

WESCO INTERNATIONAL INC

Form 10-Q

May 03, 2019

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 March 31, 2019

or

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

For the transition period from _____ to _____

Commission File Number: 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware 25-1723342

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

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

(Address of principal executive offices)

(412) 454-2200

(Registrant's telephone number, including area code)

Not applicable.

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

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

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 May 1, 2019, 44,856,784 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 March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$106,100	\$96,343
Trade accounts receivable, net of allowance for doubtful accounts of \$26,828 and \$24,468 in 2019 and 2018, respectively	1,268,565	1,166,607
Other accounts receivable	75,326	96,984
Inventories	1,001,353	948,726
Prepaid expenses and other current assets	62,406	76,980
Total current assets	2,513,750	2,385,640
Property, buildings and equipment, net of accumulated depreciation of \$290,883 and \$291,811 in 2019 and 2018, respectively	166,688	160,878
Operating lease assets (Notes 2 and 4)	232,989	—
Intangible assets, net of accumulated amortization of \$260,496 and \$249,539 in 2019 and 2018, respectively	310,453	316,016
Goodwill	1,740,771	1,722,603
Other assets	19,987	19,899
Total assets	\$4,984,638	\$4,605,036
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$870,242	\$794,348
Accrued payroll and benefit costs	59,934	88,105
Short-term debt	27,313	30,785
Current portion of long-term debt, net of debt discount and debt issuance costs of \$488 in 2018	1,159	25,429
Bank overdrafts	22,455	17,818
Other current liabilities (Note 4)	169,619	105,461
Total current liabilities	1,150,722	1,061,946
Long-term debt, net of debt discount and debt issuance costs of \$8,508 and \$9,243 in 2019 and 2018, respectively	1,214,276	1,167,311
Operating lease liabilities (Notes 2 and 4)	178,606	—
Deferred income taxes	145,501	143,967
Other noncurrent liabilities	99,171	102,086
Total liabilities	\$2,788,276	\$2,475,310
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value; 210,000,000 shares authorized, 59,271,892 and 59,157,696 shares issued and 44,854,825 and 45,106,085 shares outstanding in 2019 and 2018, respectively	593	592
Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2019 and 2018, respectively	43	43

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Additional capital	1,015,563	993,666
Retained earnings	2,349,300	2,307,462
Treasury stock, at cost; 18,756,498 and 18,391,042 shares in 2019 and 2018, respectively	(777,216)	(758,018)
Accumulated other comprehensive loss	(385,918)	(408,435)
Total WESCO International, Inc. stockholders' equity	2,202,365	2,135,310
Noncontrolling interests	(6,003)	(5,584)
Total stockholders' equity	2,196,362	2,129,726
Total liabilities and stockholders' equity	\$4,984,638	\$4,605,036

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	
	March 31	
	2019	2018
Net sales (Note 3)	\$1,961,267	\$1,993,915
Cost of goods sold (excluding depreciation and amortization)	1,578,771	1,613,966
Selling, general and administrative expenses	296,528	290,829
Depreciation and amortization	15,242	15,879
Income from operations	70,726	73,241
Net interest and other	17,120	19,783
Income before income taxes	53,606	53,458
Provision for income taxes	11,656	10,487
Net income	41,950	42,971
Less: Net loss attributable to noncontrolling interests	(419) (1,450
Net income attributable to WESCO International, Inc.	\$42,369	\$44,421
Other comprehensive income (loss):		
Foreign currency translation adjustments	22,517	(28,800
Comprehensive income attributable to WESCO International, Inc.	\$64,886	\$15,621
Earnings per share attributable to WESCO International, Inc.		
Basic	\$0.94	\$0.94
Diluted	\$0.93	\$0.93

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)

	Three Months Ended March 31	
	2019	2018
Operating activities:		
Net income	\$41,950	\$42,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,242	15,879
Deferred income taxes	893	2,736
Other operating activities, net	5,961	5,085
Changes in assets and liabilities:		
Trade accounts receivable, net	(76,696)	(37,509)
Other accounts receivable	22,425	29,986
Inventories	(40,768)	2,992
Prepaid expenses and other assets	15,074	4,817
Accounts payable	68,085	8,077
Accrued payroll and benefit costs	(27,851)	(24,561)
Other current and noncurrent liabilities	4,554	2,520
Net cash provided by operating activities	28,869	52,993
Investing activities:		
Acquisition payments	(27,742)	—
Capital expenditures	(10,828)	(7,662)
Other investing activities	53	(8,760)
Net cash used in investing activities	(38,517)	(16,422)
Financing activities:		
Proceeds from issuance of short-term debt	23,569	57,919
Repayments of short-term debt	(51,983)	(52,220)
Proceeds from issuance of long-term debt	423,666	493,000
Repayments of long-term debt	(377,825)	(515,000)
Repurchases of common stock	(2,572)	(1,661)
Increase (decrease) in bank overdrafts	4,639	(10,575)
Other financing activities, net	(248)	(290)
Net cash used in financing activities	19,246	(28,827)
Effect of exchange rate changes on cash and cash equivalents	159	(1,800)
Net change in cash and cash equivalents	9,757	5,944
Cash and cash equivalents at the beginning of period	96,343	117,953
Cash and cash equivalents at the end of period	\$106,100	\$123,897
Supplemental disclosures:		
Cash paid for interest	\$4,583	\$4,607
Cash paid for income taxes	5,018	5,505

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)

(unaudited)

	Common Stock		Class B Common Stock		Additional Capital	Retained Earnings (Deficit)	Treasury Stock		Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)
	Amount	Shares	Amount	Shares			Amount	Shares		
Balance, December 31, 2018	\$592	59,157,696	\$43	4,339,431	\$993,666	\$2,307,462	\$(758,018)	(18,391,042)	\$(5,584)	\$(408,435)
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)

	Common Stock		Class B Common Stock		Additional Capital	Retained Earnings (Deficit)	Treasury Stock		Noncontrolling Interests	Accumulated Other Comprehensive Income (Loss)
	Amount	Shares	Amount	Shares			Amount	Shares		
	\$591	59,045,762	\$43	4,339,431	\$999,156	\$2,079,697	\$(647,158)	(16,375,653)	\$(3,596)	\$(312,590)

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Balance, December 31, 2017										
Exercise of stock-based awards	—	88,554		(67)		(455)	(5,521)
Stock-based compensation expense				3,858						
Tax withholding related to vesting of restricted stock units and retirement of common stock	—	(16,614)	(1,153)	417				
Noncontrolling interests									(1,450)
Net income attributable to WESCO						44,421				
Translation adjustments									(28,800)
Balance, March 31, 2018	\$591	59,117,702	\$43	4,339,431	\$1,001,794	\$2,124,535	\$(647,613)	(16,381,174)	\$(5,046)	\$(341,390)

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

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

1. ORGANIZATION

WESCO International, Inc. ("WESCO International") and its subsidiaries (collectively, "WESCO" or the "Company"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical, industrial and communications maintenance, repair and operating ("MRO") and original equipment manufacturer ("OEM") products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. WESCO serves approximately 70,000 active customers globally through approximately 500 branches primarily located in North America, with operations in 15 additional countries and 10 distribution centers located in the United States and Canada.

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 2018 Annual Report on Form 10-K as filed with the SEC on February 27, 2019. The Condensed Consolidated Balance Sheet at December 31, 2018 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 March 31, 2019, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income, the unaudited Condensed Consolidated Statements of Cash Flows, and the unaudited Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2019 and 2018, 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.

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, WESCO adopted Accounting Standards Update (ASU) 2016-02, Leases, and all the related amendments ("Topic 842"), a comprehensive new standard that amended various aspects of existing accounting guidance for leases. The adoption of Topic 842 resulted in the recognition of right-of-use assets and lease liabilities for operating leases of approximately \$240 million and \$245 million, respectively, in the Consolidated Balance Sheet as of January 1, 2019, most of which relate to real estate. The adoption of Topic 842 did not have a material impact on the Consolidated Statement of Income and Comprehensive Income or Consolidated Statement of Cash Flow for the three months ended March 31, 2019.

The Company used the optional effective date transition method and therefore did not adjust the prior comparative periods presented herein. There was no cumulative-effect adjustment to beginning retained earnings as a result of using this method. In addition, the Company elected the package of practical expedients that allowed the adoption of Topic 842 without reassessing arrangements that commenced prior to the effective date. Additional qualitative and quantitative information about the Company's leases is disclosed in Note 4.

Recently Issued Accounting Pronouncements

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

consolidated financial statements and notes thereto.

In 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 amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Management does not expect the adoption of this accounting standard to have a material impact on its consolidated financial statements and notes thereto.

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

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 consolidated financial statements and notes thereto.

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

3. REVENUE

WESCO distributes products and provides services to customers globally within the following end markets: (1) industrial, (2) construction, (3) utility, and (4) commercial, institutional and government. 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 revenue by end market and geography:

(In thousands)	Three Months Ended	
	March 31	
	2019	2018
Industrial	\$736,906	\$758,976
Construction	633,288	637,800
Utility	308,269	315,546
Commercial, Institutional and Government	282,804	281,593
Total by end market	\$1,961,267	\$1,993,915

(In thousands)	Three Months Ended	
	March 31	
	2019	2018
United States	\$1,460,991	\$1,482,718
Canada ⁽¹⁾	384,596	398,738
Other International ⁽¹⁾	115,680	112,459
Total by geography	\$1,961,267	\$1,993,915

⁽¹⁾ The prior period has been reclassified to conform to the current period presentation.

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 March 31, 2019 and December 31, 2018, \$8.8 million and \$11.8 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 March 31, 2019 and 2018 by approximately \$25.5 million and \$23.8 million, respectively.

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

Shipping and handling costs are recognized in net sales when they are billed to the customer. These costs are recognized as a component of selling, general and administrative expenses when WESCO does not bill the customer. WESCO has elected to recognize shipping and handling costs as a fulfillment cost. Shipping and handling costs recorded as a component of selling, general and administrative expenses totaled \$17.0 million and \$18.2 million for the three months ended March 31, 2019 and 2018, respectively.

4. LEASES

WESCO leases real estate, automobiles, trucks and other equipment. The determination of whether an arrangement is, or contains, a lease is performed at the inception of the arrangement. Classification and initial measurement of the right-of-use asset and lease liability are determined at the lease commencement date. The Company has elected the short-term lease measurement and recognition exemption; therefore, leases with an initial term of 12 months or less are not recorded on the balance sheet.

The Company's arrangements include certain non-lease components such as common area and other maintenance for leased real estate, as well as mileage, fuel and maintenance costs related to its leased automobiles and trucks. WESCO accounts for these nonlease components separately from the associated lease components. The Company does not guarantee any residual value in its lease agreements, and there are no material restrictions or covenants imposed by lease arrangements. Real estate leases typically include one or more options to extend the lease. The Company regularly evaluates the renewal options, and when they are reasonably certain of exercise, the Company includes the renewal period in its lease term. The Company uses the interest rate implicit in its leases to discount lease payments at the lease commencement date. When the implicit rate is not readily available, the Company uses its incremental borrowing rate.

The Company's finance leases, which are recorded in the Condensed Consolidated Balance Sheet as of March 31, 2019 as a component of property, buildings and equipment, current portion of long-term debt and long-term debt, respectively, are not material to the consolidated financial statements and notes thereto. Accordingly, finance leases have not been disclosed herein.

The following table sets forth supplemental balance sheet information related to operating leases for the period presented:

	As of
(In thousands)	March
	31, 2019
Operating lease assets	\$232,989
Current operating lease liabilities	59,236
Noncurrent operating lease liabilities	178,606
Total operating lease liabilities	\$237,842

The following table sets forth the Company's total lease cost, which is recorded as a component of selling, general and administrative expenses, for the period presented:

	Three
	Months
	Ended
	March
	31
(In thousands)	2019
Operating lease cost	\$18,003
Short-term lease cost	11
Variable lease cost	5,321

Total lease cost \$23,335

Variable lease cost consists of the non-lease components described above, as well as taxes and insurance for WESCO's leased real estate.

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

The following table sets forth supplemental cash flow information related to operating leases for the period presented:

	Three Months Ended March 31 2019
(In thousands)	
Operating cash flows from operating leases	\$18,012
Right-of-use assets obtained in exchange for new operating lease liabilities	8,092

For the three months ended March 31, 2019, the weighted-average remaining lease term for operating leases was 5.5 years and the weighted-average discount rate used to measure operating lease assets and liabilities was 4.6%.

The following table sets forth the maturities of the Company's operating lease liabilities and reconciles the respective undiscounted payments to the operating lease liabilities in the Condensed Consolidated Balance Sheet as of March 31, 2019:

	(In thousands)
2019	\$59,033
2020	61,233
2021	49,587
2022	36,767
2023	27,547
Thereafter	45,701
Total undiscounted operating lease payments	279,868
Less: interest	(42,026)
Total operating lease liabilities	\$237,842

The following table sets forth the future minimum rental payments for operating leases accounted for in accordance with Accounting Standards Codification Topic 840, Leases, as of December 31, 2018:

Years ending December 31	(In thousands)
2019	\$ 71,640
2020	59,594
2021	47,264
2022	34,490
2023	24,493
Thereafter	40,302

5. ACQUISITIONS

The following table sets forth the consideration paid for acquisitions:

	Three Months Ended March 31 2019 (In thousands)
Fair value of assets acquired	\$ 34,812

Fair value of liabilities assumed 7,070
Cash paid for acquisitions \$ 27,742

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

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"). Headquartered in Wilmington, Massachusetts, 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 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 \$5.5 million, which is deductible for tax purposes.

6. GOODWILL

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

	Three Months Ended March 31 2019
(In thousands)	
Beginning balance January 1	\$ 1,722,603
Foreign currency exchange rate changes	12,642
Additions to goodwill for acquisitions	5,526
Ending balance March 31	\$ 1,740,771

7. STOCK-BASED COMPENSATION

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

Performance-based awards granted in 2019 were based on two equally-weighted performance measures, which include 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, which include the three-year average growth rate of the Company's fully diluted earnings per share and the three-year cumulative return on net assets. From 2015 to 2017, the two equally-weighted performance-based award metrics were the three-year average growth rate of WESCO's net income and WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period.

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

During the three months ended March 31, 2019 and 2018, 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 March 31, 2019 2018	
Stock-settled stock appreciation rights granted	213,618	491,229
Weighted-average fair value	\$ 16.36	\$ 18.40
Restricted stock units granted	175,544	114,269
Weighted-average fair value	\$ 54.64	\$ 62.81
Performance-based awards granted	126,874	444,144
Weighted-average fair value	\$ 54.64	\$ 62.80

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

	Three Months Ended March 31, 2019 2018	
Risk free interest rate	2.5 %	2.5 %
Expected life (in years)	5	5
Expected volatility	29 %	28 %

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 three months ended March 31, 2019:

	Awards	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2018	2,351,633	\$ 59.26		
Granted	213,618	54.63		
Exercised	(51,635)	35.11		
Forfeited	(26,236)	70.00		
Outstanding at March 31, 2019	2,487,380	59.25	6.3	\$ 9,222
Exercisable at March 31, 2019	1,815,662	\$ 58.38	5.3	\$ 9,217

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The following table sets forth a summary of time-based restricted stock units and related information for the three months ended March 31, 2019:

	Awards	Weighted- Average Fair Value
Unvested at December 31, 2018	327,798	\$ 57.87
Granted	175,544	54.64
Vested	(112,500)	43.58
Forfeited	(1,565)	57.49
Unvested at March 31, 2019	389,277	\$ 60.48

Performance shares are awards for which the vesting will occur based on market or performance conditions. The following table sets forth a summary of performance-based awards for the three months ended March 31, 2019:

	Awards	Weighted- Average Fair Value
Unvested at December 31, 2018	138,896	\$ 59.33
Granted	126,874	54.64
Vested	(25,696)	42.44
Forfeited	(35,486)	50.79
Unvested at March 31, 2019	204,588	\$ 60.11

The unvested performance-based awards in the table above include 17,507 shares in which vesting of the ultimate number of shares is dependent upon WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period. These awards are accounted for as awards with market conditions; compensation cost is recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Vesting of the remaining 187,081 shares of performance-based awards in the table above is dependent upon the achievement of certain performance targets, including 80,944 that are dependent upon the three-year average growth rate of WESCO's net income, 21,350 that are dependent upon the three-year average growth rate of the Company's fully diluted earnings per share, and 84,787 that are based upon the three-year cumulative return on net assets. These awards are accounted for as awards with performance conditions; compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized \$4.7 million and \$3.9 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$36.6 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$15.4 million is expected to be recognized over the remainder of 2019, \$13.5 million in 2020, \$7.0 million in 2021 and \$0.7 million in 2022.

8. EARNINGS PER SHARE

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

awards.

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

	Three Months Ended March 31	
(In thousands, except per share data)	2019	2018
Net income attributable to WESCO International	\$42,369	\$44,421
Weighted-average common shares outstanding used in computing basic earnings per share	45,076	47,038
Common shares issuable upon exercise of dilutive equity awards	415	570
Weighted-average common shares outstanding and common share equivalents used in computing diluted earnings per share	45,491	47,608
Earnings per share attributable to WESCO International		
Basic	\$0.94	\$0.94
Diluted	\$0.93	\$0.93

For the three months ended March 31, 2019 and 2018, the computation of diluted earnings per share attributable to WESCO International excluded stock-based awards of approximately 1.8 million and 1.5 million, respectively. 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. On November 6, 2018, the Company entered into an accelerated stock repurchase agreement (the "ASR Transaction") with a financial institution to repurchase additional shares of its common stock. In exchange for an up-front cash payment of \$100.0 million, the Company received a total of 1,953,167 shares, 365,272 of which were received during the three months ended March 31, 2019. WESCO funded the repurchase with borrowings under its accounts receivable securitization and revolving credit facilities. The total number of shares ultimately delivered under the ASR Transaction was determined by the average of the volume-weighted average price of the Company's common stock for each exchange business day during the settlement valuation period. For purposes of computing earnings per share for the three months ended March 31, 2019, shares received under the ASR Transaction were reflected as a reduction to common shares outstanding on the respective delivery dates.

9. EMPLOYEE BENEFIT PLANS