple businesses under one roof helps support our top line and our bottom line. Sales and operations team have access to a broader set of suppliers and consumers and their synergies from those daily interactions.

In addition, it fosters sharing of best practices and lowers our total cost to search. As I've engaged with our sales leaders and suppliers on a distribution center network strategy, so things have been very clear. One, that our DC is to expand the SKU (inaudible) and have inventory more accustomed to the markets they serve. And two, the deliveries from the (inaudible) to the branches need to come in early morning so local deliveries can be made on time.

So in order to achieve (inaudible) goals, we have to maximize the number of branches within a 400 mile radius of a distribution center. So we use advanced optimization algorithms to build out a DC network, using shipment data analytics and modeling, we now have a network strategy that optimizes our search capabilities, working capital as well as our cost to serve.

Now that this network model is built, we're maintaining a digital trend of our physical network, we'll have the capabilities to what if analysis and build time. We went live with our (inaudible) in 2017 and next quarter, we opened a distribution center in Chicago. From a metric standpoint, we're closely monitoring direct-to-customer fulfillment from our distribution centers. And that metric is important because it's a proxy for the number of (inaudible) before products actually (inaudible) customers. So serving customers direct over (inaudible) also improves lead time for our customers and improves our cost to serve, which translates to a higher profit.

Well, let me now now talk about the last mile. And I think I talked about this before, the last mile of any network typically represents 30% of all transportation costs. In the past, our trucks were routed manually by our warehouse. We introduced a route optimization platform at a branch in Chicago in late 2017 and a group of investors and analysts had an opportunity to (inaudible) live and (inaudible). Based on successful results of the 2017 pilot, we went live with over 50 branches in 2018, and by the end of this third, we'll have the (inaudible) live at every location across our operation and fleet. This is also an example of our digital transformation. From a results standpoint, we're seeing a 10% to 20% improvement in the miles per stop as a result of the routing (inaudible). And now, we also have real-time facility to our fleet. Another upshot in electronic proof-of-delivery with a photo of the shipment which our customers appreciate.

Next step in our evolution, on the last mile, we give customers real-time visibility of their shipments, which is a significant value to customers that are receiving delivery on construction sites.

Our WESCO transportation team just received the excellence and innovation award from Descartes, who recognized both the speed with which we've deployed the solution across the network, and two, more importantly, the innovative approach we took to deploy the route algorithm.

Lastly, on this slide, there are many other digitally enabled opportunities working on concurrently. John talked about our intelligent automation center of excellence. While we're still in early innings there, we expect to launch our production of digital robots in a matter of days.

Currently, we're also piloting pick by voice at one of our branches. Early results are promising and we're seeing a 25% improvement in productivity with a 99-percent-plus accuracy rate. Once that pilot is complete, we will evaluate to expand pick by voice to also branch network.

When you talk about picking, several resources and engineers have studied picking activities. You can assume how much time it takes across any and all B2B distribution. And for that matter, B2B -- B2C distribution. It's estimated that 50% of our picker's time is spent traveling from one storage rack to another. And 35% of the time is spent locating and picking product from the carting bin.

Bottom line, significant time is spent rubbernecking in front of a net -- in front of a rack. If you have gone grocery shopping, you know what I mean. So pick by heads-up display drives a higher level of productivity than any other picker 2-part systems by eliminating the whole phenomenon of rubbernecking. We have a front-row seat for market leader augmented reality to develop this application for commercial use. Earlier this year, we tested pick by heads-up display at our distribution center in Canada. As outlined, we're constantly optimizing our operation to improve working capital and operating margin.

Let me give you some more insights on our safety record. So every year, we benchmark our safety performance with other B2B distribution companies with more than $1 billion in sales. We have one of the safest operations in the B2B distribution and have plans to improve on our performance. We're maintaining our focus by creating awareness, training and accountability for safety at every level.

Last year, we required warehouse associates to take an online course for safety every quarter. This year, we've expanded that training curriculum to all employees of WESCO. And by the end of the year, every employee will be required to take courses, focused on job-specific hazards and behaviors that have caused injuries in our operations. We've implemented post-injury guidelines [and care] to ensure that every injury is handled quickly and efficiently.

Near misses are a leading indicators

(technical difficulty)

this year, we developed a near-miss mobile application that lets our employees identify and track near-misses during their daily safety walks. Safety is also good for business, as many of our customers expect that we have world-class safety performance. As one of Nelson's leaders likes to say, you should strive to create an environment where employees feel safer at work than any other place. We're applying the same focus on safety to our commercial fleet. Let me switch from our [extra effort] employees to our fleet.

So our safety course from a fleet's standpoint, and we benchmark that across a billion-dollar company plus. It is in the 19 percentile, and we believe there's an opportunity to further improve our performance and strive for 0 accidents, using artificial intelligence and computer vision.

The research has shown that 70% of all collisions are related to distracted driving and aggressive driving. Computer vision and artificial intelligence will allow our operators to easily identify high-risk behaviors and personalized driver insight to prioritize coaching opportunities. We recently initiated proof-of-pilot concept with 2 start-up companies to test these technologies in our fleet, and we'll evaluate a rollout based on results from those test.

Switching gears to ESG. In 2017, we released our second CSR report, using the global reporting initiative format. The second half of year, we will publish our third report. Based on the feedback we've received from our first report or the last report, this edition will include more [disclosures] of metrics, particularly in the social and ethics section.

As a company, we're constantly looking for ways to improve our ESG performance, from lightning retrofit to increasing recycling to finding other innovative ways to make an impact.

Recent highlights in our [veteran] hiring program, smart plugs for our facilities, addition of hybrid cars to our fleet and winning the sustainable switchboard competition at a distribution center in Warrendale, led by our employees in that facility. When Hurricane Harvey hit the area, our team immediately sprang into action. Once we've determined that our employees were safe and secured, we used our logistic capabilities to bring food, products, services and solutions to our customers, and more importantly, their employees.

We recently implemented an inclusion and diversity strategy, and we're also named the Bloomberg Gender-Equality Index. So one external measure of progress is our EcoVadis score. And if you haven't heard about EcoVadis, EcoVadis is a company that several of our large customers use to rate their supply chain. In 2017 and 2018, we earned a silver rating, indicating we're now in the top 30% of all companies that they measure. In the spirit of making tomorrow better than today, the plan is now to go for both. We also joined the UN Global Compact and we're committed to its 10 principles.

(inaudible) so this area is very dear to my heart. The responsible use and protection of the environment to conservation and sustainable practices is something we take seriously at WESCO, and we've added investment to deliver results.

Another example of us driving sustainability is increasing electronic transactions with core customers and suppliers. We've doubled our (inaudible) customer. You already heard from Nelson about our digital engagement model, the TELUS. Last year, we quadrupled the number of suppliers to do business with digitally. We've made a lot of progress in terms of our environmental goals as we first reported in 2012. We actually are already (inaudible). We're now going to commit to a further reduction of environmental footprint by 2022.

Next I'm going to play a video on how we're working with our customers to enable sustainable cities and help all businesses grow. Rebecca, if you can roll the video?

(presentation)

Hemant Porwal

So as you saw from that video, simplifying the supply chains of our customers by reducing their working capital outlook and operational cost is of clear tangible value. It builds a secure relationship and a sustainable long-term business for WESCO.

In summary, there are 3 key messages I'll leave you with. As Juan mentioned, (inaudible) and applications are being developed. Machine learning, IoT, augmented reality, artificial intelligence, these are just no longer buzzwords (inaudible). These technologies will bring, I believe, unprecedented levels of change, productivity and cost efficiency and WESCO is in the middle of it all.

As you saw from the press release, we're plugged into WESCO's system and actively experimenting with several of these discussed technologies, leveraging our Big Data to build self-driving supply chain of the future. Two, I'm confident of the operational excellence initiatives we're working on will deliver efficiencies and result an improved margins and cash generation for investors. Three, maintaining focus on ESG is personal for me and we'll continue to push forward on that front.

In closing, our extra effort our employes have accomplished over the last couple of years and really honestly, even long before that, it's truly remarkable and rewarding. Winston Churchill said, "to improve is to change, to be perfect is to change often." As an organization, we're primed to face this next wave of digital change with our momentum (inaudible).

Thank you for your attention today. I'll now hand over the podium to Dave who will give you a financial update. Thank you.

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

So thank you, Hemant. It's a pleasure being with you here today. And thank you all for your interest in WESCO. You've heard from a number of our key business leaders about how we're leveraging our scale and digitizing our business. I'd like to provide you our financial outlook and update you on our deployment of capital going forward.

Three key points I want to leave here with. First, John mentioned, our long-term growth algorithm includes above-market revenue growth and operating leverage to deliver a 10-percent-plus EPS growth. Second, WESCO generate significant operating cash flows to all phases of the economic cycle. Third, because of our strong cash flow, we have the flexibility to invest in our business, acquire new capability and deploy capital to shareholders.

Let me start by updating you on our commitments from last Investor Day in 2017. We outlined 3 specifics: first, drive above market sales growth; second, expand margin; and third, generate strong free cash flow. You can see the results on the slide here. Coming out of the industrial slowdown in 2015 and 2016, over the last 2 years, we've averaged 6% sales growth. We've delivered a record $8.2 billion of sales in 2018.

Margins have been an industry issue. As you saw from Hemant's presentation, we've made considerable progress over the past year, expanding gross margin. We're encouraged by this progress and particularly when we take into account the significant number of supplier price increases that we've experienced over the past 18 months. We're also pleased with some of the benefits that we're getting from some of the new digital tools that we're providing to our organization to deliver better margins.

On cash, we generated $261 million of free cash flow in 2018. That's 116% of net income against our long-term target of greater than 90% of net income. You'll recall that in 2017, our free cash flow was only 68% of net income and that's below our long-term target, but was primarily driven by the shape of our sales growth in 2017, leading to an increase of accounts receivables and other networking capital.

Combined over these 2 years, 2017 and 2018, we delivered free cash flow at 95% of net income. And over the last 2 years, we've also delivered 12.6% growth in our earnings per share. I'd like to provide you a quick update on the second quarter.

During our earnings call in early May, we provided you with our update -- our outlook update for sales operating margin and our tax rate. We're off to a solid start than we anticipated in the first 2 months of the quarter. We are seeing huge strength in our Canadian business, in our Utility business though we are seeing some softness continue in OEM and core industrial and construction branches in some regions of the United States.

The backlog at the end of May is stable and it's in line with our historical seasonal trends. Revenue is tracking to the low end of our outlook range of 3% to 6% for the second quarter. I'll reminded that our April sales came in at plus 6% on a reported basis. May was plus 1%. And through Tuesday, our June month-to-date was plus mid-single digits.

Our earnings call is scheduled for August 2, and we'll provide you more details on the results of our quarter and the update to the full year outlook.

I'd like to spend some time now providing you some insight into 2 specific areas. First, our contract future revenue stream and the margin profile of our various businesses. So starting with the revenue.

During our earnings call, we often call out specific contract wins that we've called out in the first quarter of 2019, a significant win with one of our utility alliances that resulted in a $350 million contract win over multiple years. Well, we haven't done previously is provide you, well, what does that mean, what's the context of those contractual wins? And so I just want to remind you that our Global Accounts, our WESCO Integrated Supply and our utility alliances business, we provide customers with products and supply chain services that are generally in the MRO demand stream. The MRO demand stream makes up about 40% of overall WESCO revenue. We entered into multi-year contract that provided a significant foundation for our future revenue and cash flow. So the chart to the right that you see on the screen provides the by-year contracted revenue streams under these purchase agreement.

A couple of key points. This data is as of March 31 of this year. Also this does not assume that any of our current contracts are renewed, so this only includes the contracted purchase agreements, does not assume that any of those contracts are renewed. That's why you see the drop-off between

2019 and 2020, and that total purchase revenue under agreement. It's because we do have contract that are up for renewal here in 2019 that we expect we will win and will add to those numbers for 2020 and beyond.

As Juan mentioned earlier, we have a high renewal rate for these type of supply agreements. We believe the value that we're providing our customers, the products and services creates a strong relationship, and our expectation is that our customers recognize this value and it puts us in an excellent position to renew these purchase agreements.

I also would like to provide a little more insight about the margins of the overall company by business. To summarize, there is considerable variability from gross margins between our end markets and shipment type, but overall they're in line with the overall WESCO average.

By geography, we do have higher margins in Canada, which is one of the reasons that we invested in the Canadian market over the past several years and have established a leading market position. We discussed our margins across 3 vectors: the end market, geography and shipment type.

On an operating margin basis, each of our 4 end markets has an average margin growth into the overall WESCO enterprise. This is driven and -- I'm sorry, this is driven in part by the overall shipment type, which is used to serve some of these end markets. So for example, you can see that our industrial end market has an above-average gross margin, but the cost to service that is generally higher and perhaps a direct shipment or special order type of shipment type.

Lastly, our business by geography has a different margin profile. Our large U.S. business has company average gross in operating margin. The Canadian business tends to have higher margin. On the operating margin line, it's in the range of 200 basis points higher than the WESCO average. It's primarily (inaudible) [focused] industry is more consolidated, and we have a leading share position in Canada.

Our International business tends to have lower margin. This is highly dependent however on the mix of the business and the shipment type. The operating margin is lower than the line average, given the cost of service to customers in numerous locations throughout the world.

I'd like to switch gears to our investment thesis. We believe that our broad product and services portfolio enables us to continue to outperform the market, generating over the long term, 4% plus revenue growth. We focused on margin improvement in generating a 50% pull-through, meaning that 50% of the year-over-year increase in gross profit dollars, falls to the bottom line. This requires our continuing management, our operating cost growth below the rate of sales growth. The combination of this revenue growth and pull-through generates a 10% plus earnings per share growth.

Additionally, we expect to generate over $300 million of operating cash flow on average in the out-years. This significant cash flow enables us to invest organically in the business, acquire companies with new capabilities and return significant amounts of capital to our shareholders.

Free cash flow generation has been a strength for WESCO. As John mentioned earlier, over the past 10 years, we've averaged about $225 million of free cash flow generation per year or 114% of net income. You see from the chart in years with significant organic sales growth such as 2014 and 2017, we tend to fall below our target, greater than 90% of free cash flow generation due to the timing of increases in working capital, primarily accounts receivable from the higher sales.

Conversely, the downturn in the business cycle results in a significant reduction in working capital, providing a meaningful source of operating cash flow that can be deployed. Comparing our free cash flow yields, over the past 5 years, we've outperformed the peer group. And this peer group here consists of other electrical and industrial distributors. I'd like to switch gears now to capital allocation. Our strong capital enables multiple sources of value creation. On the left-hand side of this chart, you could see through the years 2014 to 2018, we generated about $1.3 billion of operating cash flow.

Our first priority was investing in the business, about $120 million over that period or approximately $25 million per year. We made several acquisitions using approximately $340 million of cash. We bought back $375 million of our shares and used $400 million to retire debt.

As we think about our future uses of cash, over the next 5 years, we expect to generate approximately $1.5 billion of operating cash flow. We will continue to invest in our business, roughly $35 million per year in capital expenditures, as we continue to digitize our business.

We will continue to prioritize new capabilities via M&A. And we've assumed in this hypothetical example, approximately $50 million per year for tuck-in acquisition. On share repurchase, we will continue to buy back share at a minimum to offset dilution of management awards, approximately $30 million per year.

This leaves us with a significant amount of cash over this period for further deployment. We will continue to manage our leverage within a reasonable range, 2x to 3.5x EBITDA, and we'll also provide additional capital for incremental acquisition.

Additionally, we will have significant flexibility to return capital to shareholders, and we anticipate the company will begin paying dividend at some point over this period.

We'd like to provide you with more details on the share repurchases. We initiated $100 million share repurchase in November of 2018, which was completed here in Q1. In May, we initiated an additional $150 million share repurchase. This is an incremental $75 million from what we initially shared with investors back in 2018, when we said that our intent between November of 2018 and the middle of 2019 was to repurchase approximately $150 million of our shares. So this is an incremental $75 million from our initial assumption.

This decision was driven by the current count of the stock price relative to our increasing value. So we've now used $375 million of the current $400 million share repurchase authorization that expires at the end of 2020.

I'd also like to provide you with an update on how we're thinking about mergers and acquisitions. In the past, we provided you our guidelines for acquisition targets. Our strategy going forward is to focus on 3 specific areas: First, consolidate. We will prioritize large transformational acquisitions that provide significant synergies within the electrical distribution space. We believe the industry is going to consolidate and we intend to be part of it.

Second is expand. We will expand our product service capabilities to create competitive advantage and synergies by leveraging these capabilities through our existing businesses. Our recent SLS acquisition and a several of our service acquisitions that we completed over the past several years are good examples of these types of deployments of capital. We believe, again, we are getting revenue and cash flow synergies by these tuck-in acquisitions that provide incremental service capabilities throughout our business network.

Lastly, we'll invest. We will invest or partner with companies that could advance our digital strategy. Now our focus will always be on driving value for our shareholders. But we are moving away from acquisition of standard branch-based business models. We are focused on acquisitions that could drive significant synergies with large, transformational consolidation that will provide cost synergies and expanding and investing capabilities that will generate revenue synergies and incremental cash flow, with a strong balance sheet, with significant flexibility to support our value-creation strategies going forward.

I mentioned earlier, our target leverage is 2x to 3.5x trailing 12 months EBITDA, and we finished 2018 at 2.7x EBITDA on a net debt basis. We are willing to leverage our balance sheet, support our transformational acquisition strategy, as we've done in the past 2012, we increased leverage above 4x to acquire the EECOL business, and we have consistently reduced our leverage since that time.

So to summarize like we just put it all together for you. As John mentioned earlier, we expect over the next 10 years to deliver 4% plus sales growth and 10-percent-plus EPS growth, excluding the impact of acquisition.

WESCO has historically generated significant cash flow throughout the business segment. We expect to generate about $1.5 billion of operating cash over the next 5 years. And lastly, this cash flow generation capability provides numerous options to increase shareholder value. We will continue to invest in our business. We'll seek out the transformational acquisition. We'll add new capabilities, and we'll deploy capital to our shareholders.

With that, I'll turn it over to John for closing remarks.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Well, thanks. First, I want to recognize the presenters, terrific job. Thank you for that. And then thank you to all of you. Thank you for taking the time today, and then thank you for your support. Much appreciated.

Hopefully you had a good opportunity here to get a sense of the next chapter of us and we're very excited about that. It's focused on digitizing our business models and processes, continue to build out our strong services portfolio and wrapping that around our suppliers' products and forming solutions for our customers, and obviously, ensuring the strong and consistent cash generation remains in place. We have some new things that we've signaled here, right? Nothing by accident and I think by sharing our view of the market and the value chain and the current competitive ecosystem and the changes that are occurring in a much more rapid rate, I think, you got a sense of how we think about how the future is going to unfold, right? We don't get a chance to shape that, we need to respond to it appropriately. I think we've got a traffic platform that's been established and we're increasing the aggressiveness of our posture as we move forward. So we're very excited about it, as we shift, as I said, in this next chapter.

With that, I would say turning back up I'm going to open it up for Q&A.

QUESTIONS AND ANSWERS

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

So let's -- since this is webcast, we have some mobile mics, so please wait for the microphone. And if you could just announce yourself that is captured in the webcast. So Deane we'll start with you. Right over there.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

It's Deane Dray from RBC. And I just want to echo your comments that a lot of very interesting wrinkles in the evolution of WESCO is on display here this afternoon. The one that just jumped out at me was Dave providing some -- not numbers, but color around margins by business. That you haven't done that before. We've kind of had to drag it out of investor relation guys if you get the -- some of that color. But it's really, really helpful. And if there's 1 slide that is brand-new that hold job complexity slide that Nelson got to use that's a great picture of all the different services. So for me to start, you teased multiple times, John, in your opening remarks about some new wrinkles in your acquisition strategy. And I think I've got some of it, but if you could expand -- you mentioned consolidating at least 2 or 3x, but then you said you're not acquiring standard branch-based business models primarily. So could you just expand on that point because if you are going to consolidate and you are going to take on new branches and where does that fit?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

So let me be more precise. So we're not just looking at doing small roll-up tuck-ins of standard branch-based distribution businesses in local market. I think we've already shown and experienced the benefit of really what scale can deliver. I have talked at length over the years about the consolidation of the Canadian market and that was true pre us starting the acquisitions in 2010. Remember WESCO didn't do a single acquisition in Canada till 2010. And then it culminated with our large EECOL acquisition. You can think about the EECOL acquisition as somewhat transformational in that we've established the leading share position and then we've been able to work on that business in conjunction with WESCO Canada. Over the years, we've diversified that business to a much greater extent, as Nelson showed. And now we're well positioned, I think, with the backdrop of the strong global Canadian marketplace to leverage that scale going forward, Deane, and then that we've already talked about the margins being higher there and again it's because of the greater scale that we have and the greater share and ability to operate that.

So now if we think about the U.S, the U.S. is starting to consolidate at a more rapid rate. It's been relatively slow over the years. I've always said -- I think talked about this at length, right? This is going to require some external catalyst. If you look at our supplier base, they are ramping up the rate of consolidation. The largest the most recent move is ABB buying GE Industrial, right? So if you look at the last 5 to 10 years, the suppliers are kind of scaling up and combining at a more rapid rate. What I'm signaling here is something that we've talked about in the past, but I think with the backdrop of -- the market trends chart that I showed where I think we are in terms of the S curve of the industry, it's incumbent on distribution to scale up quicker. It's got to happen. And so we have done a good job over the years participating and leading. And I'm being very clear that we intend to continue to lead in terms of consolidations coupled with, in the meantime, digitizing our business. Does that help?

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

It really does. And the follow-up question is exactly where you left off is digitizing your businesses because our coverage of the electrical product manufacturers or suppliers, they are all pointing to all their initiatives to digitize their products. So maybe if you could share with us out of those 1 million products, 1 million SKUs, how many of those have already been digitized and where does that stand and what does that mean for you in terms of efficiency and selling and design systems and getting spec'd in and so forth?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Thank you for that question. That's an outstanding question. When you asked it, I kind of -- I was reflecting on maybe an area that we worked on very aggressively over the last 3 years. We did not include it explicitly in today's Investor Day, which is our master data management. So upon Rob Minicozzi I introduced earlier joining the company little over 3 years ago, upon him joining as our new CIO 3 years ago. The other things that were really critical for us was to look at the construct of our 3 master data files, customer master file -- master data file, supplier and (inaudible). And that was priority 1 Rob when he joined 2 plus years ago. We've spent the last several years re-architecting those 3 master files. We want to make sure that we are very clear about the attribute data that we want to capture. This forms the basis of our big data warehouse that we then can use to effectively manage our business more effectively and create value for customers. So that was a very heavy lift over the last 3 years, and as part of that is where the question started the suppliers as they work their activities to digitize their product, that's a speeder into that. And so we're leveraging that. And that is something that is very different today if I give you a historical perspective than even 5 or 6 years ago. If I reflect -- and I've been with the company 15 now, so the quality and robustness of the data that our supplier manufacturing providing for the products is really increasing with a rapid rate and that's great because we've always wanted and needed that. So hopefully that helps. That's (inaudible) the supplier master file then what really critical for us is to our product data, which includes services and then our customer data. So that does not show up on the balance sheet, so that customer data is an incredibly valuable asset. Because we have that (inaudible) for many, many years and that point of sale data is really valuable, because we can determine from that what products were sold with what and over what time frame, and that becomes the front end of demand creation engine for new product introductions, upgrades and such. Though a little maybe lifting the covers on that a little bit if that helps. I think Sam (inaudible) Rob before you.

Samuel John Darkatsh - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Sam Darkatsh, Raymond James. I've got a couple of questions. They are fairly elementary so I apologize. Getting back to the appetite for large-scale transformative M&A. How do you reconcile that with the acceleration near term of share repo. One would think that if you never know when a large business would come up for sale, why not deleverage so you don't have to issue a whole lot of equity if and when that happens?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Sam, that's a simple answer, where our stock price was trading and is trading we felt we were the best investment, right? So we obviously went after that and leveraged the buyback, point one. Point two, we have very strong balance sheet with sufficient balance sheet capacity and any of the big combination, hypothetically speaking, when you put those together there will be substantial synergies. And remember, we've got a terrific set of financing vehicles in place with the securitization for our AR accounts receivable and our revolver for the inventory and those have accordion feature. So I just -- we've been through this before, we understand and so putting a bit -- making a big deal happen, I have very -- I don't have any concerns about the financing.

Samuel John Darkatsh - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. My second question also basic but the investments you're making digitizing your business, making efficiencies in the supply chain last mile, these are all cost savings-related investments. Your pricing model, as we know, is mostly cost plus as opposed to list discount. So help me understand how you plan to retain these cost savings from your investments as opposed to your customers getting them and then therefore you're not going to be able to expand those?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes. So let's be clear, most of the savings on what Hemant addressed in his (inaudible) the OE and CE initiatives result in significant productivity improvements. Our #1 cost is people. Our #2 is transportation of what's controllable that separates out our cost of goods sold, which I'll come back to. So as we execute those CE and OE initiatives and get productivity, sales force transformation, which is improving the margin generated per sales rep for example, right? And the example that Hemant gave. Then we're able to -- so that feeds into our pull-through model. So as we grow, we don't have to add capacity at the same rate that our top line is growing. And that we've been very successful with that over the year -- my 15 years with the company. That backed them up. So we're seeing a second journey -- second decade of lean, we're working these initiatives, we now introduced RPAs. That's going to allow us essentially to process a lot more business with the same number of people effectively, right? So we get that leverage in our SG&A. That SG&A leverage is very, very critical. In terms of the initiative that Hemant addressed around the cost of goods sold, right, buying lower, pricing higher, we have a range of pricing models and a range of different business model. So you're right in that fundamentally we're not a catalog business where it's lived by discount, right? But we're obviously -- there is relative opportunities that's inherent in that data as we look at it. We've got a whole series of new tools, we got much better insight in the way the pricing opportunities are. This all with inside our 4 walls quite frankly. And these digital tools and applications are helping give us greater insight in where we can squeeze out some more market. So we're working single basis points better. So with the digital tool, we're grinding away and just -- and that's kind of -- that's kind of just basically how we run the business.

Samuel John Darkatsh - *Raymond James & Associates, Inc., Research Division - Research Analyst*

One final question, and it's break, I apologize. You mentioned the 30,000 suppliers, few years ago, it was 25,000, a few years before that it was 17,000. So the numbers of suppliers has been rising, the percentage of your purchases from your top 10 have basically always been around that 32%, 33% or so. So where are we in the supplier rationalization efforts, and how can we see it externally since it's not easily apparent?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

So I would say that of all the initiatives that we have underway, we've made just minimal progress there. That's still an opportunity, I would say. But we've focused on other aspects of the business. So you're not going to see that easily because in terms of an overall impact to the whole enterprise, it's been minimal to date. But put that in the category of an opportunity going forward.

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

Yes, and as we've grown the amount of products and services that we provide to our customers, we have increased the number of suppliers. So there are some very direct correlations between some of the extensions we've done across our product lines, that have added to that, but as John said, we still have an opportunity here.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

I think we're also, Sam, coming back to the response to Deane's question now that we've got a much -- we've got to rebuild our MDM master files, we've got a much better data set to be more strategic and thoughtful about how we target that consolidation too. So not an excuse, just I'm always going to show you exactly where we are. That's been an opportunity, but we weren't in this position as we could have been to go after that aggressively, but I think we're in a bit different position now. Rob?

Robert Douglas Barry - *The Buckingham Research Group Incorporated - Research Analyst*

It's Rob Barry from Buckingham. Actually 1 or 2, I'd circle back to the M&A, just curious how you define large, what does that mean for WESCO? And how does the pipeline look? How active is it? And when you talk about synergies like what would be just the flavor for some of the synergies to get back to one of these large...?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes. So this is -- I mean that's -- large is -- on the order of how we went after EECOL in Canada that was large in the Canada. It's large, Rob, right? So there is a hand -- there is a series of large players and series of very large players and there's midsize to large players and then there's a whole thousands and thousands of small local and regional distributors. So we're clearly sending a message of what we're looking at there while also looking at key capabilities to act like we did with our Aelux, Lumigent and SLS, okay? So when you put 2 big entities together, there are significant synergy benefits across all the past categories, just to start with. But then it's (inaudible) don't know what that combination is because again there's a lot of difference across all of the midsized to larger players so that's all hypothetical at this point.

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

And I think one of the ways that we've talked about our acquisitions in the past is a lot of our acquisitions met a specific focus area. A lot of it was we've been in the geography or we expanded with the product line, but generally those acquisitions did not provide synergy. What we're focused on now are acquisitions that are large transformation to have that synergy opportunity to really drive shareholder value creation.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

And again I'm going to bring you back to which is the why we positioned it this way that market trend page what I see happening in the competitive ecosystem and the value chain. And again, I got -- I've the benefit of a 15-year view now and it's speeding up at a rapid rate. And I'll go back to it, which I did mention. It really starting with the customer end of our value chain. It is driving hard the consolidation, because they are really increasing. These are the discussions we're having. You've heard it somewhat that even the customer testimonials that we hear today specifically tell us, right? So they like to have a smaller number of large partner. That's driving a consolidation pressure down the value chain and clearly suppliers are moving at a more rapid rate. So it's incumbent, it's a must do for distribution to -- and I think the condition for that and it's a must do distribution to scale up quicker.

Robert Douglas Barry - *The Buckingham Research Group Incorporated - Research Analyst*

Got it. And secondly, I just want to follow up on the comment about the quarter tracking of the low end of the range. Just maybe a little bit more color there on what's coming in softer than you expected. And just wanted to clarify that you weren't reiterating the annual outlook today, and if there was a reason why you didn't want to do that.

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

Sure. Let me address quarter first and we called this out on the slide. We haven't seen the recovery in OEM that we were experiencing in Q1. We called that out during our earnings call. There are certain pockets of the U.S. where we're not seeing the sales recovery that we had anticipated. Again, we're pleased with the bounce back that we saw June to month to date. But again, looking at the result of first 2 quarters, it's below our anticipated result. So that would put us at the low end of that 3% to 6% sales outlook that we provided earlier in May. We have not addressed our annual outlook at this point. Again, these results are still relatively fresh for us, and we will address the full year outlook during our earnings call on August 2.

Unidentified Analyst

[Mike McCain], Wells Fargo. I just want to ask a quick question on the acquisition strategy. As you're acquiring these more service-based solutions businesses, is there -- do this increase your scope with EPCs? Or is there a line you need to tow that you become sort of competition for them?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

This is excellent question. No, we've not seen that as of yet. In fact, Nelson's example of the LNG project is one of the most complex projects I think I would share with our team that they'll probably face in their careers, and you look at what our relationship is and partnership is with the EPC. They actually really see great value and they -- services that we're able to bring in terms of overall construction project management. So I don't -- I don't -- I've seen 0 tension or 0 issues with that to date. And again, if you look at types of services we provide, think about what the competence of the EPC is. If the engineer procure construct but what's being engineered procuring constructive is focused on the big ticket items. When you look at these large complex projects that which again Deane was sighting the 1 page in Nelson's deck. You look at all (inaudible) that really are not being driven by that EPC responsibility, right? So exceeding that off to the supply chain, the electrical bolt, the wire and the wire cutting, the feed job site on time for all the different locations, et cetera, cable management. So you start looking at all those area, packages, they are not doing an engineer portion of that job, we essentially as part of the supply chain solution provider is doing that. So if that helps.

Unidentified Analyst

And then secondly back and just going to one of the verticals you mentioned, data centers, 5G, can you give us a kind of a brief overview where you operate best and I know hyperscale has kind of slowed down a little bit, they go more to direct. So where do you fit in and what the cross-sell opportunity within there for lighting, cooling, cabling, et cetera?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

So we support data centers of all types and varieties. Enterprise-class data centers that are capped to do a particular end user customers enterprise, hyperscale colos. We've cleared out over the years and even in recent quarters how we've done with certain large, I'll call it, end user customers where they have their own captive data center. So we have a broad capability across data centers. It's started with -- I'd say the deepest strength that came out of our CSC acquisition that we've built on and we did that acquisition in 2006. So we don't do -- I think there's many in the room know, we don't do the networking gear, but we'll do the fiber optic connectivity, structure cabling the racks, the cooling system, everything that will tie that the server racks and equipment into the infrastructure, which includes (inaudible). And so that's our first set of solutions and we're partnered with (inaudible) corning for fiber and such. So that's a $1 billion plus piece of our business, not just for data centers, but data comp all-in. And then we also have broadband communication. So we have that fiber capability, fiber connectivity inside plant as I'm describing data center and outside plant, and TELUS is a good example of outside plant.

In terms of pull-through that's something we continue to work on. It doesn't -- to date it hasn't naturally lent itself to an easy combination sale because of who makes the decisions on the fiber piece and the data comm piece and the data center versus what the other packages are. But we have all those -- we have the full range of solutions and the electrical spend is actually 3x a data spend and the data center on average. And we met separately, but we are working at strategy to try to bundle that and get that leverage together starting with. We're well positioned portfolio-wise to do it. But the way the customers -- the power structure and the customers and the way they've ordered and transected they haven't lent itself easily into that. But it's an opportunity for working and again given our positioning, I think we'll be able to make some headway there.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

This is Martin Sankey from Neuberger Berman. During the presentation, Hemant mentioned that a dividend would be real possibility coming from WESCO sometime in the next 5 years. With the Chairman of the Board and I believe about half of the rest of the Board present, could you pull-through the -- we hear some of the thinking that goes in and around that in the sense that last month the Board decided that the additional $75 million will be returned to the shareholders via share repurchase. They could have gone -- accordingly some of it gone to the creation of a dividend. So what's the Board is thinking, what might trigger a dividend? And would it be fair to think that a dividend -- cash dividend is not likely until after the current stock repurchase authorization has been fulfilled?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

So Martin, thank you for that question. I don't want to foreshadow specific timing, I think what we wanted to be clear on is and that the best way I could answer that is to go back to a comment I made in my opening section. We're entering our third decade of WESCO since we've been a publicly traded company, right? Decade 1 generated $1.2 billion of cash -- free cash flow in aggregate. Decade 2, $3.3 billion, almost double that. So I think we're at a point that we have such a strong stable consistent cash generation. Our cash generation ability on an annual basis is now -- continues to grow. We're very focused on maintaining and building off of that. So the message we're sending in, the dividend is not an if, it's only a when. I know you're asking some of the when question, but we're saying like it's not if, it's only when, it's a question of when? We're still going to have those discussion to make that determination, but we did want to signal that it is in our future. Again, decade 1 good cash generation, decade 2 doubled up on the cash generation and we expect that gave it outlook even stronger cash generation going forward. So that's the signaling today. We'll continue to have those discussions. To your point, we do have a current authorization open and we intend to execute that. And again, in terms of Sam's question on where -- why we've been moving down the buyback route, there's again, given where we think the stock price is versus what we think our real intrinsic value is, given what we did give you a deeper insight into today, right, which is where the company is and our strategies going forward to create enterprise value.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Okay. I would just make a comment that adult companies do pay dividends. And I used the word adult instead of mature. So...

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Good comment.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

But -- I'm just trying to get an idea of some of the thinking. I have a second question which is on an entirely different subject entirely. There's been much mentioning of employee engagement, inclusion. And there is a school of thought that says that one of the biggest measures of employee engagement and motivators of employee enthusiasm is equity ownership -- broad-based equity ownership, to be precise. How do you think about that? How much do your employees own outside of the executive band? And what are you doing to improve or not improve employee ownership? And where is it now? Where would you like it to be?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

You want to start with that, Dave, and then I'll add on?

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

Sure. So I believe we're -- right around 3% of our shares outstanding are owned by directors and management of the company. Again, that is just what we know about in terms of what's managed through our record keeper. I know that there are employees that have ownership outside. They purchase stock on their own through their own broker. We don't have a good line of sight to that. I think the real question is, as we think about driving down that ownership of the company, as part of our incentive compensation, through various levels of the company, we do provide a long-term equity-based compensation, so -- and perhaps, for example, my organization, we go down several levels, and individuals are receiving stock awards as part of their annual compensation program. Does that answer your question?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Because I think you started, Martin, with employee engagement, and so let me stay there for a moment because I think it's really important, your question, it's a great question. So Chris Wolf has been -- is our HR leader, she's been on board less than a year, and really very aggressively working on employee engagement programs. We do a survey every other year, and we've got very good feedback on what's important to them. And those are the items that we're aggressively working. And I think, with Chris now on board and her leadership, I think we're positioned now to go think about that very thoughtfully.

Unidentified Company Representative

For example, there are -- a number of companies that might -- that do like 401(k) match in stock as a -- alignment of -- and motivator.

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

That was offered to our employees in the past, part of the current thinking on fiduciary responsibilities related to 401(k). Most companies are no longer offering a matching company stock as part of the 401(k). But as John mentioned, it's something that we'll work with Chris, and we'll understand better how we can address this issue of equity ownership by our employees.

Unidentified Company Representative

And I would parenthetically add that there's changes in law along the way that are being enacted regarding 401(k)s.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Right, absolutely. Thanks, Martin.

Unidentified Analyst

I'd just point out that for every $50 million you might spend in the dividend, whether it's next year or somewhere towards the 5 million, you save a 1 million shares of stock that you might put out in a big acquisition.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

True.

Unidentified Analyst

And I would think that the shares you put out in an acquisition might be much more important.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes, true. Thank you, very good feed.

Christopher M. Dankert - *Longbow Research LLC - Research Analyst*

Chris Dankert, Longbow. John, you touched on the plug-and-play alliance earlier. I'm just kind of curious, is that more of a headline thing? Is there something tangible there? Are we kind of onboarding projects and technologies at this point? Just any additional color around that alliance would be interesting.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes. So I mean it is a headline because we just [encashed] it, okay? So we do -- we have engaged with them. And if any of you don't have a sense of what they've done over the years and there's other -- they have other competitors throughout the space and a few others and just very well has friends in the tech ecosystem and do a terrific job of servicing companies that are working on solutions and applications that are very specific to business requirements and needs. So our strategy here is -- so again, given that digital is accelerating and driving -- we think changes the whole B2B value chain, we're going to -- we are engaging. And this didn't start a month ago, but it didn't start within the last year, to put some time frame around that, engaging in that tech ecosystem. And we have very specific areas of B2B shares on distribution that were looking to the tech communities' world in terms of how they're beginning to address these problems. There's a significant amount of investment uptake in the tech community around B2B, around construction tech, areas that are very critical to us. It's actually exploding. And so we need to be plugged into that real-time. And the best way to plug into that real-time is to leverage an infrastructure and ecosystem that's been working. On a prior life, from a pre-WESCO life, there has been a lot of business based out of Silicon Valley for 4 or 5 years pre-WESCO, so we moved out there. So we're plugging into that ecosystem now. Again, B2B was not being worked. It's being worked now, and it's exploding. And so I think we've got some excellent opportunities to plug into that. With this -- setting up this new vertical -- so again, plug-and-play, these are better [ph] verticals. We have a whole series of other companies that are engaged with us that are broad distribution-based, and this is B2B distribution-based, much broader than -- and we're not talking about the $200 billion addressable market, we're talking about the $2.5 trillion addressable market which is the annual market for B2B distribution in the U.S. based on [NDN] data. So we have distribution coming first to broader B2B vertical that we're engaging here. Do they want to be part of this, get access to this process? And this process will be very focused. We'll have a bigger bench here second half of the year, it's -- it will be in the fourth quarter. Given the requirements we're looking for, this is where we leverage plug-and-play's process. Those who are out there, the sourcing, the screening, it's a funnel process. Start with thousands of target companies, then it went down to 500, then it's down to 200 to 250, we engage, bring it down. And then we go into a deep set of reviews with a very focused number of companies. And what -- so why did it work is -- this is a challenge I think for a lot of large corporations around the world I think corporate America, the ability to innovate within your own infrastructure. The beauty about WESCO is we provide a tremendous, I'll call it, incubator of proof-of-concept pilots that can be run. So if you think about a particular startup that's working on a specific problem, we see great value add, but we haven't figured out how to solve, we could run a little proof-of-concept pilot. They have to spend those dollars, right? They're trying to find that application. And so we get to pre-R&D, we work it out and we kind of run it. So that's how we're going to work it. Hemant's example of -- Descartes is a great example of a company that we tapped into that has a digital capability, plugged it in. The way we do that -- and it's how we're thinking about doing this with the other companies we're exposed to. We started Hemant with 1 branch, proof of concept. And so that was very late 2017. We saw some interesting benefits. We then rolled it out to 50 branches in 2018, now we have a whole network in 2019.

And yes as those -- there are some meaningful savings in terms of miles per delivery. But the electronic proof of delivery and really the improved customer satisfaction and support because we're able to now tell them more precisely when they're going to get their delivery and exactly at the right spot on the job site, which is very critical, and then prove that it occurred, it sounds like a simple thing, but that's not a table stakes capability that exists in the industry today. So again, just a great example. That's 1 small example, but you can imagine literally numerous examples. And so as we also plug into that tech ecosystem, I think we'll be able to (inaudible) for a lot of other interesting development in companies and -- since the beginning.

Unidentified Analyst

Yes, I mean definitely the year, how that progressed, but thanks for the color. I guess I was kind of curious on -- and Hemant touched on the spin approach to pricing, I guess. How long has that been in place? And is it effective across all site managers? Will there be kind of room for sales person discretion? Is there any kind of color on pricing and how that's been rolled out as well?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Hemant, why don't you...

Hemant Porwal

We've been working on it for the last couple of years like I said in the presentation. We knew that was an area of focus and opportunity. And so it's available across all 4 end markets and all product categories. So we look at it at -- clearly from a supplier price increase standpoint, so irrespective of what type of a price increase comes in, whether it's in electrical supply or [related] applications is honestly agnostic. So the application is built to be able to do that basically across all end markets and all product categories that we do this. So that's the answer to that, the simple short answer to that, yes.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

Pat Baumann, JPMorgan. Just had -- just trying to tie together the comment on Canada margins being 200 basis points higher than the U.S. and that being driven by scale, I think. Can you just remind us where market share margins in Canada were prior to the EECOL that you did and where market share is now in Canada? And then remind us in the U.S. what your current share is and if there's anything structural besides scale in getting those results in the U.S. closer to Canada, like is there a level of scale required? Or is there something structural that would kind of keep...

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

The best way to answer that would be the top 10 electrical distributors in Canada have 3/4 of the market. So the top 10 concentrate in the 3/4 of the market. The top 5 distributors in the U.S. has about 35% of the market. And as Juan mentioned in his presentation there's over 3,500 distributors in the U.S. So again, it's a much more fragmented distribution value chain in the U.S. with a long tail. Canada's more consolidated -- substantially more consolidated. And now we have a clear #1 position post-EECOL. Again, we were growing organically faster than market and had been for quite some time. But again, there's that benefit. You jump across onto Europe and those markets are even a bit more consolidated than Canada. So depending on which country you look at, again much more mature markets, longer standing. So it's the way the value chain ends up working, the relationship between the suppliers and distributors, when it's more consolidated, with a much more collaborative, integrative partnership because it has to be, because it has to be, quite frankly. It's distribution economics. I know it's textbook, but it's absolutely true. And just a side note, I'll digress. I joined the company 15 years ago, it's one of the first things I looked at, did a bunch of analysis in trying to get a sense of what's our local market through our own presence versus what the operating margins are. And so you can -- and the market was more locally driven then. So again, back to my trends page, that's shifting a bit, but that's a -- there's a high correlation, cooperation between market share and margin in distribution.

Patrick Michael Baumann - *JP Morgan Chase & Co, Research Division - Analyst*

So taking that to say that it will be tough -- I mean you have to do a lot of consolidation in the U.S. to kind of drive that kind of a dynamic.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes. So again that's where digital comes in, though, because when you think about digital as an accelerant but also what that can do in terms of giving you quicker and different ways, so that's I guess why we're working digital very hard.

Arthur Baptist - *Golden Gate Capital - VP*

Arthur Baptist with Golden Gate Capital. I just had 2, one on kind of operating leverage and then one on tariff. I guess the first on operating leverage, I guess just based on the Q1 and kind of Q2 trends, to the extent that sales are at the low end of the 2019 range or lower, do you have levers on the expense side just so achieve that $5.10 to $5.70 EPS target this year?

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

We'll be updating the full year outlook when we do our earnings call. But the short answer is yes. We do have levers that we can pull. Again, we have plans that we intend to execute, investments that we plan to continue to execute here in 2019 to grow long-term shareholder value creation. But in the near term, there are levers that we can pull, we've done it in the past. Everything would be on the table. We'll provide you the full outlook on August 2.

Arthur Baptist - *Golden Gate Capital - VP*

And I guess just to push on, as we do hit kind of a trough here macro longer-term, could you give a couple of examples? I mean one thing I noticed is the headcount stayed kind of relatively flat over the last 3 years, you've done a nice job kind of leveraging that headcount base. What are some of the areas you could cut?

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

Sure. So some of the initiatives that we even talked about today, we are investing in -- they are generating operating margin advantages and productivity for us. So we will continue to execute those specific initiatives to drive margin improvement. In the past, you have mentioned, we closed branches and we consolidated the headcount in certain locations to reduce overall FTEs on the books. That's something that we haven't discussed as a leadership team yet, but there are various other levers that we will continue to pull.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

I've been through multiple cycles since I've been with the company, including probably -- and I hope this is the case that the toughest cycle all of us have to deal with which was the great global recession. So if we just take a look at what we've done in the past, we've shown that we actually move with speed and precision than required. And take global recession a decade ago, we had to -- we took out over 1,000 people and took out $100 million of inventory in less than 4 quarters. That's not something we like to do or have to -- yes, but we do what we have to do. We're going to maintain -- we're going to maintain the operating cost structure of the company as a percentage of sales. That low cost -- SG&A as a percentage of sales being low cost versus our competitors, I think, ultimately is a key foundational strength of the company. And honestly, you can trace it back to the LBO roots, right? Initial LBO in '94, a leverage recap in '98, I think that's been built into or ingrained in the culture of the company. I didn't create that. When I joined in 2004, that was there. But I was thrilled it was there. And I'm protective in the sense that we will always keep that. That's our lean (inaudible) nicely, right? So continuing to drive, continuing to prove and create that capacity that then continues to grow or obviously create that capacity that you can then decapacitize if you need to. Obviously, that's not the preferred utilization of that, but -- so hopefully that gives -- discretionary expenses, too, we can -- we've actually proved there are no variable compensation where we pull very hard levers on.

Arthur Baptist - *Golden Gate Capital - VP*

And then just the one on tariffs. I mean you mentioned in the presentation on it today.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes.

Arthur Baptist - *Golden Gate Capital - VP*

If you could just -- anything you could do to quantify kind of maybe your percent of cost of goods sold that could be impacted by tariffs? And then I guess just as you think about the number of supplier increases you called out, I'm a little surprised it's not maybe flowing more through the revenue line in Q1 and Q2 to date, just given the number of supplier increases. Why aren't you -- are you not able to pass through that level of pricing or could you just talk about that?

David S. Schulz - *WESCO International, Inc. - Senior VP & CFO*

So let me address first the -- our direct impact tariff, things that we as a company would bring in from a country with a high tariff, that's low single digit percent, things that we are sourcing directly from say China, very low percentage of our total cost of goods sold. Clearly though, a lot of the products that we are purchasing from our suppliers do have some component of a tariff associated with it, that is driving some of the increase that we've seen in supplier price increase notices throughout the first half of the year. Hemant mentioned that we're 50% plus higher than we were at this point in 2018. So again, we talked about, we saw pricing moderate to some degree in the first quarter. Again, our goal is to not only pass through those price increases to our customers but to actually increase our margin rate as well. Clearly, over the past 4 quarters, we've been doing a much better job of that. We would anticipate that we will continue to focus on that going forward.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Remember, and I know this is math, right? A 7% price increase on the cost side, if we only took price up -- our price up 7%, our margins compress, right? So again, we have to -- when we are faced with this barrage of price increases from suppliers on the input side of the cost equation, we got to take the price increases plus a bump to even maintain -- to even hold margins. And obviously our goals is to expand margins. And there's always a time lag, so we think that's pretty important to understand again based upon what product, what part of the business that they feed into.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Martin Sankey from Neuberger again. In thinking about your presentation, there's a substantial proportion of revenues that go -- flow through your warehouses but are drop shipped directly from your supplier partners. And clearly customer satisfaction is partly dependent upon that path. And to get -- how -- what are you doing to work with your suppliers in order to get a better customer experience and what savings might you achieve by doing that?

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

Yes, so a very good question, Martin. And it's something that was really surprising to me -- if I take you back to when I first joined the company, I was pretty surprised at just structurally what percentage of the sales -- and it's not even to WESCO, but it's how -- clearly lack of (inaudible) what percentage of sales is direct ship. And that's where that particular product or system is engineered for that customer application. And so -- and those respective components that form that systems solution are now being built out of a distributor's warehouse because that -- by and large, that solution is getting specified and designed for the customer's application. So that's something that we deal with everyday. And so we work very -- we work hand in hand with our suppliers. Then we had a -- the fulfillment portion of the cycle for that direct ship, we're working with them when -- again to take the example of (inaudible) switch gears getting specified and determined for that customer's application or if there's a new construction. Or an automotive company can expand their production lines, and Rockwell and Bradley is the automation and control solution, we're the authorized distributor, we're working with that automotive end user customer directly to get what configuration is that we spec in as they stand up that new production line. So that's how -- that's very critical to how we do business today working with that supplier well in advance of a fulfillment, but it starts very early on in the cycle when the application needs and requirements are defined and when we're determining the solution. And then we met and we work with the supplier through that process to ensure that if it's regeared, it's getting built or in the case of Rockwell that we have very particular -- the PLC and the software load that we need et cetera to meet that application, we make sure that we have that lined up in stage on when it's needed for the project et cetera. So making that more seamless for the customer is critical. And then when we talked about the 4 digital growth plays we talked about, that construction project management, that application is really look -- building off of that software package that we have to help manage complex construction projects, building that digital platform out has paved the way to help ensure more efficient execution of projects. So we look at the direct ship, a lot of time, it is for the core equipment for new constructions.

Martin A. Sankey - *Neuberger Berman Group LLC - MD*

Are you finding that your IT platforms are ahead of or behind those of your suppliers in terms of being able to do the coordination that's necessary for a seamless customer experience.

John J. Engel - *WESCO International, Inc. - Chairman, President & CEO*

I think that is sort of a -- there's a wide array. So I can tell you it's hard to paint our supplier base with 1 paintbrush. Even the bigger, larger supplier partner we're partnered with are not single global [CRP] instances. So there's a complexity in that. But it's something that we managed through. So that's -- we do have -- I mean Rob and his team -- Rob and his team is directly engaged with the IT groups of our supplier partner with ongoing meeting sessions. And it gets to your first question, Martin, on how can we tie ourselves together better for our part of the value chain to create a more integrated seamless experience so we can better serve customers.

Okay. So we went a little bit over on Q&A, we have an excellent Q&A. Cocktails are being served. Thank you so much again for your time and your attention and your support. And again, I think you've seen our excitement about the next chapter of WESCO. Hopefully, you share in our excitement. We'll see you for cocktails.

William Ruthrauff - *WESCO International, Inc. - Director of IR*

Thanks, everybody.
