

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**225 West Station Square Drive
Suite 700**

Pittsburgh, Pennsylvania

(Address of principal executive offices)

25-1723342

(I.R.S. Employer
Identification No.)

15219

(Zip Code)

(412) 454-2200

(Registrant's telephone number, including area code)

Not applicable.

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Class	Trading Symbol(s)	Name of Exchange on which registered
Common Stock, par value \$.01 per share	WCC	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of Series A Fixed-Rate Reset Cumulative Perpetual Preferred Stock	WCC PR A	New York Stock Exchange
Preferred Share Purchase Rights	N/A	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of November 6, 2020, 50,042,827 shares of common stock, \$0.01 par value, of the registrant were outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share data)
(unaudited)

	As of	
	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 352,249	\$ 150,902
Trade accounts receivable, net of allowance for expected credit losses of \$26,220 and \$25,443 in 2020 and 2019, respectively	2,492,248	1,187,359
Other accounts receivable	229,275	98,029
Inventories	2,357,634	1,011,674
Prepaid expenses and other current assets	166,044	92,447
Total current assets	5,597,450	2,540,411
Property, buildings and equipment, net of accumulated depreciation of \$294,638 and \$268,415 in 2020 and 2019, respectively	400,222	181,448
Operating lease assets	540,142	235,834
Intangible assets, net (Note 5)	2,078,468	287,275
Goodwill	3,118,818	1,759,040
Other assets	133,239	13,627
Total assets	<u>\$ 11,868,339</u>	<u>\$ 5,017,635</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,830,877	\$ 830,478
Accrued payroll and benefit costs	146,670	49,508
Short-term debt and current portion of long-term debt	28,844	26,685
Other current liabilities	534,544	177,388
Total current liabilities	2,540,935	1,084,059
Long-term debt, net of debt discount and debt issuance costs of \$92,343 and \$8,876 in 2020 and 2019, respectively	4,878,124	1,257,067
Operating lease liabilities	419,718	179,830
Deferred income taxes	523,958	146,617
Other noncurrent liabilities	292,380	91,391
Total liabilities	<u>\$ 8,655,115</u>	<u>\$ 2,758,964</u>
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding	—	—
Preferred stock, Series A, \$.01 par value; 25,000 shares authorized, 21,612 shares issued and outstanding in 2020 (Note 9)	—	—
Common stock, \$.01 par value; 210,000,000 shares authorized, 67,562,621 and 59,308,018 shares issued and 50,042,751 and 41,797,093 shares outstanding in 2020 and 2019, respectively	676	593
Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2020 and 2019, respectively	43	43
Additional capital	1,939,101	1,039,347
Retained earnings	2,596,022	2,530,429
Treasury stock, at cost; 21,859,301 and 21,850,356 shares in 2020 and 2019, respectively	(937,520)	(937,157)
Accumulated other comprehensive loss	(377,461)	(367,772)
Total WESCO International, Inc. stockholders' equity	3,220,861	2,265,483
Noncontrolling interests	(7,637)	(6,812)
Total stockholders' equity	<u>3,213,224</u>	<u>2,258,671</u>
Total liabilities and stockholders' equity	<u>\$ 11,868,339</u>	<u>\$ 5,017,635</u>

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share data)
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Net sales (Note 3)	\$ 4,141,801	\$ 2,148,110	\$ 8,197,154	\$ 6,259,465
Cost of goods sold (excluding depreciation and amortization)	3,356,259	1,747,913	6,641,438	5,067,799
Selling, general and administrative expenses	561,971	290,852	1,221,114	883,222
Depreciation and amortization	45,476	15,612	80,324	46,035
Income from operations	178,095	93,733	254,278	262,409
Interest expense, net	74,540	14,306	152,281	49,293
Other, net	(777)	(798)	(1,463)	(1,359)
Income before income taxes	104,332	80,225	103,460	214,475
Income tax expense	24,294	15,886	23,707	44,970
Net income	80,038	64,339	79,753	169,505
Less: Net loss attributable to noncontrolling interests	(640)	(156)	(825)	(824)
Net income attributable to WESCO International, Inc.	80,678	64,495	80,578	170,329
Less: Preferred stock dividends	14,511	—	15,787	—
Net income attributable to common stockholders	\$ 66,167	\$ 64,495	\$ 64,791	\$ 170,329
Other comprehensive income (loss):				
Foreign currency translation adjustments	41,428	(16,856)	(9,689)	25,905
Comprehensive income attributable to common stockholders	\$ 107,595	\$ 47,639	\$ 55,102	\$ 196,234
Earnings per share attributable to common stockholders				
Basic	\$ 1.32	\$ 1.53	\$ 1.44	\$ 3.91
Diluted	\$ 1.31	\$ 1.52	\$ 1.44	\$ 3.88

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(unaudited)

	Nine Months Ended September 30	
	2020	2019
Operating activities:		
Net income	\$ 79,753	\$ 169,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,324	46,035
Deferred income taxes	(8,261)	4,621
Other operating activities, net	(1,763)	10,876
Changes in assets and liabilities:		
Trade accounts receivable, net	3,584	(122,903)
Other accounts receivable	(14,702)	15,450
Inventories	77,681	(1,500)
Prepaid expenses and other assets	(26,655)	(20,720)
Accounts payable	80,489	46,902
Accrued payroll and benefit costs	25,872	(36,055)
Other current and noncurrent liabilities	122,616	4,453
Net cash provided by operating activities	418,938	116,664
Investing activities:		
Capital expenditures	(42,562)	(30,323)
Acquisition payments, net of cash acquired (Note 4)	(3,707,575)	(27,742)
Other investing activities	26,240	4,575
Net cash used in investing activities	(3,723,897)	(53,490)
Financing activities:		
Repayments of short-term debt, net	(9,824)	(29,600)
Proceeds from issuance of long-term debt	4,661,830	1,105,397
Repayments of long-term debt	(1,045,667)	(927,410)
Repurchases of common stock (Note 7)	(2,032)	(152,735)
Debt issuance costs	(79,945)	(2,508)
Payment of dividends	(15,787)	—
Other financing activities, net	(1,255)	(11,226)
Net cash provided by (used in) financing activities	3,507,320	(18,082)
Effect of exchange rate changes on cash and cash equivalents	(1,014)	(3,275)
Net change in cash and cash equivalents	201,347	41,817
Cash and cash equivalents at the beginning of period	150,902	96,343
Cash and cash equivalents at the end of period	\$ 352,249	\$ 138,160
Supplemental disclosures:		
Cash paid for interest	\$ 36,035	\$ 38,347
Cash paid for income taxes	\$ 44,994	\$ 54,044
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 80,626	\$ 48,622

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands of dollars, except shares)
(unaudited)

	Common Stock		Class B Common Stock		Series A Preferred Stock		Additional Capital	Retained Earnings (Deficit)	Treasury Stock		Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)
	Amount	Shares	Amount	Shares	Amount	Shares			Amount	Shares		
	Balance, December 31, 2019	\$ 593	59,308,018	\$ 43	4,339,431	\$ —			—	\$ 1,039,347		
Exercise of stock-based awards	1	105,620					(39)		79	2,020		
Stock-based compensation expense							4,626					
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(31,680)					(2,297)	761				
Noncontrolling interests											(232)	
Net income attributable to WESCO								34,407				
Translation adjustments												(93,851)
Balance, March 31, 2020	\$ 594	59,381,958	\$ 43	4,339,431	\$ —	—	\$ 1,041,637	\$ 2,565,597	\$ (937,078)	(21,848,336)	\$ (7,044)	\$ (461,623)
Exercise of stock-based awards	—	30,665					—		(437)	(10,858)		
Stock-based compensation expense							4,901					
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(652)					(37)	27				
Capital stock issuance	82	8,150,228			—	21,612	886,740					
Noncontrolling interests											47	
Net loss attributable to WESCO								(34,506)				
Preferred stock dividends								(1,276)				
Translation adjustments												42,734
Balance, June 30, 2020	\$ 676	67,562,199	\$ 43	4,339,431	\$ —	21,612	\$ 1,933,241	\$ 2,529,842	\$ (937,515)	(21,859,194)	\$ (6,997)	\$ (418,889)
Exercise of stock-based awards	—	479					—		(5)	(107)		
Stock-based compensation expense							6,002					
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(57)					(3)	13				
Capital stock issuance							(139)					
Noncontrolling interests											(640)	
Net income attributable to WESCO								80,678				
Preferred stock dividends								(14,511)				
Translation adjustments												41,428
Balance, September 30, 2020	\$ 676	67,562,621	\$ 43	4,339,431	\$ —	21,612	\$ 1,939,101	\$ 2,596,022	\$ (937,520)	(21,859,301)	\$ (7,637)	\$ (377,461)

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands of dollars, except shares)
(unaudited)

	Common Stock		Class B Common Stock		Series A Preferred Stock		Additional Capital	Retained Earnings (Deficit)	Treasury Stock		Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)
	Amount	Shares	Amount	Shares	Amount	Shares			Amount	Shares		
	Balance, December 31, 2018	\$ 592	59,157,696	\$ 43	4,339,431	\$ —			—	\$ 993,666		
Exercise of stock-based awards	1	156,760					(90)		(54)	(184)		
Stock-based compensation expense							4,665					
Repurchases of common stock							19,144		(19,144)	(365,272)		
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(42,564)					(1,822)	(531)				
Noncontrolling interests											(419)	
Net income attributable to WESCO								42,369				
Translation adjustments												22,517
Balance, March 31, 2019	\$ 593	59,271,892	\$ 43	4,339,431	\$ —	—	\$ 1,015,563	\$ 2,349,300	\$ (777,216)	(18,756,498)	\$ (6,003)	\$ (385,918)
Exercise of stock-based awards	—	20,831					6		(157)	(3,029)		
Stock-based compensation expense							5,150					
Repurchases of common stock							(22,500)		(127,500)	(2,394,816)		
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(19)					(1)	4				
Noncontrolling interests											(249)	
Net income attributable to WESCO								63,464				
Translation adjustments												20,244
Balance, June 30, 2019	\$ 593	59,292,704	\$ 43	4,339,431	\$ —	—	\$ 998,218	\$ 2,412,768	\$ (904,873)	(21,154,343)	\$ (6,252)	\$ (365,674)
Exercise of stock-based awards	—	1,983					—		(5)	(94)		
Stock-based compensation expense							4,426					
Repurchases of common stock							32,257		(32,257)	(695,496)		
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(190)					(13)	(4)				
Noncontrolling interests											(156)	
Net income attributable to WESCO								64,495				
Translation adjustments												(16,856)
Balance, September 30, 2019	\$ 593	59,294,497	\$ 43	4,339,431	\$ —	—	\$ 1,034,888	\$ 2,477,259	\$ (937,135)	(21,849,933)	\$ (6,408)	\$ (382,530)

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

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

1. ORGANIZATION

WESCO International, Inc. ("WESCO International") and its subsidiaries (collectively, "WESCO" or the "Company"), headquartered in Pittsburgh, Pennsylvania, is a leading provider of business-to-business distribution, logistics services and supply chain solutions.

On June 22, 2020, WESCO completed its previously announced acquisition of Anixter International Inc., a Delaware corporation ("Anixter"). Pursuant to the terms of the Agreement and Plan of Merger, dated January 10, 2020 (the "Merger Agreement"), by and among Anixter, WESCO and Warrior Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of WESCO ("Merger Sub"), Merger Sub was merged with and into Anixter (the "Merger"), with Anixter surviving the Merger and continuing as a wholly owned subsidiary of WESCO.

2. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). The unaudited condensed consolidated financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in WESCO's 2019 Annual Report on Form 10-K as filed with the SEC on February 24, 2020. The Condensed Consolidated Balance Sheet at December 31, 2019 was derived from the audited Consolidated Financial Statements as of that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America.

The unaudited Condensed Consolidated Balance Sheet as of September 30, 2020, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income, the unaudited Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019, and the unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019, respectively, in the opinion of management, have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments necessary for the fair statement of the results of the interim periods presented herein. All adjustments reflected in the unaudited condensed consolidated financial information are of a normal recurring nature unless indicated. The results for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

In the third quarter of 2020, in connection with the acquisition of Anixter, the Company identified new operating segments. These operating segments, which have been organized around three strategic business units, consist of Electrical & Electronic Solutions ("EES"), Communications & Security Solutions ("CSS") and Utility & Broadband Solutions ("UBS"). The Company's operating segments, which are equivalent to its reportable segments, are described further in Note 14. The applicable comparative financial information reported in the Company's previously issued interim financial statements for the three and nine months ended September 30, 2019 has been recast in this Quarterly Report on Form 10-Q to conform to the basis of the new segments.

Reclassifications

The Condensed Consolidated Balance Sheet as of December 31, 2019, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2019, and the unaudited Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2019, respectively, include certain reclassifications to previously reported amounts to conform to the current period presentation.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced new guidance for the accounting for credit losses on certain financial instruments. The Company adopted this ASU effective January 1, 2020. The adoption of this new credit loss guidance did not have a material impact on the unaudited condensed consolidated financial statements and notes thereto presented herein, and WESCO does not expect it to have a material impact on its financial position or results of operation on an ongoing basis.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying and adding certain disclosures. The Company adopted this ASU

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

in the first quarter of 2020. The adoption of this guidance did not have a material impact on the unaudited condensed consolidated financial statements and notes thereto presented herein.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligned the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard was effective for fiscal years beginning after December 15, 2019. The Company adopted this ASU in the first quarter of 2020. The adoption of this guidance did not have a material impact on the unaudited condensed consolidated financial statements and notes thereto presented herein.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends the disclosure requirements for all employers that sponsor defined benefit pension and other post retirement plans by removing and adding certain disclosures. The amendments in this ASU are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. Management does not expect the adoption of this accounting standard to have a material impact on its condensed consolidated financial statements and notes thereto.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes certain exceptions to the general principles of Accounting Standards Codification Topic 740, *Income Taxes*, and simplifies other aspects of accounting for income taxes. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. Management does not expect the adoption of this accounting standard to have a material impact on its condensed consolidated financial statements and notes thereto.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. Management is currently evaluating the impact related to the replacement of London Interbank Offered Rate (LIBOR) and whether the Company will elect the adoption of the optional guidance.

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

3. REVENUE

WESCO distributes products and provides services to customers globally in various end markets within its business segments. The segments, which consist of Electrical & Electronic Solutions, Communications & Security Solutions, and Utility & Broadband Solutions operate in the United States, Canada and various other foreign countries. Revenue is measured as the amount of consideration WESCO expects to receive in exchange for transferring goods or providing services.

The following tables disaggregate WESCO’s net sales by segment and geography for the periods presented:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Electrical & Electronic Solutions	\$ 1,653,726	\$ 1,250,080	\$ 3,811,498	\$ 3,626,423
Communications & Security Solutions	1,388,791	235,920	1,953,967	681,087
Utility & Broadband Solutions	1,099,284	662,110	2,431,689	1,951,955
Total by segment	\$ 4,141,801	\$ 2,148,110	\$ 8,197,154	\$ 6,259,465

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
United States	\$ 3,033,101	\$ 1,601,962	\$ 6,100,877	\$ 4,679,251
Canada	582,700	431,233	1,311,724	1,230,855
Other International	526,000	114,915	784,553	349,359
Total by geography ⁽¹⁾	\$ 4,141,801	\$ 2,148,110	\$ 8,197,154	\$ 6,259,465

⁽¹⁾ WESCO attributes revenues from external customers to individual countries on the basis of point of sale.

In accordance with certain contractual arrangements, WESCO receives payment from its customers in advance and recognizes such payment as deferred revenue. Revenue for advance payment is recognized when the performance obligation has been satisfied and control has transferred to the customer, which is generally upon shipment. Deferred revenue is usually recognized within a year or less from the date of the customer's advance payment. At September 30, 2020 and December 31, 2019, \$27.7 million and \$12.3 million, respectively, of deferred revenue was recorded as a component of other current liabilities in the Condensed Consolidated Balance Sheets.

WESCO's revenues are adjusted for variable consideration, which includes customer volume rebates, returns, and discounts. WESCO measures variable consideration by estimating expected outcomes using analysis and inputs based upon anticipated performance, historical data, as well as current and forecasted information. Measurement and recognition of variable consideration is reviewed by management on a monthly basis and revenue is adjusted accordingly. Variable consideration reduced revenue for the three months ended September 30, 2020 and 2019 by approximately \$75.4 million and \$26.3 million, respectively, and by approximately \$129.0 million and \$80.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Shipping and handling activities are recognized in net sales when they are billed to the customer. The related costs are recognized as a component of selling, general and administrative expenses. WESCO has elected to recognize shipping and handling costs as a fulfillment cost. Shipping and handling costs recorded as a component of selling, general and administrative expenses totaled \$55.5 million and \$17.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$94.4 million and \$52.8 million for the nine months ended September 30, 2020 and 2019, respectively.

4. ACQUISITIONS

Anixter International Inc.

As described in Note 1, on June 22, 2020, WESCO completed its previously announced merger with Anixter. The Company used the net proceeds from the issuance of senior unsecured notes, borrowings under its revolving credit facility and accounts receivable securitization facility (as described further in Note 8), as well as cash on hand, to finance the acquisition of Anixter and related transaction costs.

At the effective time of the Merger, each outstanding share of common stock of Anixter (subject to limited exceptions) was converted into the right to receive (i) \$72.82 in cash, (ii) 0.2397 shares of common stock of WESCO, par value \$0.01 per share (the "WESCO Common Stock") and (iii) 0.6356 depository shares, each representing a 1/1,000th interest in a share of newly issued fixed-rate reset cumulative perpetual preferred stock of WESCO, Series A, with a \$25,000 stated amount per whole preferred share and an initial dividend rate equal to 10.625%.

Anixter is a leading distributor of network and security solutions, electrical and electronic solutions, and utility power solutions with locations in over 300 cities across approximately 50 countries, and 2019 annual sales of more than \$8 billion. The Merger brought together two companies with highly compatible capabilities and characteristics. The combination of WESCO and Anixter created an enterprise with scale and should afford the Company the opportunity to digitize its business, and expand its services portfolio and supply chain offerings.

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The total preliminary estimated fair value of consideration transferred for the Merger consisted of the following:

	(In thousands)
Cash portion attributable to common stock outstanding	\$ 2,476,010
Cash portion attributable to options and restricted stock units outstanding	87,375
Fair value of cash consideration	<u>2,563,385</u>
Common stock consideration	313,512
Series A preferred stock consideration	<u>573,786</u>
Fair value of equity consideration	887,298
Extinguishment of Anixter obligations, including accrued and unpaid interest	<u>1,247,653</u>
Total purchase consideration	<u>\$ 4,698,336</u>
Supplemental cash flow disclosure related to acquisitions:	
Cash paid for acquisition	\$ 3,811,038
Less: Cash acquired	<u>(103,463)</u>
Cash paid for acquisition, net of cash acquired	<u>\$ 3,707,575</u>

The Merger was accounted for as a business combination with WESCO acquiring Anixter in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*. Under the acquisition method of accounting, the preliminary purchase consideration was allocated to the identified assets acquired and liabilities assumed based on their respective acquisition date fair value, with any excess allocated to goodwill. The fair value estimates were based on income, market and cost valuation methods using primarily unobservable inputs developed by management, which are categorized within Level 3 of the fair value hierarchy. Significant inputs used to value the identifiable intangible assets included projected revenues, estimated future cash flows, discount rates, royalty rates, and applicable income tax rates. The excess purchase consideration recorded to goodwill is not deductible for income tax purposes, and has been assigned to the Company's reportable segments based on their relative fair values, as disclosed in Note 5. The resulting goodwill is primarily attributable to Anixter's workforce, significant cross-selling opportunities in additional geographies, enhanced scale, and other operational efficiencies.

In the third quarter of 2020, the Company recognized adjustments to total identifiable intangible assets and deferred income taxes of \$5.4 million and \$7.3 million, respectively. Certain other measurement period adjustments were made to the identified assets acquired and liabilities assumed, none of which were significant, individually or in aggregate. The net impact of the adjustments made in the third quarter of 2020 was a decrease to goodwill of \$7.6 million.

The estimated fair values of assets acquired and liabilities assumed are based on preliminary calculations and valuations using estimates and assumptions at the time of acquisition. The determination of the fair values of assets acquired and liabilities assumed, especially those related to identifiable intangible assets, is preliminary due to the complexity of combining multibillion dollar businesses. Accordingly, as the Company obtains additional information during the measurement period (not to exceed one year from the acquisition date), estimates and assumptions for the preliminary purchase consideration allocations may change materially.

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The following table sets forth the preliminary allocation of the purchase consideration to the respective fair value of assets acquired and liabilities assumed for the acquisition of Anixter:

	(In thousands)
Assets	
Cash and cash equivalents	\$ 103,463
Trade accounts receivable	1,309,104
Other accounts receivable	116,386
Inventories	1,424,678
Prepaid expenses and other current assets	53,462
Property, buildings and equipment	213,020
Operating lease assets	262,413
Intangible assets	1,838,065
Goodwill	1,360,373
Other assets	112,386
Total assets	\$ 6,793,350
Liabilities	
Accounts payable	\$ 920,163
Accrued payroll and benefit costs	69,480
Short-term debt and current portion of long-term debt	13,225
Other current liabilities	222,615
Long-term debt	77,822
Operating lease liabilities	199,959
Deferred income taxes	384,890
Other noncurrent liabilities	206,860
Total liabilities	\$ 2,095,014
Fair value of net assets acquired, including goodwill and intangible assets	<u><u>\$ 4,698,336</u></u>

The following table sets forth the preliminary identifiable intangible assets and their estimated weighted-average useful lives:

Identifiable Intangible Assets	Estimated Fair Value	Weighted-Average Estimated Useful Life in Years
	(In thousands)	
Customer relationships	\$ 1,098,900	16
Trademarks	735,000	Indefinite
Non-compete agreements	4,165	1
Total identifiable intangible assets	<u><u>\$ 1,838,065</u></u>	

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The results of operations of Anixter are included in the unaudited condensed consolidated financial statements beginning on June 22, 2020, the acquisition date. For the three and nine months ended September 30, 2020, the condensed consolidated statements of income include \$2.2 billion and \$2.4 billion of net sales, respectively, and \$80.0 million and \$98.4 million of income from operations for Anixter, respectively. Transaction costs related to the merger were comprised of legal, advisory and other costs of \$14.5 million and \$92.1 million, which are included in selling, general and administrative expenses for the three and nine months ended September 30, 2020, respectively.

Pro Forma Financial Information

The following unaudited pro forma financial information presents combined results of operations for the periods presented, as if the Company had completed the Merger on January 1, 2019. The unaudited pro forma financial information includes adjustments to amortization and depreciation for intangible assets and property, buildings and equipment, adjustments to interest expense for the additional indebtedness incurred to complete the acquisition (including the amortization of debt discount and issuance costs), transaction costs, change in control and severance costs, dividends accrued on the Series A preferred stock, compensation expense associated with the WESCO phantom stock unit awards described in Note 10, as well as the respective income tax effects of such adjustments. For the three months ended September 30, 2020 and 2019, adjustments totaling \$1.5 million and \$57.4 million, respectively, decreased the unaudited pro forma net income attributable to common stockholders. For the nine months ended September 30, 2020 and 2019, adjustments totaling \$0.4 million and \$167.8 million, respectively, decreased the unaudited pro forma net income attributable to common stockholders. The unaudited pro forma financial information does not reflect any cost savings, operating synergies or revenue enhancements that WESCO may achieve as a result of its acquisition of Anixter, the costs to integrate the operations of WESCO and Anixter or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. The unaudited pro forma financial information presented below is not necessarily indicative of consolidated results of operations of the combined business had the acquisition occurred at the beginning of the respective fiscal years, nor is it necessarily indicative of future results of operations of the combined company.

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Pro forma net sales	\$ 4,111,716	\$ 4,332,980	\$ 11,802,538	\$ 12,758,461
Pro forma net income attributable to common stockholders	63,844	66,416	106,858	164,424

On August 6, 2020, the Company entered into a Consent Agreement with the Competition Bureau of Canada regarding the merger with Anixter. Under the Consent Agreement, the Company is required to divest its legacy Utility and Datacom businesses in Canada, which had total sales of less than \$150 million in 2019. The process to divest the businesses has commenced, and WESCO is working to complete the divestitures on a timely basis. The Company expects to use the net proceeds from the divestiture to repay indebtedness.

Sylvania Lighting Services Corp.

On March 5, 2019, WESCO Distribution, Inc. ("WESCO Distribution"), through its WESCO Services, LLC subsidiary, acquired certain assets and assumed certain liabilities of Sylvania Lighting Services Corp. ("SLS"). SLS offers a full spectrum of energy-efficient lighting upgrade, retrofit, and renovation solutions with annual sales of approximately \$100 million and approximately 220 employees across the U.S. and Canada. WESCO Distribution funded the purchase price paid at closing with borrowings under its then outstanding accounts receivable securitization facility. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date, resulting in goodwill of \$11.6 million, which is deductible for tax purposes.

The following table sets forth the consideration paid for the acquisition of SLS:

	Nine Months Ended
	September 30 2019
	(In thousands)
Fair value of assets acquired	\$ 34,812
Fair value of liabilities assumed	7,070
Cash paid for acquisition	\$ 27,742

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5. GOODWILL AND INTANGIBLE ASSETS

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

	Nine Months Ended September 30 2020			
	EES	CSS	UBS	Total
	(In thousands)			
Beginning balance January 1	\$ 573,447	\$ 235,711	\$ 949,882	\$ 1,759,040
Adjustments to goodwill for acquisitions (Note 4) ^{(1) (2)}	245,624	858,022	262,544	1,366,190
Foreign currency exchange rate changes	(9,137)	323	2,402	(6,412)
Ending balance September 30	<u>\$ 809,934</u>	<u>\$ 1,094,056</u>	<u>\$ 1,214,828</u>	<u>\$ 3,118,818</u>

⁽¹⁾ Adjustments to goodwill include the final allocation of the purchase price paid for SLS, as described in Note 4, to the respective assets acquired and liabilities assumed.

⁽²⁾ The effect of the merger with Anixter on the Company's determination of reportable segments is disclosed in Note 14.

Certain triggering events occurred during the first quarter of 2020, including the effect of the ongoing macroeconomic disruption and uncertainty caused by the COVID-19 pandemic, as well as the decline in the Company's share price and market capitalization, both of which indicated that the carrying value of goodwill and indefinite-lived intangible assets may not be recoverable. Accordingly, the Company performed an interim test for impairment as of March 31, 2020. There were no impairment losses identified as a result of this interim test.

As disclosed in Note 1, the Company identified new operating segments during the third quarter of 2020, which changed the composition of its reporting units. Accordingly, the Company reassigned goodwill to the new reporting units using a relative fair value allocation approach. The Company performed a goodwill impairment test immediately before and after it reorganized its reporting structure. Goodwill was tested for impairment on a reporting unit level and the evaluation involved comparing the fair value of each reporting unit to its carrying value. The fair values of the Company's reporting units were determined using a combination of a discounted cash flow analysis and market multiples. In performing the quantitative assessments, management used expected operating margins supported by a combination of historical results, current forecasts, market data and recent economic events, which are categorized within Level 3 of the fair value hierarchy. The Company used a discount rate that reflects market participants' cost of capital. There were no impairment losses identified as a result of these tests.

Although all of the Company's reporting units have fair values that currently exceed the respective carrying values, the EES reporting unit with goodwill of \$809.9 million had an estimated fair value that exceeded its respective carrying value by less than 10%. The determination of fair value of the reporting units involves significant management judgment, particularly as it relates to the underlying assumptions and factors around expected operating margins and discount rate.

Due to the ongoing uncertainty surrounding the current macroeconomic environment and conditions in the markets in which WESCO operates, as well as the risk that the Company may not fully realize cost savings, operating synergies or revenue improvement as a result of its acquisition of Anixter, there can be no assurance that the fair values of the Company's reporting units will exceed their carrying values in the future, and that goodwill and indefinite-lived intangible assets will be fully recoverable.

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The components of intangible assets are as follows:

(In thousands)		September 30, 2020			December 31, 2019		
		Gross Carrying Amount ⁽¹⁾	Accumulated Amortization ⁽¹⁾	Net Carrying Amount	Gross Carrying Amount ⁽¹⁾	Accumulated Amortization ⁽¹⁾	Net Carrying Amount
Intangible assets:	Life						
Trademarks	Indefinite	\$ 832,525	\$ —	\$ 832,525	\$ 98,699	\$ —	\$ 98,699
Trademarks	10 - 15	24,894	(10,961)	13,933	24,800	(9,319)	15,481
Non-compete agreements	2 - 5	4,342	(694)	3,648	196	(180)	16
Customer relationships	10 - 20	1,455,003	(237,896)	1,217,107	358,341	(201,962)	156,379
Distribution agreements	10 - 19	37,281	(27,031)	10,250	37,371	(25,294)	12,077
Patents	10	48,310	(47,305)	1,005	48,310	(43,687)	4,623
		<u>\$ 2,402,355</u>	<u>\$ (323,887)</u>	<u>\$ 2,078,468</u>	<u>\$ 567,717</u>	<u>\$ (280,442)</u>	<u>\$ 287,275</u>

⁽¹⁾ Excludes the original cost and related accumulated amortization of fully-amortized intangible assets.

Amortization expense related to intangible assets totaled \$27.3 million and \$8.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$45.9 million and \$25.7 million for the nine months ended September 30, 2020 and 2019, respectively.

The following table sets forth the remaining estimated amortization expense for intangible assets for the next five years and thereafter:

For year ending December 31,	(In thousands)
2020	\$ 26,960
2021	100,459
2022	96,608
2023	95,288
2024	91,870
Thereafter	834,758

6. STOCK-BASED COMPENSATION

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

Stock-settled stock appreciation rights vest ratably over a three-year period and terminate on the tenth anniversary of the grant date unless terminated sooner under certain conditions. Except for the special award described below, vesting of restricted stock units is based on a minimum time period of three years. Vesting of performance-based awards is based on a three-year performance period, and the number of shares earned, if any, depends on the attainment of certain performance levels. Outstanding awards would vest upon the consummation of a change in control transaction and performance-based awards would vest at the target level.

On July 2, 2020, a special award of restricted stock units was granted to certain officers of the Company. These awards vest in tranches of 30% on each of the first and second anniversaries of the grant date and 40% on the third anniversary of the grant date, subject, in each case, to continued employment through the applicable anniversary date.

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Performance-based awards granted in 2020 and 2019 were based on two equally-weighted performance measures: the three-year average growth rate of WESCO's net income and the three-year cumulative return on net assets. Performance-based awards granted in 2018 were based on two equally-weighted performance measures: the three-year average growth rate of the Company's fully diluted earnings per share and the three-year cumulative return on net assets.

During the three and nine months ended September 30, 2020 and 2019, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted-average fair values:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Stock-settled stock appreciation rights granted	—	—	262,091	213,618
Weighted-average fair value	\$ —	\$ —	\$ 13.86	\$ 16.36
Restricted stock units granted	444,375	6,256	655,825	181,800
Weighted-average fair value	\$ 32.18	\$ 47.95	\$ 37.38	\$ 54.41
Performance-based awards granted	—	—	158,756	126,874
Weighted-average fair value	\$ —	\$ —	\$ 48.67	\$ 54.64

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Risk free interest rate	n/a	n/a	1.4 %	2.5 %
Expected life (in years)	n/a	n/a	5	5
Expected volatility	n/a	n/a	30 %	29 %

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

The following table sets forth a summary of stock-settled stock appreciation rights and related information for the nine months ended September 30, 2020:

	Awards	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2019	2,337,049	\$ 59.72		
Granted	262,091	48.32		
Exercised	(182,487)	33.57		
Forfeited	(39,112)	65.57		
Outstanding at September 30, 2020	2,377,541	60.37	5.7	\$ 679
Exercisable at September 30, 2020	1,844,929	\$ 62.32	5.0	\$ 679

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The following table sets forth a summary of time-based restricted stock units and related information for the nine months ended September 30, 2020:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2019	363,729	\$ 60.00
Granted	655,825	37.38
Vested	(80,486)	69.68
Forfeited	(8,364)	60.03
Unvested at September 30, 2020	930,704	\$ 43.23

The following table sets forth a summary of performance-based awards for the nine months ended September 30, 2020:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2019	195,305	\$ 60.24
Granted	158,756	48.67
Vested	(25,909)	78.04
Forfeited	(20,538)	71.47
Unvested at September 30, 2020	307,614	\$ 52.60

Vesting of the 307,614 shares of performance-based awards in the table above is dependent upon the achievement of certain performance targets, including 134,010 that are dependent upon the three-year average growth rate of WESCO's net income, 19,797 that are dependent upon the three-year average growth rate of the Company's fully diluted earnings per share, and 153,807 that are based upon the three-year cumulative return on net assets. These awards are accounted for as awards with performance conditions; compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized \$6.0 million and \$4.4 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2020 and 2019, respectively. WESCO recognized \$15.5 million and \$14.2 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, there was \$39.8 million of unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which \$6.0 million is expected to be recognized over the remainder of 2020, \$17.8 million in 2021, \$12.4 million in 2022 and \$3.6 million in 2023.

7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of equity awards.

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

(In thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Net income attributable to WESCO International	\$ 80,678	\$ 64,495	\$ 80,578	\$ 170,329
Less: Preferred stock dividends	14,511	—	15,787	—
Net income attributable to common stockholders	\$ 66,167	\$ 64,495	\$ 64,791	\$ 170,329
Weighted-average common shares outstanding used in computing basic earnings per share	50,043	42,100	44,873	43,545
Common shares issuable upon exercise of dilutive equity awards	444	278	231	355
Weighted-average common shares outstanding and common share equivalents used in computing diluted earnings per share	50,487	42,378	45,104	43,900
Earnings per share attributable to common stockholders				
Basic	\$ 1.32	\$ 1.53	\$ 1.44	\$ 3.91
Diluted	\$ 1.31	\$ 1.52	\$ 1.44	\$ 3.88

For the three and nine months ended September 30, 2020, the computation of diluted earnings per share attributable to common stockholders excluded stock-based awards of approximately 2.0 million and 3.0 million, respectively. For the three and nine months ended September 30, 2019, the computation of diluted earnings per share attributable to common stockholders excluded stock-based awards of approximately 1.8 million. These amounts were excluded because their effect would have been antidilutive.

In December 2017, the Company's Board of Directors authorized the repurchase of up to \$300 million of the Company's common stock through December 31, 2020. In October 2018, the Board approved an increase to this repurchase authorization from \$300 million to \$400 million. For the three months ended September 30, 2019, the Company received 695,496 shares from an accelerated stock repurchase transaction entered into on May 7, 2019. For the nine months ended September 30, 2019, the Company received a total of 3,455,584 shares, of which 365,272 were received upon the settlement of an accelerated stock repurchase agreement entered into on November 6, 2018.

The total number of shares ultimately delivered under an accelerated stock repurchase transaction is determined by the average of the volume-weighted-average price of the Company's common stock for each exchange business day during the respective settlement valuation periods. For purposes of computing earnings per share for the three and nine months ended September 30, 2019, share repurchases have been reflected as a reduction to common shares outstanding on the respective delivery dates.

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8. DEBT

The following table sets forth WESCO's outstanding indebtedness:

	As of	
	September 30, 2020	December 31, 2019
(In thousands)		
International lines of credit	\$ 29,787	\$ 26,255
Accounts Receivable Securitization Facility	890,000	415,000
Revolving Credit Facility	325,000	—
5.375% Senior Notes due 2021	500,000	500,000
5.50% Senior Notes due 2023	58,636	—
5.375% Senior Notes due 2024	350,000	350,000
6.00% Senior Notes due 2025	4,173	—
7.125% Senior Notes due 2025	1,500,000	—
7.250% Senior Notes due 2028, less debt discount of \$9,643	1,315,357	—
Finance lease obligations	14,891	1,373
Total debt	4,987,844	1,292,628
Plus: Fair value adjustment to the Anixter Senior Notes	1,824	—
Less: Unamortized debt issuance costs	(82,700)	(8,876)
Less: Short-term debt and current portion of long-term debt	(28,844)	(26,685)
Total long-term debt	\$ 4,878,124	\$ 1,257,067

Amended and Restated Accounts Receivable Securitization Facility

On June 22, 2020, WESCO Distribution amended its accounts receivable securitization facility (the "Receivables Facility") pursuant to the terms and conditions of a Fifth Amended and Restated Receivables Purchase Agreement (the "Receivables Purchase Agreement"), by and among WESCO Receivables Corp. ("WESCO Receivables"), WESCO Distribution, the various purchaser groups from time to time party thereto and PNC Bank, National Association, as Administrator. The Receivables Purchase Agreement amends and restates the amended and restated receivables purchase agreement entered into on September 24, 2015 (the "Existing Receivables Purchase Agreement").

The Receivables Purchase Agreement, among other things, increased the purchase limit under the Existing Receivables Purchase Agreement from \$600 million to \$1,025 million, with the opportunity to exercise an accordion feature that permits increases in the purchase limit of up to \$375 million, extended the term of the Receivables Facility to June 22, 2023 and added and amended certain defined terms. Borrowings under the Receivables Facility bear interest at the 30-day LIBOR rate, with a LIBOR floor of 0.5%, plus applicable spreads. The interest rate spread of the Receivables Facility increased from 0.95% to 1.20%. The commitment fee remained unchanged at 0.45%.

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

Amended and Restated Asset-Based Revolving Credit Facility

On June 22, 2020, WESCO, WESCO Distribution and certain other subsidiaries of WESCO entered into a \$1,100 million revolving credit facility (the "Revolving Credit Facility"), as a replacement of WESCO Distribution's existing revolving credit facility entered into on September 26, 2019, pursuant to the terms and conditions of a Fourth Amended and Restated Credit Agreement, dated as of June 22, 2020 (the "Credit Agreement"), among WESCO Distribution, the other U.S. borrowers party thereto (collectively, the "U.S. Borrowers"), WESCO Distribution Canada LP ("WESCO Canada"), the other Canadian borrowers party thereto (collectively, the "Canadian Borrowers"), WESCO, the lenders party thereto and Barclays Bank PLC,

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as the administrative agent. The Revolving Credit Facility contains a letter of credit sub-facility of up to \$175 million and an accordion feature allowing WESCO Distribution to request increases to the borrowing commitments under the Revolving Credit Facility of up to \$500 million in the aggregate, subject to customary conditions. The Revolving Credit Facility matures in June 2025.

The obligations of WESCO Distribution and the other U.S. Borrowers under the Revolving Credit Facility have been guaranteed by WESCO and certain of WESCO Distribution's subsidiaries (including certain subsidiaries of Anixter Inc.). The obligations of WESCO Canada and the other Canadian Borrowers under the Revolving Credit Facility (including certain subsidiaries of Anixter Inc.) have been guaranteed by certain subsidiaries of WESCO Canada and the other Canadian Borrowers. The Revolving Credit Facility is secured by (i) substantially all assets of WESCO Distribution, the other U.S. Borrowers and certain of WESCO Distribution's subsidiaries (including certain subsidiaries of Anixter Inc.), other than, among other things, real property and accounts receivable sold or intended to be sold pursuant to WESCO Distribution's Receivables Facility, and (ii) substantially all assets of WESCO Canada, the other Canadian Borrowers and certain of WESCO Canada's subsidiaries, other than, among other things, real property, in each case, subject to customary exceptions and limitations. The applicable interest rate for borrowings under the Revolving Credit Facility includes interest rate spreads based on available borrowing capacity that range between 1.25% and 1.50% for LIBOR-based borrowings and 0.25% and 0.50% for prime rate-based borrowings.

The Credit Agreement requires compliance with conditions that must be satisfied prior to any borrowing as well as ongoing compliance with certain customary affirmative and negative covenants. The Credit Agreement contains customary events of default. Upon the occurrence and during the continuance of an event of default, the commitments of the lenders may be terminated, and all outstanding obligations of the loan parties under the Revolving Credit Facility may be declared immediately due and payable.

5.50% Senior Notes due 2023

6.00% Senior Notes due 2025

On April 30, 2020, in connection with the Merger, WESCO Distribution commenced offers to purchase for cash (each, a "WESCO Tender Offer" and, together the "WESCO Tender Offers") any and all of Anixter Inc.'s outstanding (i) 5.50% Senior Notes due 2023 (the "Anixter 2023 Senior Notes"), \$350.0 million aggregate principal amount, issued under the Indenture, dated as of August 18, 2015 (the "Anixter 2023 Indenture"), by and among Anixter Inc., Anixter and Wells Fargo Bank, National Association, as trustee, and (ii) 6.00% Senior Notes due 2025 (the "Anixter 2025 Senior Notes" and, together with the Anixter 2023 Senior Notes, the "Anixter Senior Notes"), \$250.0 million aggregate principal amount, issued under the Indenture, dated as of November 13, 2018 (the "Anixter 2025 Indenture" and, together with the Anixter 2023 Indenture, the "Anixter Indentures") by and among Anixter Inc., Anixter and Wells Fargo Bank, National Association, as trustee.

Concurrent with the WESCO Tender Offers, Anixter Inc. commenced consent solicitations to amend the definition of "Change of Control" under the applicable Indenture to exclude the Merger and related transactions and expressly permit a merger between Anixter Inc. and Anixter (the "Anixter Consent Solicitations").

On June 23, 2020 (the "Expiration Date"), following the completion of the Merger, the WESCO Tender Offers and Anixter Consent Solicitations expired and settled. Pursuant to the terms of the Offer to Purchase and Consent Solicitation Statement, dated April 30, 2020, holders of the Anixter Senior Notes that validly tendered and did not validly withdraw prior to such date, received total tender offer consideration of \$1,012.50 per \$1,000 principal amount of Anixter Senior Notes, which amount, in each case, included an early tender payment of \$50.00 per \$1,000 principal amount of Anixter Senior Notes. Holders who validly delivered their consents at or prior to the Expiration Date received a consent fee of \$2.50 per \$1,000 principal amount of Anixter Senior Notes.

As of September 30, 2020, \$58.6 million and \$4.2 million aggregate principal amount of the Anixter 2023 Senior Notes and Anixter 2025 Senior Notes, respectively, were outstanding.

7.125% Senior Notes due 2025

7.250% Senior Notes due 2028

On June 12, 2020, WESCO Distribution issued \$1,500 million aggregate principal amount of 7.125% Senior Notes due 2025 (the "2025 Notes") and \$1,325 million aggregate principal amount of 7.250% Senior Notes due 2028 (the "2028 Notes" and, together with the 2025 Notes, the "Notes"). The 2025 Notes were issued at a price of 100.000% of the aggregate principal amount. The 2028 Notes were issued at a price of 99.244% of the aggregate principal amount.

The Notes were issued pursuant to, and are governed by, an indenture (the "Notes Indenture"), dated as of June 12, 2020, between the Company, WESCO Distribution and U.S. Bank National Association, as trustee (the "Trustee"). The Notes and

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related guarantees were issued in a private transaction exempt from the Securities Act of 1933, as amended (the “Securities Act”) and have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from, or in a transaction not subject to the registration requirements of the Securities Act and other applicable securities laws.

The Company used the net proceeds from the issuance of the Notes, together with borrowings under its new and amended credit facilities and existing cash on hand, to finance the Merger and the other transactions contemplated by the Merger Agreement. The use of proceeds included (i) paying the cash portion of the Merger consideration to stockholders of Anixter, (ii) refinancing certain existing indebtedness of Anixter contemplated by the Merger Agreement, including financing the satisfaction and discharge, defeasance, redemption or other repayment in full of the 5.125% Senior Notes due 2021 of Anixter Inc., a wholly owned subsidiary of Anixter, and financing payments in connection with the Anixter Consent Solicitations and WESCO Tender Offers, as described above, (iii) refinancing other indebtedness of the Company, and (iv) paying fees, costs and expenses in connection with the foregoing.

The Notes are unsecured and unsubordinated obligations of WESCO Distribution and are guaranteed on an unsecured, unsubordinated basis by the Company and Anixter Inc. The 2025 Notes accrue interest at a rate of 7.125% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2020. The 2025 Notes will mature on June 15, 2025. The 2028 Notes accrue interest at a rate of 7.250% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2020. The 2028 Notes will mature on June 15, 2028.

WESCO Distribution may redeem all or a part of the 2025 Notes at any time prior to June 15, 2022 by paying a “make-whole” premium plus accrued and unpaid interest, if any, to but excluding the redemption date. In addition, at any time prior to June 15, 2022, WESCO Distribution may redeem up to 35% of the 2025 Notes with the net cash proceeds from certain equity offerings. On or after June 15, 2022, WESCO Distribution may redeem all or a part of the 2025 Notes on the redemption dates and at the redemption prices specified in the Notes Indenture. WESCO Distribution may redeem all or a part of the 2028 Notes at any time prior to June 15, 2023 by paying a “make-whole” premium plus accrued and unpaid interest, if any, to but excluding the redemption date. In addition, at any time prior to June 15, 2023, WESCO Distribution may redeem up to 35% of the 2028 Notes with the net cash proceeds from certain equity offerings. On or after June 15, 2023, WESCO Distribution may redeem all or a part of the 2028 Notes on the redemption dates and at the redemption prices specified in the Notes Indenture.

The Notes Indenture contains certain covenants that, among other things, limit (i) the Company’s and its subsidiaries’ ability to pay dividends on or repurchase the Company’s capital stock, incur liens on assets, engage in certain sale and leaseback transactions or sell certain assets, and (ii) the Company’s and any guarantor’s ability to sell all or substantially all of its assets to, or merge or consolidate with or into, other persons, in the case of each of the foregoing, subject to certain qualifications and exceptions, including the termination of certain of these covenants upon the Notes receiving investment grade credit ratings.

The Notes Indenture contains certain events of default, including, among other things, failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency, and failure to pay certain judgments. An event of default under the Notes Indenture will allow either the Trustee or the holders of at least 25% in aggregate principal amount of the applicable series of the then-outstanding Notes to accelerate, or in certain cases, will automatically cause the acceleration of the amounts due under the applicable series of Notes.

9. STOCKHOLDERS' EQUITY

Series A Preferred Stock

The Company's Board of Directors authorized 25,000 shares of fixed-rate reset cumulative perpetual preferred stock, Series A, with a liquidation preference of \$25,000 per whole preferred share and a par value of \$0.01 per share (the "Series A Preferred Stock"). Depositary shares, each representing a 1/1,000th interest in a share of Series A Preferred Stock, are registered under the Securities Act of 1933, as amended.

In connection with the Merger, as described in Note 4, the Company issued 21,611,534 depositary shares, representing an interest in approximately 21,612 shares of Series A Preferred Stock.

Holders of shares of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Company's Board of Directors, cumulative cash dividends at an initial rate of 10.625% per annum of the \$25,000 liquidation preference per share.

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On June 22, 2025, and every five-year period thereafter, the dividend rate on the Series A Preferred Stock resets and will be equal to the Five-year U.S. Treasury Rate plus a spread of 10.325%.

Holders of the Series A Preferred Stock are not entitled to convert or exchange their shares of Series A Preferred stock into shares of any of WESCO's other classes or series of stock or into any other security of WESCO (other than upon a change of control involving the issuance of additional shares of common stock or other change of control transaction, in each case, approved by holders of common stock).

The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund, retirement fund or purchase fund or any other obligation of WESCO to redeem, repurchase or retire the Series A Preferred Stock.

Holders of the Series A Preferred Stock will have limited voting rights, including the right to elect two directors to the board of directors of the Company in the event dividends on the Series A Preferred Stock remain unpaid for the equivalent of six or more full quarterly dividend periods.

Stockholder Rights Plan

On July 17, 2020, WESCO's Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock of WESCO, par value \$0.01 per share ("WESCO Common Stock"), and adopted a stockholder rights plan, as set forth in the Rights Agreement, dated as of July 17, 2020 (the "Rights Agreement"), by and between WESCO and Computershare Trust Company, N.A., as rights agent. In general terms, the Rights Agreement works by imposing a significant penalty upon any person or group which acquires 10% or more (15% or more in the case of passive investors filing statements on Schedule 13G) of the outstanding WESCO Common Stock without the approval of the Board. The dividend Right was paid on July 27, 2020 to WESCO stockholders of record as of the close of business on July 27, 2020. The Rights Agreement provides that the Rights will expire on July 16, 2021. The Rights have no value upon issuance.

10. PENSION PLANS, POST-RETIREMENT BENEFITS AND OTHER BENEFITS

Defined Contribution Plans

WESCO Distribution sponsors a defined contribution retirement savings plan for the majority of its U.S. employees. The Company matches contributions made by employees at an amount equal to 50% of participants' total monthly contributions up to 6% of eligible compensation. Contributions are made in cash and employees have the option to transfer balances allocated to their accounts into any of the available investment options. The Company may also make, subject to the Board of Directors' approval, a discretionary contribution to the defined contribution retirement savings plan covering U.S. participants if certain predetermined profit levels are attained. Due to the COVID-19 pandemic and its adverse effect on WESCO's results of operations, the Company suspended matching employer contributions between April 16, 2020 and September 30, 2020.

WESCO Distribution Canada LP, a wholly-owned subsidiary of the Company, sponsors a defined contribution plan for certain Canadian employees. The Company makes contributions in amounts ranging from 3% to 5% of participants' eligible compensation based on years of continuous service.

Anixter Inc. sponsors a defined contribution plan covering all of its non-union U.S. employees (the "Anixter Employee Savings Plan"). The employer match for the Anixter Employee Savings Plan is equal to 50% of a participant's contribution up to 5% of the participant's compensation. Anixter Inc. will also make an annual contribution to the Anixter Employee Savings Plan on behalf of each active participant who is hired or rehired on or after July 1, 2015, or is not participating in the Anixter Inc. Pension Plan. The amount of the employer annual contribution is equal to either 2% or 2.5% of the participant's compensation, as determined by the participant's years of service. This contribution is in lieu of being eligible for the Anixter Inc. Pension Plan. Certain of Anixter Inc.'s foreign subsidiaries also have defined contribution plans. Contributions to these plans are based upon various levels of employee participation and legal requirements.

Deferred Compensation Plans

WESCO Distribution sponsors a deferred compensation plan (the "WESCO Deferred Compensation Plan") that permits select employees to make pre-tax deferrals of salary and bonus. Employees have the option to transfer balances allocated to their accounts in the WESCO Deferred Compensation Plan into any of the available investment options. The WESCO Deferred Compensation Plan is an unfunded plan. As of September 30, 2020, the Company's obligation under the WESCO Deferred Compensation Plan was \$26.0 million, of which \$10.1 million was included in other current liabilities and \$15.9 million in other noncurrent liabilities in the Condensed Consolidated Balance Sheet. At December 31, 2019, the Company's obligation under the WESCO Deferred Compensation Plan was \$25.2 million, which was included in other noncurrent liabilities in the Condensed Consolidated Balance Sheet.

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Anixter Inc. sponsors a non-qualified deferred compensation plan (the "Anixter Deferred Compensation Plan") that permits select employees to make pre-tax deferrals of salary and bonus. Interest is accrued monthly on the deferred compensation balances based on the average ten-year Treasury note rate for the previous three months times a factor of 1.4, and the rate is further adjusted if certain financial goals are achieved. At September 30, 2020, the deferred compensation liabilities included in other current liabilities and other noncurrent liabilities in the Condensed Consolidated Balance Sheet were \$3.8 million and \$42.4 million, respectively.

Concurrent with the implementation of the Anixter Deferred Compensation Plan, the Company established a Rabbi Trust arrangement to provide for the liabilities associated with the deferred compensation plan and an executive non-qualified defined benefit plan. The assets are invested in marketable securities. At September 30, 2020, \$39.5 million was recorded in other assets in the Condensed Consolidated Balance Sheet for this arrangement.

Defined Benefit Plans

WESCO sponsors a contributory defined benefit plan covering substantially all Canadian employees of EECOL Electric Corp. ("EECOL") and a Supplemental Executive Retirement Plan for certain executives of EECOL (the "EECOL SERP").

Anixter Inc. sponsors defined benefit pension plans in the U.S., which consist of the Anixter Inc. Pension Plan, the Executive Benefit Plan and the Supplemental Executive Retirement Plan (the "Anixter SERP") (together, the "Anixter Domestic Plans") and various defined benefit pension plans covering employees of foreign subsidiaries in Canada and Europe (together, the "Anixter Foreign Plans"). The Anixter Inc. Pension Plan was frozen to entrants first hired or rehired on or after July 1, 2015. The majority of these defined benefit pension plans are non-contributory, and with the exception of U.S. and Canada, cover substantially all full-time domestic employees and certain employees in other countries. Retirement benefits are provided based on compensation as defined in both the Anixter Domestic Plans and the Anixter Foreign Plans. The Anixter Domestic Plans are funded as required by the Employee Retirement Income Security Act of 1974 ("ERISA") and the IRS and all Anixter Foreign Plans are funded as required by applicable foreign laws. The Anixter Inc. Executive Benefit Plan and the Anixter SERP are unfunded plans.

During the three and nine months ended September 30, 2020, the Company made aggregate cash contributions of \$2.9 million and \$4.7 million, respectively, for all of the benefit plans described above.

For the nine months ended September 30, 2020 and 2019, WESCO incurred total charges of \$13.6 million and \$24.7 million, respectively, for all of the benefit plans described above.

The following table sets forth the components of net periodic benefit costs for the Company's defined benefit plans:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Service cost	\$ 3,826	\$ 1,158	\$ 6,801	\$ 3,446
Interest cost	4,844	1,098	7,170	3,267
Expected return on plan assets	(8,399)	(1,433)	(12,001)	(4,265)
Recognized actuarial gain ⁽¹⁾	(1)	(16)	52	(47)
Net periodic benefit cost	\$ 270	\$ 807	\$ 2,022	\$ 2,401

⁽¹⁾ For the three and nine months ended September 30, 2020 and 2019, no amounts were reclassified from accumulated other comprehensive income into net income, respectively.

The service cost of \$3.8 million and \$1.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$6.8 million and \$3.4 million for the nine months ended September 30, 2020 and 2019, respectively, is reported as a component of selling, general and administrative expenses. The other components of net periodic benefit cost totaling a net benefit of \$3.6 million and \$0.4 million for the three months ended September 30, 2020 and 2019, respectively, and \$4.8 million and \$1.0 million for the nine months ended September 30, 2020 and 2019, respectively, are presented as a component of other non-operating expenses ("other, net").

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Other Benefits

As permitted by the Merger Agreement, Anixter granted restricted stock units prior to June 22, 2020 in the ordinary course of business to its employees and directors. These awards, which did not accelerate solely as a result of the Merger, were converted into cash-only settled WESCO phantom stock units, which vest ratably over a 3-year period. As of September 30, 2020, the estimated fair value of these awards was \$13.4 million. The Company recognized compensation expense associated with these awards of \$1.4 million and \$2.3 million for the three and nine months ended September 30, 2020, respectively, which is reported as a component of selling, general and administrative expenses.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts and outstanding indebtedness. The Company uses a market approach to determine the fair value of its debt instruments, utilizing quoted prices in active markets, interest rates and other relevant information generated by market transactions involving similar instruments. Therefore, the inputs used to measure the fair value of the Company's debt instruments are classified as Level 2 within the fair value hierarchy.

The carrying value of WESCO's debt instruments with fixed interest rates was \$3,730.0 million and \$850.0 million as of September 30, 2020 and December 31, 2019, respectively. The estimated fair value of this debt was \$4,015.6 million and \$866.2 million, respectively. The reported carrying values of WESCO's other financial instruments, including indebtedness with variable interest rates, approximated their fair values as of September 30, 2020 and December 31, 2019.

The Company purchases foreign currency forward contracts to minimize the effect of fluctuating foreign currency-denominated accounts on its reported income. The foreign currency forward contracts are not designated as hedges for accounting purposes. The Company's strategy is to negotiate terms for its derivatives and other financial instruments to be highly effective, such that the change in the value of the derivative offsets the impact of the underlying hedge. Its counterparties to foreign currency forward contracts have investment-grade credit ratings. The Company regularly monitors the creditworthiness of its counterparties to ensure no issues exist which could affect the value of the derivatives.

The Company does not hedge 100% of its foreign currency-denominated accounts. In addition, the results of hedging can vary significantly based on various factors, such as the timing of executing foreign currency forward contracts versus the movement of currencies as well as the fluctuations in the account balances throughout each reporting period. The fair value of foreign currency forward contracts is based on the difference between the contract rate and the current exchange rate. The fair value of foreign currency forward contracts is measured using observable market information. These inputs would be considered Level 2 in the fair value hierarchy. At September 30, 2020, foreign currency forward contracts were revalued at then-current foreign exchange rates with the changes in valuation reflected directly in other non-operating expenses ("other, net") in the Condensed Consolidated Statements of Income and Comprehensive Income offsetting the transaction gain (loss) recorded on foreign currency-denominated accounts. At September 30, 2020, the gross and net notional amounts of foreign currency forward contracts outstanding were approximately \$104.8 million. While all of the Company's foreign currency forward contracts are subject to master netting arrangements with its counterparties, assets and liabilities related to these contracts are presented on a gross basis within the Condensed Consolidated Balance Sheets. The gross fair value of assets and liabilities related to foreign currency forward contracts were immaterial.

12. COMMITMENTS AND CONTINGENCIES

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

In an effort to expand the Company's footprint in the Middle East, WESCO has been doing business since 2009 with WESTEC Supplies General Trading ("WESTEC"), an industrial equipment supplier headquartered in the United Arab Emirates. WESTEC has debt facilities comprised of a \$5.8 million term loan and a \$1.0 million line of credit to support its working capital requirements and joint sales efforts with WESCO. Due to the nature of WESCO's arrangement with WESTEC, WESCO has provided a standby letter of credit under its revolving credit facility of up to \$7.3 million as security for WESTEC's debt facilities. As of September 30, 2020, WESTEC had outstanding indebtedness totaling \$6.0 million. Management currently believes the estimated fair value of the noncontingent guarantee on the outstanding indebtedness is nominal and therefore a liability has not been recorded as of September 30, 2020.

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13. INCOME TAXES

The effective tax rate for the three and nine months ended September 30, 2020 was 23.3% and 22.9%, respectively. The effective tax rate for the three and nine months ended September 30, 2019 was 19.8% and 21.0%, respectively. WESCO's effective tax rate is typically impacted by the tax effect of intercompany financing, foreign tax rate differences, nondeductible expenses and state income taxes. The effective tax rates for the current year periods are higher than the corresponding prior year periods primarily due to expenses incurred by WESCO to complete the acquisition of Anixter.

There have been no material adjustments to liabilities for uncertain tax positions since the last annual disclosure, except for preliminary amounts recorded in connection with the acquisition of Anixter, which totaled \$30.0 million. In addition, the Company reassessed the realizability of certain deferred income tax assets acquired, including Anixter's foreign tax credit carryforwards. As a result, the Company preliminary allocated \$59.4 million to a foreign tax credit carryforward and \$41.4 million to the related valuation allowance.

14. BUSINESS SEGMENTS

Prior to the completion of its merger with Anixter on June 22, 2020, as described in Note 4, WESCO had four operating segments that had been aggregated as one reportable segment. Effective on the date of acquisition, the Company added Anixter as a separate reportable segment for the quarterly period ended June 30, 2020. In the third quarter, the Company identified new operating segments organized around three strategic business units consisting of EES, CSS and UBS. These operating segments are equivalent to the Company's reportable segments. The operating segments in the respective periods were determined in accordance with the manner in which WESCO's chief operating decision maker ("CODM") reviewed financial information during those periods.

The following is a description of each of the Company's reportable segments and their business activities.

Electrical & Electronic Solutions

The EES segment supplies a broad range of products and supply chain solutions primarily to the Construction, Industrial and Original Equipment Manufacturer ("OEM") markets. Product categories include a broad range of electrical equipment and supplies as well as lubricants, pipe, valves, fittings, fasteners, cutting tools, power transmission, and safety products. In addition, OEM customers require a reliable supply of assemblies and components to incorporate into their own products as well as value-added services such as supplier consolidation, design and technical support, just-in-time supply and electronic commerce, and supply chain management. EES includes the "Electrical and Electronic Solutions" business acquired from Anixter and the majority of the legacy WESCO industrial and construction businesses.

Communications & Security Solutions

The CSS segment supplies products and customized supply chain solutions to customers in a diverse range of industries including technology, finance, telecommunications service providers, transportation, education, government, healthcare and retail. CSS sells these products directly to end users or through various channels including data communications contractors, security, network, professional audio/visual and systems integrators. CSS has a broad product portfolio that includes copper and fiber optic cable and connectivity, access control, video surveillance, intrusion and fire/life safety, cabinets, power, cable management, wireless, professional audio/video, voice and networking switches and other ancillary products. CSS includes the "Network and Security Solutions" business acquired from Anixter and the legacy data communications and safety businesses from WESCO.

Utility & Broadband Solutions

The UBS segment supplies electrical transmission and distribution products, power plant maintenance, repair and operations supplies and smart-grid products, and arranges materials management and procurement outsourcing for the power generation, power transmission and electricity distribution industries. The UBS segment combines the "Utility Power Solutions" business acquired from Anixter, the WESCO utility business, a portion of the legacy WESCO broadband business as well as the legacy WESCO integrated supply business.

Corporate expenses are incurred to obtain and coordinate financing, tax, information technology, legal and other related services. The Company also has various corporate assets which are reported in corporate. Segment assets may not include jointly used assets, but segment results include depreciation expense or other allocations related to those assets. Interest expense and other non-operating items are not allocated to the segments or reviewed on a segment basis. Corporate expenses and assets are shown in the tables below to reconcile the reportable segments to the consolidated financial statements.

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For the three and nine months ended September 30, 2020 and September 30, 2019, the Company's CODM evaluated the performance of its operating segments based primarily on net sales, income from operations, and total assets.

The following table sets forth net sales and income from operations by reportable segment for the periods presented:

		Three Months Ended September 30, 2020				
(In thousands)		EES	CSS	UBS	Corporate	Total
Net sales	\$	1,653,726	\$ 1,388,791	\$ 1,099,284	\$ —	\$ 4,141,801
Income from operations		105,508	89,634	74,092	(91,139)	178,095
		Three Months Ended September 30, 2019				
(In thousands)		EES	CSS	UBS	Corporate	Total
Net sales	\$	1,250,080	\$ 235,920	\$ 662,110	\$ —	\$ 2,148,110
Income from operations		72,007	10,555	43,811	(32,640)	93,733
		Nine Months Ended September 30, 2020				
(In thousands)		EES	CSS	UBS	Corporate	Total
Net sales	\$	3,811,498	\$ 1,953,967	\$ 2,431,689	\$ —	\$ 8,197,154
Income from operations		194,643	127,502	167,651	(235,518)	254,278
		Nine Months Ended September 30, 2019				
(In thousands)		EES	CSS	UBS	Corporate	Total
Net sales	\$	3,626,423	\$ 681,087	\$ 1,951,955	\$ —	\$ 6,259,465
Income from operations		198,774	32,501	134,431	(103,297)	262,409

The following table sets forth total assets by reportable segment for the periods presented:

		As of September 30, 2020				
(In thousands)		EES	CSS	UBS	Corporate⁽¹⁾	Total
Total assets	\$	3,838,242	\$ 4,592,463	\$ 2,990,621	\$ 447,013	\$ 11,868,339
		As of December 31, 2019				
(In thousands)		EES	CSS	UBS	Corporate⁽¹⁾	Total
Total assets	\$	2,523,481	\$ 610,046	\$ 1,747,809	\$ 136,299	\$ 5,017,635

⁽¹⁾ Total assets for Corporate primarily consist of cash and cash equivalents, deferred income taxes, fixed assets and leases.

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and WESCO International, Inc.'s audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 2019 Annual Report on Form 10-K. The matters discussed herein may contain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. Certain of these risks are set forth in WESCO International, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as well as WESCO International, Inc.'s other reports filed with the Securities and Exchange Commission ("SEC").

Company Overview

WESCO International, Inc. ("WESCO International"), incorporated in 1993 and effectively formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading provider of business-to-business distribution, logistics services and supply chain solutions.

On June 22, 2020, WESCO completed its previously announced acquisition of Anixter International Inc., a Delaware corporation ("Anixter"). Pursuant to the terms of the Agreement and Plan of Merger, dated January 10, 2020 (the "Merger Agreement"), by and among Anixter, WESCO and Warrior Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of WESCO ("Merger Sub"), Merger Sub was merged with and into Anixter (the "Merger"), with Anixter surviving the Merger and continuing as a wholly owned subsidiary of WESCO.

As a result of the Merger, the Company now employs over 18,000 people, maintains relationships with over 30,000 suppliers, and serves more than 150,000 customers worldwide. With nearly 1,500,000 products, end-to-end supply chain services, and leading digital capabilities, WESCO provides innovative solutions to meet current customer needs across commercial and industrial businesses, contractors, government agencies, institutions, telecommunications providers, and utilities. WESCO operates nearly 800 branch and warehouse locations in over 50 countries, providing a local presence for customers and a global network to serve multi-location businesses and multi-national corporations.

Prior to the completion of its merger with Anixter on June 22, 2020, as described in Note 4 of our Notes to the unaudited Condensed Consolidated Financial Statements, WESCO had four operating segments that had been aggregated as one reportable segment. Effective on the date of acquisition, the Company added Anixter as a separate reportable segment for the quarterly period ended June 30, 2020. In the third quarter, the Company identified new operating segments organized around three strategic business units consisting of Electrical & Electronic Solutions ("EES"), Communications & Security Solutions ("CSS") and Utility and Broadband Solutions ("UBS"). The applicable comparative financial information reported in our previously issued interim financial statements for the three and nine months ended September 30, 2019 has been recast in this Quarterly Report on Form 10-Q to conform to the basis of the new segments.

The following is a description of each of the Company's reportable segments and their business activities.

Electrical & Electronic Solutions

The EES segment supplies a broad range of products and supply chain solutions primarily to the Construction, Industrial and Original Equipment Manufacturer ("OEM") markets. Product categories include a broad range of electrical equipment and supplies as well as lubricants, pipe, valves, fittings, fasteners, cutting tools, power transmission, and safety products. In addition, OEM customers require a reliable supply of assemblies and components to incorporate into their own products as well as value-added services such as supplier consolidation, design and technical support, just-in-time supply and electronic commerce, and supply chain management. EES includes the "Electrical and Electronic Solutions" business acquired from Anixter and the majority of the legacy WESCO industrial and construction businesses.

Communications & Security Solutions

The CSS segment supplies products and customized supply chain solutions to customers in a diverse range of industries including technology, finance, telecommunications service providers, transportation, education, government, healthcare and retail. CSS sells these products directly to end users or through various channels including data communications contractors, security, network, professional audio/visual and systems integrators. CSS has a broad product portfolio that includes copper and fiber optic cable and connectivity, access control, video surveillance, intrusion and fire/life safety, cabinets, power, cable management, wireless, professional audio/video, voice and networking switches and other ancillary products. CSS includes the "Network and Security Solutions" business acquired from Anixter and the legacy data communications and safety businesses from WESCO.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Utility & Broadband Solutions

The UBS segment supplies electrical transmission and distribution products, power plant maintenance, repair and operations supplies and smart-grid products, and arranges materials management and procurement outsourcing for the power generation, power transmission and electricity distribution industries. The UBS segment combines the "Utility Power Solutions" business acquired from Anixter, the WESCO utility business, a portion of the legacy WESCO broadband business as well as the legacy WESCO integrated supply business.

Our financial results for the first nine months of 2020 reflect the unfavorable business conditions caused by the COVID-19 pandemic, offset by cost reduction actions taken in response to such conditions, as well as the merger with Anixter. Net sales increased \$1.9 billion, or 31.0%, over the same period last year. Cost of goods sold as a percentage of net sales was 81.0% for the first nine months of 2020 and 2019. Selling, general and administrative ("SG&A") expenses as a percentage of net sales were 14.9% and 14.1% for the first nine months of 2020 and 2019, respectively. Operating profit was \$254.3 million for the current nine month period, compared to \$262.4 million for the first nine months of 2019. Adjusted for \$120.1 million of transaction costs and fair value adjustments related to our merger with Anixter, as well as a gain on the sale of an operating branch in the U.S. of \$19.8 million, SG&A expenses as a percentage of net sales were 14.0%, and operating profit was \$354.6 million for the nine months ended September 30, 2020. Net income attributable to common stockholders for the nine months ended September 30, 2020 was \$64.8 million, compared to \$170.3 million for the comparable prior period. Earnings per diluted share for the first nine months of 2020 was \$1.44, based on 45.1 million diluted shares, compared to \$3.88 for the first nine months of 2019, based on 43.9 million diluted shares. As adjusted, earnings per diluted share for the current nine month period was \$3.17.

As further discussed below, through the third quarter of 2020, the COVID-19 pandemic has had a significant impact on our business and negatively impacted our results of operations. We expect these negative impacts to continue for the remainder of the year, and potentially longer, depending on the duration and severity of the COVID-19 pandemic. Events and factors relating to the COVID-19 pandemic include limitations on the ability of our suppliers to manufacture or procure the products we sell or to meet delivery requirements and commitments; disruptions to our global supply chains; limitations on the ability of our employees to perform their work due to travel or other restrictions; limitations on the ability of carriers to deliver our products to our customers; limitations on the ability of our customers to conduct their business and purchase our products and services, or pay us on a timely basis; and disruptions to our customers' purchasing patterns.

We are taking actions in response to the COVID-19 pandemic. Our top priority is the health and safety of our employees. The products and services that we provide are integral to the daily operations of our essential business customers. To date, our branch locations have remained operational consistent with governmental and public health authority directives. Beginning in March 2020, and continuing throughout the third quarter, we have taken actions to reduce costs consistent with the expected decline in demand, including reductions in administrative expenses, payroll and benefits, and other spending across the company. Given the ongoing uncertainty regarding the duration and scope of the COVID-19 pandemic, we are continuing to monitor the situation and may take further actions in light of future developments.

We will work to prepare our business to respond to the needs of our customers. While many of the areas in which we operate had eased or lifted restrictions during the third quarter, some of these restrictions have been re-imposed in the wake of resurgences of COVID-19 cases. We cannot predict the timeframe for recovery of our customer's demand for our products and services. The extent to which the COVID-19 pandemic will continue to impact our business and financial results going forward will depend on the duration and scope of the crisis, future government actions and the overall impact of the COVID-19 pandemic on the global economy and capital markets, among other factors, all of which remain highly uncertain and unpredictable.

Cash Flow

We generated \$418.9 million of operating cash flow for the first nine months of 2020. Investing activities included \$3,707.6 million to fund a portion of the merger with Anixter, as described in Note 4 of our Notes to the unaudited Condensed Consolidated Financial Statements, and \$42.6 million of capital expenditures. Financing activities were comprised of \$2,815.0 million of net proceeds from the issuance of senior unsecured notes to finance a portion of the merger with Anixter, borrowings and repayments of \$980.3 million and \$655.7 million, respectively, related to our prior and new revolving credit facilities, as well as borrowings and repayments of \$865.0 million and \$390.0 million, respectively, related to our accounts receivable securitization facility. Financing activities for the first nine months of 2020 also included net repayments related to our various international lines of credit of approximately \$8.3 million.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Financing Availability

On June 22, 2020, in connection with the Merger, we entered into a \$1,100 million revolving credit facility (the “Revolving Credit Facility”), as a replacement of our existing revolving credit facility entered into on September 26, 2019. Also concurrent with the completion of the Merger, we amended our accounts receivable securitization facility (the “Receivables Facility”). As of September 30, 2020, we had \$727.5 million in total available borrowing capacity under our Revolving Credit Facility, which was comprised of \$599.3 million of availability under the U.S. sub-facility and \$128.2 million of availability under the Canadian sub-facility. Available borrowing capacity under our Receivables Facility was \$135.0 million. The Revolving Credit Facility and the Receivables Facility mature in June 2025 and June 2023, respectively.

Critical Accounting Policies and Estimates

We adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020.

We adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, in the first quarter of 2020.

We adopted ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, in the first quarter of 2020.

See Note 2 of our Notes to the unaudited Condensed Consolidated Financial Statements for information regarding our significant accounting policies.

Results of Operations

Third Quarter of 2020 versus Third Quarter of 2019

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

	Three Months Ended September 30	
	2020	2019
Net sales	100.0 %	100.0 %
Cost of goods sold (excluding depreciation and amortization)	81.0	81.4
Selling, general and administrative expenses	13.6	13.5
Depreciation and amortization	1.2	0.7
Income from operations	4.3	4.4
Interest expense, net	1.8	0.7
Other, net	—	—
Income before income taxes	2.5	3.7
Income tax expense	0.6	0.7
Net income attributable to WESCO International, Inc.	1.9	3.0
Preferred stock dividends	0.3	—
Net income attributable to common stockholders	1.6 %	3.0 %

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Net Sales

The following table sets forth net sales by segment for the periods presented:

(In thousands)	Three Months Ended		Growth (Decline)
	September 30, 2020	September 30, 2019	
EES	\$ 1,653,726	\$ 1,250,079	32.3 %
CSS	1,388,791	235,921	488.7 %
UBS	1,099,284	662,110	66.0 %
Total net sales	\$ 4,141,801	\$ 2,148,110	92.8 %

Net sales were \$4.1 billion for the third quarter of 2020 compared to \$2.1 billion for the third quarter of 2019, an increase of 92.8% due to the merger with Anixter that was completed on June 22, 2020, partially offset by the weakened demand impact from the COVID-19 pandemic.

EES reported net sales \$1.7 billion for the third quarter of 2020, compared to \$1.3 billion for the third quarter of 2019, an increase of 32.3%.

CSS reported net sales of \$1.4 billion for the third quarter of 2020, compared to \$235.9 million for the third quarter of 2019, an increase of 488.7%.

UBS reported net sales of \$1.1 billion for the third quarter of 2020, compared to \$662.1 million for the third quarter of 2019, an increase of 66.0%.

Cost of Goods Sold

Cost of goods sold for the third quarter of 2020 was \$3.4 billion compared to \$1.7 billion for the third quarter of 2019, and gross profit was \$785.5 million and \$400.2 million, respectively. As a percentage of net sales, cost of goods sold was 81.0% and 81.4% for the third quarter of 2020 and 2019, respectively. Cost of goods sold as a percentage of net sales for the third quarter of 2020 was 80.4% excluding the effect of merger-related fair value adjustments of \$28.0 million.

Selling, General and Administrative Expenses

SG&A expenses for the third quarter of 2020 totaled \$562.0 million versus \$290.9 million for the third quarter of 2019. As a percentage of net sales, SG&A expenses were 13.6% and 13.5%, respectively. The increase in SG&A expenses primarily reflects the impact of the merger with Anixter and related transaction costs, partially offset by the effect of cost reduction actions taken in response to the unfavorable business conditions caused by the COVID-19 pandemic. Adjusted for merger-related transaction costs of \$14.2 million and a gain on sale of an operating branch in the U.S. of \$19.8 million, SG&A expenses were \$567.6 million, or 13.7% of net sales, for the third quarter of 2020.

SG&A payroll expenses for the third quarter of 2020 of \$375.5 million increased by \$172.7 million compared to the same period in 2019 primarily due to the merger with Anixter. Excluding the impact of the merger, SG&A payroll expenses were down \$20.1 million due to lower salaries and wages, variable compensation expense and benefit costs resulting from cost reduction actions.

Depreciation and Amortization

Depreciation and amortization for the third quarter of 2020 was \$45.5 million, compared to \$15.6 million for the third quarter of 2019. The third quarter of 2020 includes \$17.9 million attributable to the amortization of identifiable intangible assets acquired in the merger with Anixter.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Income from Operations

The following tables set forth income from operations by segment for the periods presented:

(In thousands)	Three Months Ended September 30, 2020				
	EES	CSS	UBS	Corporate	Total
Income from operations	\$ 105,508	\$ 89,634	\$ 74,092	\$ (91,139)	\$ 178,095

(In thousands)	Three Months Ended September 30, 2019				
	EES	CSS	UBS	Corporate	Total
Income from operations	\$ 72,007	\$ 10,555	\$ 43,811	\$ (32,640)	\$ 93,733

EES reported operating profit of \$105.5 million for the third quarter of 2020, compared to \$72.0 million for the third quarter of 2019.

CSS reported operating profit of \$89.6 million for the third quarter of 2020, compared to \$10.6 million for the third quarter of 2019.

UBS reported operating profit of \$74.1 million for the third quarter of 2020, compared to \$43.8 million for the third quarter of 2019.

Interest Expense, net

Interest expense, net totaled \$74.5 million for the third quarter of 2020, compared to \$14.3 million for the third quarter of 2019. The increase in interest expense was driven by financing activity related to the Anixter merger.

Other, net

Other non-operating expenses ("other, net") totaled \$0.8 million for the third quarter of 2020, compared to \$0.8 million for the third quarter of 2019.

Income Taxes

Income tax expense totaled \$24.3 million for the third quarter of 2020, compared to \$15.9 million in last year's comparable period, and the effective tax rate was 23.3% and 19.8%, respectively. The higher effective tax rate in the current quarter is primarily due to costs incurred to complete the merger with Anixter.

Net Income and Earnings per Share

Net income for the third quarter of 2020 was \$80.0 million, compared to net income of \$64.3 million for the third quarter of 2019.

Net loss of \$0.6 million and \$0.2 million was attributable to noncontrolling interests for the third quarter of 2020 and 2019, respectively.

Preferred stock dividends expense of \$14.5 million for the third quarter of 2020 relates to the fixed-rate reset cumulative perpetual preferred stock, Series A, that was issued in connection with the merger.

Net income and earnings per diluted share attributable to common stockholders were \$66.2 million and \$1.31 per diluted share, respectively, for the third quarter of 2020, compared with net income and earnings per diluted share of \$64.5 million and \$1.52 per diluted share, respectively, for the third quarter of 2019. Adjusted for merger-related costs and fair value adjustments, gain on sale of an operating branch in the U.S. and the related income tax effects, earnings per diluted share for the third quarter of 2020 was \$1.66.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

The following tables reconcile income from operations, provision for income taxes and earnings per diluted share to adjusted net income from operations, adjusted provision for income taxes and adjusted earnings per diluted share, which are non-GAAP financial measures, for the periods presented:

Adjusted Income from Operations:	Three Months Ended	
	September 30,	September 30, 2019
	2020	2019
	(In thousands)	
Income from operations	\$ 178,095	\$ 93,733
Merger-related costs	14,175	—
Merger-related fair value adjustments	28,019	—
Gain on sale of asset	(19,816)	—
Adjusted income from operations	\$ 200,473	\$ 93,733

Adjusted Provision for Income Taxes:	Three Months Ended	
	September 30, 2020	September 30, 2019
	(In thousands)	
Provision for income taxes	\$ 24,294	\$ 15,886
Income tax effect of adjustments to income from operations ⁽¹⁾	4,923	—
Adjusted provision for income taxes	\$ 29,217	\$ 15,886

⁽¹⁾ The adjustments to income from operations have been tax effected at a rate of 22%.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Adjusted Earnings per Diluted Share:	Three Months Ended	
	September 30, 2020	September 30, 2019
(In thousands, except per share data)		
Adjusted income from operations	\$ 200,473	\$ 93,733
Interest expense, net	74,540	14,306
Other, net	(777)	(798)
Adjusted income before income taxes	126,710	80,225
Adjusted provision for income taxes	29,217	15,886
Adjusted net income	97,493	64,339
Net loss attributable to noncontrolling interests	(640)	(156)
Adjusted net income attributable to WESCO International, Inc.	98,133	64,495
Preferred stock dividends	14,511	—
Adjusted net income attributable to common stockholders	<u>\$ 83,622</u>	<u>\$ 64,495</u>
Diluted shares	50,487	42,378
Adjusted earnings per diluted share	<u>\$ 1.66</u>	<u>\$ 1.52</u>

Note: Income from operations, the provision for income taxes and earnings per diluted share for the three months ended September 30, 2020 are adjusted to exclude merger-related costs and fair value adjustments, gain on sale of an operating branch in the U.S. and the related income tax effects. These non-GAAP financial measures provide a better understanding of our financial results on a comparable basis.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

EBITDA and Adjusted EBITDA

The following tables reconcile net income attributable to common stockholders to EBITDA and adjusted EBITDA by segment, which are non-GAAP financial measures, for the periods presented:

(In thousands)	Three Months Ended September 30, 2020				
	EES	CSS	UBS	Corporate	Total
Net income attributable to common stockholders	\$ 107,192	\$ 90,585	\$ 73,924	\$ (205,534)	\$ 66,167
Net loss attributable to noncontrolling interests	(270)	—	—	(370)	(640)
Preferred stock dividends	—	—	—	14,511	14,511
Income tax expense	—	—	—	24,294	24,294
Interest expense, net	—	—	—	74,540	74,540
Depreciation and amortization	10,411	18,536	7,550	8,979	45,476
EBITDA	\$ 117,333	\$ 109,121	\$ 81,474	\$ (83,580)	\$ 224,348
Other, net	(1,414)	(951)	168	1,420	(777)
Stock-based compensation expense	141	6	77	5,778	6,002
Merger-related costs	—	—	—	14,175	14,175
Merger-related fair value adjustments	11,695	12,344	3,980	—	28,019
Gain on sale of asset	(19,816)	—	—	—	(19,816)
Adjusted EBITDA	\$ 107,939	\$ 120,520	\$ 85,699	\$ (62,207)	\$ 251,951
Adjusted EBITDA margin %	6.5 %	8.7 %	7.8 %		6.1 %

(In thousands)	Three Months Ended September 30, 2019				
	EES	CSS	UBS	Corporate	Total
Net income attributable to common stockholders	\$ 72,163	\$ 10,555	\$ 43,811	\$ (62,034)	\$ 64,495
Net loss attributable to noncontrolling interests	(156)	—	—	—	(156)
Income tax expense	—	—	—	15,886	15,886
Interest expense, net	—	—	—	14,306	14,306
Depreciation and amortization	7,171	1,811	3,396	3,234	15,612
EBITDA	\$ 79,178	\$ 12,366	\$ 47,207	\$ (28,608)	\$ 110,143
Other, net	(798)	—	—	—	(798)
Stock-based compensation expense	279	19	58	4,070	4,426
Adjusted EBITDA	\$ 78,659	\$ 12,385	\$ 47,265	\$ (24,538)	\$ 113,771
Adjusted EBITDA margin %	6.3 %	5.2 %	7.1 %		5.3 %

Note: EBITDA and Adjusted EBITDA are non-GAAP financial measures that provide indicators of our performance and ability to meet debt service requirements. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before other non-operating expenses ("other, net"), non-cash stock-based compensation, costs and adjustments associated with the merger with Anixter, and gain on sale of an operating branch in the U.S.

Adjusted EBITDA for EES was \$107.9 million for the third quarter of 2020, or 6.5% of net sales, compared to \$78.7 million for the third quarter of 2019, or 6.3% of net sales.

Adjusted EBITDA for CSS was \$120.5 million for the third quarter of 2020, or 8.7% of net sales, compared to \$12.4 million for the third quarter of 2019, or 5.2% of net sales.

Adjusted EBITDA for UBS was \$85.7 million for the third quarter of 2020, or 7.8% of net sales, compared to \$47.3 million for the third quarter of 2019, or 7.1% of net sales.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Nine Months Ended September 30, 2020 versus Nine Months Ended September 30, 2019

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

	Nine Months Ended September 30	
	2020	2019
Net sales	100.0 %	100.0 %
Cost of goods sold (excluding depreciation and amortization)	81.0	81.0
Selling, general and administrative expenses	14.9	14.1
Depreciation and amortization	1.0	0.7
Income from operations	3.1	4.2
Interest expense, net	1.9	0.8
Other, net	—	—
Income before income taxes	1.2	3.4
Income tax expense	0.3	0.7
Net income attributable to WESCO International, Inc.	0.9	2.7
Preferred stock dividends	0.2	—
Net income attributable to common stockholders	0.8 %	2.7 %

Net Sales

The following table sets forth net sales by segment for the periods presented:

(In thousands)	Nine Months Ended		Growth (Decline)
	September 30, 2020	September 30, 2019	
EES	\$ 3,811,498	\$ 3,626,423	5.1 %
CSS	1,953,967	681,087	186.9 %
UBS	2,431,689	1,951,955	24.6 %
Total net sales	\$ 8,197,154	\$ 6,259,465	31.0 %

Net sales were \$8.2 billion for the first nine months of 2020 compared to \$6.3 billion for the first nine months of 2019, an increase of 31.0% due to the merger with Anixter that was completed on June 22, 2020, partially offset by the weakened demand impact from the COVID-19 pandemic.

EES reported net sales of \$3.8 billion for the first nine months of 2020, compared to \$3.6 billion for the first nine months of 2019, an increase of 5.1%.

CSS reported net sales of \$2.0 billion for the first nine months of 2020, compared to \$681.1 million for the first nine months of 2019, an increase of 186.9%.

UBS reported net sales of \$2.4 billion for the first nine months of 2020, compared to \$2.0 billion for the first nine months of 2019, an increase of 24.6%.

Cost of Goods Sold

Cost of goods sold for the first nine months of 2020 was \$6.6 billion, compared to \$5.1 billion for the first nine months of 2019. As a percentage of net sales, cost of goods sold was 81.0% for the first nine months of 2020 and 2019. Cost of goods sold as a percentage of net sales for the first nine months of 2020 was 80.7% excluding the effect of merger-related fair value adjustments of \$28.0 million.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Selling, General and Administrative Expenses

SG&A expenses for the first nine months of 2020 totaled \$1.2 billion versus \$883.2 million for the first nine months of 2019. As a percentage of net sales, SG&A expenses were 14.9% and 14.1%, respectively. The increase in SG&A expenses primarily reflects the impact of the merger with Anixter and related transaction costs, partially offset by the effect of cost reduction actions taken in response to the unfavorable business conditions caused by the COVID-19 pandemic. Adjusted for merger-related transaction costs of \$92.1 million and a gain on sale of an operating branch in the U.S. of \$19.8 million, SG&A expenses were \$1.1 billion, or 14.0% of net sales, for the first nine months of 2020.

SG&A payroll expenses for first nine months of 2020 of \$805.9 million increased by \$192.9 million compared to the same period in 2019 primarily due to the merger with Anixter. Excluding the impact of the merger, SG&A payroll expenses were down \$41.2 million due to lower salaries and wages, variable compensation expense and benefit costs resulting from cost reduction actions.

Depreciation and Amortization

Depreciation and amortization for the first nine months of 2020 was \$80.3 million, compared to \$46.0 million for the first nine months of 2019. The first nine months of 2020 includes \$20.5 million attributable to the amortization of identifiable intangible assets acquired in the merger with Anixter.

Income from Operations

The following tables set forth income from operations by segment for the periods presented:

(In thousands)	Nine Months Ended September 30, 2020				
	EES	CSS	UBS	Corporate	Total
Income from operations	\$ 194,643	\$ 127,502	\$ 167,651	\$ (235,518)	\$ 254,278

(In thousands)	Nine Months Ended September 30, 2019				
	EES	CSS	UBS	Corporate	Total
Income from operations	\$ 198,774	\$ 32,501	\$ 134,431	\$ (103,297)	\$ 262,409

EES reported operating profit of \$194.6 million for the first nine months of 2020, compared to \$198.8 million for the first nine months of 2019.

CSS reported operating profit of \$127.5 million for the first nine months of 2020, compared to \$32.5 million for the first nine months of 2019.

UBS reported operating profit of \$167.7 million for the first nine months of 2020, compared to \$134.4 million for the first nine months of 2019.

Interest Expense, net

Interest expense, net totaled \$152.3 million for the first nine months of 2020, compared to \$49.3 million for the first nine months 2019. The increase in interest expense was driven by financing activity related to the Anixter merger.

Other, net

Other non-operating expenses ("other, net") totaled \$1.5 million for the first nine months of 2020, compared to \$1.4 million for the first nine months of 2019.

Income Taxes

Income tax expense was \$23.7 million for the first nine months of 2020, compared to \$45.0 million in last year's comparable period, and the effective tax rate was 22.9% and 21.0%, respectively. The higher effective tax rate in the current period is primarily due to costs incurred to complete the merger with Anixter.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Net Income and Earnings per Share

Net income for the first nine months of 2020 was \$79.8 million, compared to \$169.5 million for the first nine months of 2019.

Net loss of \$0.8 million was attributable to noncontrolling interests for the first nine months of 2020 and 2019.

Preferred stock dividends expense of \$15.8 million for the first nine months of 2020 relates to the fixed-rate reset cumulative perpetual preferred stock, Series A, that was issued in connection with the merger.

Net income and earnings per diluted share attributable to common stockholders were \$64.8 million and \$1.44 per diluted share, respectively, for the first nine months of 2020, compared with net income and earnings per diluted share of \$170.3 million and \$3.88 per diluted share, respectively, for the first nine months of 2019. Adjusted for merger-related costs and fair value adjustments, gain on sale of an operating branch in the U.S. and the related income tax effects, earnings per diluted share for the current six month period was \$3.17.

The following tables reconcile income from operations, provision for income taxes and earnings per diluted share to adjusted net income from operations, adjusted provision for income taxes and adjusted earnings per diluted share, which are non-GAAP financial measures, for the periods presented:

Adjusted Income from Operations:	Nine Months Ended	
	September 30, 2020	September 30, 2019
	(In thousands)	
Income from operations	\$ 254,278	\$ 262,409
Merger-related costs	92,127	—
Merger-related fair value adjustments	28,019	—
Gain on sale of asset	(19,816)	—
Adjusted income from operations	<u>\$ 354,608</u>	<u>\$ 262,409</u>

Adjusted Provision for Income Taxes:	Nine Months Ended	
	September 30, 2020	September 30, 2019
	(In thousands)	
Provision for income taxes	\$ 23,707	\$ 44,970
Income tax effect of adjustments to income from operations ⁽¹⁾	22,073	—
Adjusted provision for income taxes	<u>\$ 45,780</u>	<u>\$ 44,970</u>

⁽¹⁾ The adjustments to income from operations have been tax effected at a rate of 22%.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

Adjusted Earnings per Diluted Share:	Nine Months Ended	
	September 30, 2020	September 30, 2019
(In thousands, except per share data)		
Adjusted income from operations	\$ 354,608	\$ 262,409
Interest expense, net	152,281	49,293
Other, net	(1,463)	(1,359)
Adjusted income before income taxes	203,790	214,475
Adjusted provision for income taxes	45,780	44,970
Adjusted net income	158,010	169,505
Net loss attributable to noncontrolling interests	(825)	(824)
Adjusted net income attributable to WESCO International, Inc.	158,835	170,329
Preferred stock dividends	15,787	—
Adjusted net income attributable to common stockholders	\$ 143,048	\$ 170,329
Diluted shares	45,104	43,901
Adjusted earnings per diluted share	\$ 3.17	\$ 3.88

Note: Income from operations, the provision for income taxes and earnings per diluted share for the nine months ended September 30, 2020 are adjusted to exclude merger-related costs and fair value adjustments, gain on sale of an operating branch in the U.S. and the related income tax effects. These non-GAAP financial measures provide a better understanding of our financial results on a comparable basis.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

EBITDA and Adjusted EBITDA

The following tables reconcile net income attributable to common stockholders to EBITDA and adjusted EBITDA by segment, which are non-GAAP financial measures, for the periods presented:

Nine Months Ended September 30, 2020					
(In thousands)	EES	CSS	UBS	Corporate	Total
Net income attributable to common stockholders	\$ 196,665	\$ 128,295	\$ 167,483	\$ (427,652)	\$ 64,791
Net loss attributable to noncontrolling interests	(664)	—	—	(161)	(825)
Preferred stock dividends	—	—	—	15,787	15,787
Income tax expense	—	—	—	23,707	23,707
Interest expense, net	—	—	—	152,281	152,281
Depreciation and amortization	24,638	24,393	15,153	16,140	80,324
EBITDA	\$ 220,639	\$ 152,688	\$ 182,636	\$ (219,898)	\$ 336,065
Other, net	(1,358)	(793)	168	520	(1,463)
Stock-based compensation expense	849	54	221	14,405	15,529
Merger-related costs	—	—	—	92,127	92,127
Merger-related fair value adjustments	11,695	12,344	3,980	—	28,019
Gain on sale of asset	(19,816)	—	—	—	(19,816)
Adjusted EBITDA	\$ 212,009	\$ 164,293	\$ 187,005	\$ (112,846)	\$ 450,461
Adjusted EBITDA margin %	5.6 %	8.4 %	7.7 %		5.5 %

Nine Months Ended September 30, 2019					
(In thousands)	EES	CSS	UBS	Corporate	Total
Net income attributable to common stockholders	\$ 199,598	\$ 32,501	\$ 134,431	\$ (196,201)	\$ 170,329
Net loss attributable to noncontrolling interests	(824)	—	—	—	(824)
Income tax expense	—	—	—	44,970	44,970
Interest expense, net	—	—	—	49,293	49,293
Depreciation and amortization	21,343	5,453	10,118	9,121	46,035
EBITDA	\$ 220,117	\$ 37,954	\$ 144,549	\$ (92,817)	\$ 309,803
Other, net	(1,359)	—	—	—	(1,359)
Stock-based compensation expense	837	57	173	13,174	14,241
Adjusted EBITDA	\$ 219,595	\$ 38,011	\$ 144,722	\$ (79,643)	\$ 322,685
Adjusted EBITDA margin %	6.1 %	5.6 %	7.4 %		5.2 %

Note: EBITDA and Adjusted EBITDA are non-GAAP financial measures that provide indicators of our performance and ability to meet debt service requirements. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before other non-operating expenses ("other, net"), non-cash stock-based compensation, costs and adjustments associated with the merger with Anixter, and gain on sale of an operating branch in the U.S.

Adjusted EBITDA for EES was \$212.0 million for the first nine months of 2020, or 5.6% of net sales, compared to \$219.6 million for the first nine months of 2019, or 6.1% of net sales.

Adjusted EBITDA for CSS was \$164.3 million for the first nine months of 2020, or 8.4% of net sales, compared to \$38.0 million for the first nine months of 2019, or 5.6% of net sales.

Adjusted EBITDA for UBS was \$187.0 million for the first nine months of 2020, or 7.7% of net sales, compared to \$144.7 million for the first nine months of 2019, or 7.4% of net sales.

Liquidity and Capital Resources

Total assets were \$11.9 billion and \$5.0 billion at September 30, 2020 and December 31, 2019, respectively. Total liabilities were \$8.7 billion and \$2.8 billion at September 30, 2020 and December 31, 2019, respectively. Total stockholders' equity was \$3.2 billion and \$2.3 billion at September 30, 2020 and December 31, 2019, respectively.

Our liquidity needs generally arise from fluctuations in our working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2020, we had \$727.5 million in available borrowing capacity under our Revolving Credit Facility and \$135.0 million in available borrowing capacity under our Receivables Facility, which combined with available cash of \$212.6 million, provided liquidity of \$1.1 billion. Cash included in our determination of liquidity represents cash in deposit and interest bearing investment accounts. We believe cash provided by operations and financing activities will be adequate to cover our operational and business needs for at least the next twelve months. In addition, we regularly review our mix of fixed versus variable rate debt, and we may, from time to time, issue or retire borrowings and/or refinance existing debt in an effort to mitigate the impact of interest rate and foreign exchange rate fluctuations, and to maintain a cost-effective capital structure consistent with our anticipated capital requirements. At September 30, 2020, approximately 75% of our debt portfolio was comprised of fixed rate debt.

In connection with the Merger, we obtained debt financing comprised of senior unsecured notes in aggregate principal amount of \$2.8 billion, a new senior secured asset-based revolving credit facility in aggregate principal amount of \$1.1 billion, and an amended account receivable securitization facility with a purchase limit up to \$1.0 billion. Prior to the completion of the merger, we also simultaneously entered into tender offers and consent solicitations with respect to Anixter's 5.50% Senior Notes due 2023 and 6.00% Senior Notes due 2025 (collectively, the "Anixter Senior Notes"). Upon the expiration and settlement of the tender offers and consent solicitations, approximately \$63 million in aggregate principal amount of the Anixter Senior Notes remain outstanding.

We used the net proceeds from the issuance of senior unsecured notes, together with borrowings under the new senior secured asset-based revolving credit facility and amended accounts receivable securitization facility, as well as existing cash on hand to consummate the merger. For the third quarter of 2020, we reduced our outstanding indebtedness by approximately \$193 million. Over the next several quarters, it is expected that excess liquidity will be directed primarily at debt reduction and merger-related integration activities, and we expect to maintain sufficient liquidity through our credit facilities and cash balances. We anticipate capital expenditures in 2020 to be sufficient to support our business initiatives.

We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. We also communicate on a regular basis with our lenders regarding our financial and working capital performance, liquidity position and financial leverage. Our financial leverage ratio was 5.3 as of September 30, 2020, on a pro forma basis, and 2.6 as of December 31, 2019, as reported. In addition, we are in compliance with all covenants and restrictions contained in our debt agreements as of September 30, 2020.

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recoverable. Accordingly, we performed an interim test for impairment as of March 31, 2020. There were no impairment losses identified as a result of this interim test.

As disclosed in Note 1 of our Notes to the unaudited Condensed Consolidated Financial Statements, we identified new operating segments during the third quarter of 2020, which changed the composition of our reporting units. Accordingly, we reassigned goodwill to the new reporting units using a relative fair value allocation approach. We performed a goodwill impairment test immediately before and after we reorganized our reporting structure. Goodwill was tested for impairment on a reporting unit level and the evaluation involved comparing the fair value of each reporting unit to its carrying value. The fair values of the reporting units were determined using a combination of a discounted cash flow analysis and market multiples. In performing the quantitative assessments, management used expected operating margins supported by a combination of historical results, current forecasts, market data and recent economic events. We used a discount rate that reflects market participants' cost of capital. There were no impairment losses identified as a result of these tests.

Although all of our reporting units have fair values that currently exceed the respective carrying values, the EES reporting unit with goodwill of \$809.9 million had an estimated fair value that exceeded its respective carrying value by less than 10%. The determination of fair value of the reporting units involves significant management judgment, particularly as it relates to the underlying assumptions and factors around expected operating margins and discount rate.

Due to the ongoing uncertainty surrounding the current macroeconomic environment and conditions in the markets in which we operate, as well as the risk that we may not fully realize cost savings, operating synergies or revenue improvement as a result of our acquisition of Anixter, there can be no assurance that the fair values of our reporting units will exceed their carrying values in the future, and that goodwill and indefinite-lived intangible assets will be fully recoverable.

Cash Flow

Operating Activities. Net cash generated from operations for the first nine months of 2020 totaled \$418.9 million, compared with net cash provided by operating activities of \$116.7 million for the first nine months of 2019. Operating activities included net income of \$79.8 million and adjustments to net income totaling \$70.3 million. Other sources of cash in the first nine months of 2020 included an increase in other current and noncurrent liabilities of \$122.6 million, an increase in accounts payable of \$80.5 million, a decrease in inventories of \$77.7 million, an increase in accrued payroll and benefit costs of \$25.9 million, and a decrease in trade accounts receivable of \$3.6 million. Primary uses of cash in the first nine months of 2020 included: an increase in prepaid expenses and other assets of \$26.7 million; and, an increase in other accounts receivable of \$14.7 million.

Net cash provided by operating activities for the first nine months of 2019 totaled \$116.7 million, which included net income of \$169.5 million and adjustments to net income totaling \$61.5 million. Other sources of cash in the first nine months of 2019 included an increase in accounts payable of \$46.9 million, a decrease in other accounts receivable of \$15.5 million, and an increase in other current and noncurrent liabilities of \$4.4 million. Primary uses of cash in the first nine months of 2019 included: an increase in trade accounts receivable of \$122.9 million; a decrease in accrued payroll and benefit costs of \$36.1 million; an increase in prepaid expenses and other assets of \$20.7 million; and, an increase in inventories of \$1.5 million.

Investing Activities. Net cash used in investing activities for the first nine months of 2020 was \$3,723.9 million, compared with \$53.5 million used during the first nine months of 2019. Included in the first nine months of 2020 was \$3,707.6 million to fund a portion of the merger with Anixter, as described in Note 4 of our Notes to the unaudited Condensed Consolidated Financial Statements. During the first nine months of 2019, we made payments of \$27.7 million to acquire Sylvania Lighting Solutions ("SLS"). Capital expenditures were \$42.6 million for the nine month period ended September 30, 2020, compared to \$30.3 million for the nine month period ended September 30, 2019.

Financing Activities. Net cash provided by financing activities for the first nine months of 2020 was \$3,507.3 million, compared to \$18.1 million of net cash used in financing activities for the first nine months of 2019. During the first nine months of 2020, financing activities consisted of \$2,815.0 million of net proceeds from the issuance of senior unsecured notes to finance a portion of the merger with Anixter, borrowings and repayments of \$980.3 million and \$655.7 million, respectively, related to our prior and amended revolving credit facilities, as well as borrowings and repayments of \$865.0 million and \$390.0 million, respectively, related to the Receivables Facility. Financing activities for the first nine months of 2020 also included net repayments related to our various international lines of credit of approximately \$8.3 million. Additionally, the Company paid \$79.9 million of debt issuance costs associated with financing the merger with Anixter.

During the first nine months of 2019, financing activities consisted of borrowings and repayments of \$625.4 million and \$662.4 million, respectively, related to the then outstanding revolving credit facility, borrowings and repayments of \$480.0 million and \$265.0 million, respectively, related to the then outstanding accounts receivable securitization facility, and repayments of \$24.8 million to pay off our Term Loan Facility. Financing activities for the first nine months of 2019 also included net repayments related to our various international lines of credit of approximately \$4.8 million. Additionally, financing activities for the first nine months of 2019 included the repurchase of \$152.7 million of the Company's common

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stock, of which \$150.0 million was pursuant to an accelerated stock repurchase transaction under the share repurchase plan announced on December 13, 2017 and amended on October 31, 2018.

Contractual Cash Obligations and Other Commercial Commitments

There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2019 Annual Report on Form 10-K.

Inflation

The rate of inflation, as measured by changes in the producer price index, affects different commodities, the cost of products purchased and ultimately the pricing of our different products and product classes to our customers. For the nine months ended September 30, 2020, pricing related to inflation did not have a material impact on our sales.

Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first and fourth quarters are usually affected by a reduced level of activity due to the impact of weather on projects. Sales typically increase beginning in March, with slight fluctuations per month through October. During periods of economic expansion or contraction, our sales by quarter have varied significantly from this pattern.

Guarantor Financial Statements

WESCO Distribution (the “Issuer”) has outstanding \$500 million in aggregate principal amount of 5.375% Senior Notes due 2021 (the “2021 Notes”) and \$350 million in aggregate principal amount of 5.375% Senior Notes due 2024 (the “2024 Notes” and, together with the 2021 Notes, the “Notes”).

The Notes are unsecured senior obligations of WESCO Distribution and are fully and unconditionally guaranteed on a senior unsecured basis by WESCO International and Anixter Inc. (the “Guarantors”), ranking *pari passu* in right of payment with all other existing and future senior obligations of the Issuer, including obligations under other unsubordinated indebtedness. The Notes are effectively subordinated to all existing and future obligations of the Issuer that are secured by liens on any property or assets of the Issuer, including the Issuer’s Revolving Credit Facility and the then outstanding term loan facility (the “Senior Secured Credit Facilities”), to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all liabilities (including trade payables) of any of the Guarantors’s or the Issuer’s subsidiaries (the “non-Guarantor Subsidiaries”) and senior in right of payment to all existing and future obligations of the Issuer that are, by their terms, subordinated in right of payment to the Notes.

The Notes are guaranteed by the Guarantors and not by the non-Guarantor Subsidiaries. In the event of a bankruptcy, liquidation or reorganization of any of the non-Guarantor Subsidiaries, such non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute or contribute, as the case may be, any of their assets to the Issuer or the Guarantors. Therefore, the Notes and the guarantee of the Guarantors (the “Guarantee”) are effectively subordinated to the liabilities of the non-Guarantor Subsidiaries.

The Guarantee constitutes a senior obligation of the Guarantors, ranking *pari passu* in right of payment with all other senior obligations of the Guarantors, including obligations under other unsubordinated indebtedness. The Guarantee is effectively subordinated to all existing and future obligations incurred by the Guarantors that are secured by liens on any property or assets of the Guarantors, including the Senior Secured Credit Facilities, to the extent of the value of the collateral securing such obligations, structurally subordinated to all liabilities (including trade payables) of the non-Guarantor Subsidiaries and senior in right of payment to all existing and future obligations of the Guarantors that are, by their terms, subordinated in right of payment to the Guarantee.

The Guarantors guarantee to each holder of the Notes and to the respective trustees (i) the due and punctual payment of the principal of, premium, if any, and interest on each Note, when and as the same shall become due and payable, whether at maturity, by acceleration or otherwise, the due and punctual payment of interest on the overdue principal of and interest on the Notes, to the extent lawful, and the due and punctual payment of all other obligations and due and punctual performance of all obligations of the Issuer to the holders or the respective trustee all in accordance with the terms of the Notes and the indentures governing the Notes and (ii) in the case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, at stated maturity, by acceleration or otherwise.

If the Issuer becomes a debtor in a case under the U.S. Bankruptcy Code or encounters other financial difficulty, under federal or state fraudulent transfer law, a court may void, subordinate or otherwise decline to enforce the Notes. A court might do so if it is found that when the Issuer issued the Notes, or in some states when payments became due under the Notes, the

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Issuer received less than reasonably equivalent value or fair consideration and either: (i) were insolvent or rendered insolvent by reason of such incurrence; (ii) were left with inadequate capital to conduct its business; or (iii) believed or reasonably should have believed that the Issuer would incur debts beyond its ability to pay.

The court might also void an issuance of the Notes without regard to the above factors, if the court found that the Issuer issued the Notes with actual intent to hinder, delay or defraud its creditors. A court would likely find that the Issuer did not receive reasonably equivalent value or fair consideration for the Notes, if the Issuer did not substantially benefit directly or indirectly from the issuance of the Notes. If a court were to void the issuance of the Notes, holders would no longer have any claim against the Issuer. Sufficient funds to repay the Notes may not be available from other sources. In addition, the court might direct holders to repay any amounts that they already received from the Issuer.

The following tables present summarized financial information for WESCO International, WESCO Distribution and Anixter Inc. on a combined basis after elimination of (i) intercompany transactions and balances among such entities and (ii) equity in earnings from and investments in any subsidiary that is a non-guarantor. The summarized financial information has been prepared in accordance with Rule 13-01 of Regulation S-X.

Summarized Balance Sheets

(In thousands of dollars)

(unaudited)

	As of	
	September 30, 2020	December 31, 2019
Assets		
Current assets	\$ 2,266,563	\$ 582,075
Due from non-guarantor subsidiaries	298,927	465,012
Total current assets	2,565,490	1,047,087
Noncurrent assets	3,652,213	484,552
Total assets	\$ 6,217,703	\$ 1,531,639
Liabilities		
Current liabilities	\$ 1,277,697	\$ 445,075
Due to non-guarantor subsidiaries	1,910,000	3,133,326
Total current liabilities	3,187,697	3,578,401
Noncurrent liabilities	4,846,438	1,067,486
Total liabilities	\$ 8,034,135	\$ 4,645,887

Summarized Statement of Income (Loss)

(In thousands of dollars)

(unaudited)

	Nine Months Ended September 30, 2020	
Net sales ⁽¹⁾	\$	4,004,366
Gross profit ⁽¹⁾		728,675
Net loss	\$	(110,754)

⁽¹⁾ Includes \$27.2 million of net sales and cost of goods sold to non-guarantor subsidiaries.

Impact of Recently Issued Accounting Standards

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

Forward-Looking Statements

All statements made herein that are not historical facts should be considered as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. These statements include, but are not limited to, statements regarding the process to divest the legacy WESCO Utility and Datacom businesses in Canada, including the expected length of the process, the expected benefits and costs of the transaction between WESCO and Anixter International Inc., including anticipated future financial and operating results, synergies, accretion and growth rates, and the combined company's plans, objectives, expectations and intentions, statements that address the combined company's expected future business and financial performance, and other statements identified by words such as "anticipate," "plan," "believe," "estimate," "intend," "expect," "project," "will" and similar words, phrases or expressions. These forward-looking statements are based on current expectations and beliefs of WESCO's management, as well as assumptions made by, and information currently available to, WESCO's management, current market trends and market conditions and involve risks and uncertainties, many of which are outside of WESCO's and WESCO's management's control, and which may cause actual results to differ materially from those contained in forward-looking statements. Accordingly, you should not place undue reliance on such statements.

Those risks, uncertainties and assumptions include the risk of any unexpected costs or expenses resulting from the transaction, the risk of any litigation or post-closing regulatory action relating to the transaction, the risk that the transaction could have an adverse effect on the ability of the combined company to retain customers and retain and hire key personnel and maintain relationships with its suppliers, customers and other business relationships and on its operating results and business generally, the risk that problems may arise in successfully integrating the businesses of the companies or that the combined company could be required to divest one or more businesses, which may result in the combined company not operating as effectively and efficiently as expected, the risk that the combined company may be unable to achieve synergies or other anticipated benefits of the proposed transaction or it may take longer than expected to achieve those synergies or benefits, the risk that the leverage of the company may be higher than anticipated, the impact of natural disasters, health epidemics and other outbreaks, especially the outbreak of COVID-19 since December 2019, which may have a material adverse effect on the combined company's business, results of operations and financial conditions, the risk that the divestiture of the legacy WESCO Utility and Datacom businesses in Canada may take longer than expected and other important factors that could cause actual results to differ materially from those projected. All such factors are difficult to predict and are beyond each company's control. Additional factors that could cause results to differ materially from those described above can be found in WESCO's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and WESCO's other reports filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

For a discussion of changes to the market risks that were previously disclosed in our 2019 Annual Report on Form 10-K, refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and to Part II, Item 1A, "Risk Factors".

Item 4. Controls and Procedures.

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

On June 22, 2020, the Company completed the acquisition of Anixter International Inc. ("Anixter"), which operated under its own set of systems and internal controls. During the quarterly period ended September 30, 2020, management transitioned certain of Anixter's processes to the Company's internal control environment. The Company will continue the process of integrating internal controls over financial reporting during the first year of this business combination.

There were no other changes in the Company's internal control over financial reporting that occurred during the quarterly period ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

The following is an additional risk factor to those previously disclosed in Item 1A. to Part I of WESCO's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Our business and operations have been and will continue to be adversely affected by the COVID-19 pandemic, and the duration and extent to which it will affect our business, financial condition, results of operations, cash flows, liquidity, and stock price remains uncertain.

The global COVID-19 pandemic has created significant disruption to the broader economies, financial markets, workforces, business environment, and our suppliers and customers. It began to adversely affect our business, results of operations, and financial condition late in the first quarter of 2020 and is continuing, and the effects include lost or delayed revenue to us. The pandemic has caused significant disruptions to our business due to, among other things, reduced transportation, restrictions on travel, disruptions to our suppliers and global supply chain, the impact on our customers and their demand for our products and services and ability to pay for them, as well as temporary closures of facilities. Some of the actions we have taken in response to the COVID-19 pandemic, such as implementing remote working arrangements, may also create increased vulnerability to cybersecurity incidents and other risks.

The duration and extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition depends on many evolving factors and future developments for which there is significant uncertainty, such as the severity and transmission rate of the virus, governmental, business and individuals' actions taken in response, the development and availability of effective treatment or vaccines, the extent and effectiveness of containment actions, as well as the matters noted above. In addition, the COVID-19 pandemic may continue to adversely affect many of our suppliers' and customers' businesses and operations, including the ability of our suppliers to manufacture or obtain the products we sell or to meet delivery requirements and commitments, and our customers' demand for our products and services and the ability to pay for them, all of which could adversely affect our sales and results of operations.

While we are supporting essential businesses and our branch locations have remained operational consistent with existing governmental and public health authority directives to date, there is significant uncertainty as to what steps we may need to take in response to the pandemic in the future (including in response to any new health and safety measures or restrictions), and what impact they will have on our business and operations. For example, some areas lifted restrictions only to impose further restrictions in the wake of increases in COVID-19 cases. We have taken actions to reduce costs and cash expenditures, including reductions in administrative expenses, payroll and benefits, capital expenditures, and other costs, and further steps may become necessary in the future. Due to the uncertainty of COVID-19, we will continue to assess the situation, including the impact of governmental regulations or restrictions that might be imposed or re-imposed in response to the pandemic. If we are unable to appropriately respond to or manage the impact of these events, our business and results of operations may be adversely affected.

In addition, the impact of COVID-19 on macroeconomic conditions has adversely affected and may continue to affect the functioning of financial and capital markets, foreign currency exchange rates, commodity and energy prices, and interest rates. Even after the COVID-19 pandemic subsides, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has or may occur. The long-term financial and economic impacts of the COVID-19 pandemic may continue for a significant period and cannot be reliably quantified or estimated at this time due to the uncertainty of these future developments.

Any of these events could materially adversely affect our business, financial condition, results of operations, cash flows, liquidity and stock price, and could also have the effect of heightening the other risks described in "Risk Factors" under Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operation" under Item 7 of our Annual Report on Form 10-K, filed with the SEC on February 24, 2020, including Operational Risks, Financial Risks, Regulatory and Legal Risks, and Risks Related to Our Pending Acquisition of Anixter, as well as in subsequent SEC filings.

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Combining WESCO and Anixter may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

On June 22, 2020, WESCO completed its acquisition of Anixter. The success of the merger, including anticipated benefits and cost savings, depends on the successful combination and integration of the companies' businesses. It is possible that the integration process could result in the loss of key employees, higher than expected costs, diversion of management attention, the disruption of either company's ongoing legacy businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with customers, suppliers and employees or to achieve the anticipated benefits and cost savings of the merger.

If we experience difficulties with the integration process, the anticipated benefits of the merger may not be realized or may take longer to realize than expected. These integration matters could have an adverse effect on us for an undetermined period. In addition, the actual cost savings of the merger could be less than anticipated.

WESCO has agreed to divest certain assets of the combined company, in accordance with the terms of a Consent Agreement dated August 6, 2020, between WESCO and the Competition Bureau of Canada. Under the Consent Agreement, WESCO has agreed to divest the legacy WESCO Utility and Datacom businesses in Canada. No assurances can be given that the divestiture of these businesses will be completed on favorable terms, in a short period of time, or without disruption to the business.

As of the acquisition date, Anixter had locations in approximately 50 countries to support its international operations. We may be subject to additional risks associated with owning and operating businesses in these foreign markets and jurisdictions, including those arising from import and export controls, foreign currency exchange rate changes, developments in political, regulatory or economic conditions impacting those operations, and different legal, tax, accounting and regulatory requirements.

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Item 6. Exhibits.

(a) Exhibits

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

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

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

(32) Section 1350 Certifications

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

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

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESCO International, Inc.

(Registrant)

November 9, 2020

(Date)

By: /s/ David S. Schulz

David S. Schulz

Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, John J. Engel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WESCO International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

By: /s/ John J. Engel

John J. Engel

Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, David S. Schulz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WESCO International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

By: /s/ David S. Schulz
David S. Schulz
Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of WESCO International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

November 9, 2020

By: /s/ John J. Engel

John J. Engel

Chairman, President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of WESCO International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

November 9, 2020

By: /s/ David S. Schulz
David S. Schulz
Executive Vice President and Chief Financial Officer