

WESCO INTERNATIONAL INC

Form 10-K

February 22, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

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)

25-1723342

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

225 West Station Square Drive

Suite 700

Pittsburgh, Pennsylvania

(Address of principal executive offices)

(412) 454-2200

(Registrant's telephone number, including area code)

15219

(Zip Code)

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

Title of Class

Common Stock, par value \$.01 per share

Name of Exchange on which registered

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The registrant estimates that the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately \$2,325.1 million as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on the New York Stock Exchange for such stock. As of February 20, 2012, 43,461,030 shares of Common Stock, par value \$.01 per share, of the registrant were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Part III of this Form 10-K incorporates by reference portions of the registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders.

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WESCO INTERNATIONAL, INC.

Annual Report on Form 10-K for the Fiscal Year Ended

December 31, 2011

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## PART I

## Item 1. Business.

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

## The Company

WESCO International, Inc. (“WESCO International”), incorporated in 1993 and effectively formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American based distributor of products and provider of advanced supply chain management and logistics services used primarily in industrial, construction, utility and commercial, institutional and government markets. We serve over 65,000 active customers globally through approximately 400 full service branches and eight distribution centers located in the United States, Canada, and Mexico with offices in 11 additional countries. At the end of 2011, we had approximately 7,100 employees worldwide.

We are a leading provider of electrical, industrial, and communications maintenance, repair and operating (“MRO”) and original equipment manufacturers (“OEM”) products, construction materials, and advanced supply chain management and logistics services. Our primary product categories include general electrical and industrial supplies, wire, cable and conduit, data and broadband communications, power distribution equipment, lighting and lighting control systems, control and automation, and motors. We distribute over 1,000,000 products from more than 18,000 suppliers utilizing a highly automated, proprietary electronic procurement and inventory replenishment system. In addition, we offer a comprehensive portfolio of value-added services, which includes supply chain management, logistics and transportation procurement, warehousing and inventory management, as well as kitting, limited assembly of products and system installation. Our value-added capabilities, extensive geographic reach, experienced workforce and broad product and supply chain solutions have enabled us to grow our business and establish a leading position in North America.

## Industry Overview

We operate in highly fragmented markets that include thousands of small regional and locally based, privately owned competitors. According to one industry publication, in 2010, the latest year for which market share data is available, the five largest North American distributors, including WESCO, accounted for approximately 28% of estimated total electrical distribution industry sales in the United States. Our global account, integrated supply and OEM programs provide customers with a regional, national, North American and global supply chain consolidation opportunity. The demand for these programs has grown in recent years, driven primarily by the desire of companies to reduce operating expenses by implementing third-party programs for the operational and administrative functions associated with the procurement, management and utilization of MRO supplies and OEM components. We believe that significant opportunities exist for further expansion of these programs. The total potential in the United States for purchases of supplies and services across all industrial distribution market segments and channels is currently estimated to be greater than \$500 billion per an industry publication.

According to management estimates, electrical distribution industry sales have grown at an approximately 5% compound annual rate over the past 20 years. This expansion has been driven by general economic growth, increased price levels for key commodities, increased use of electrical products in businesses and industries, new products and technologies, the proliferation of enhanced building and safety codes and use of the internet. Wholesale distributors have also grown as a result of a long term shift in procurement preferences that favor the use of distributors over direct relationships with manufacturers.

## Markets and Customers

We have a large base of over 65,000 active customers across a diverse set of end markets. Our top ten customers accounted for approximately 13% of our sales in 2011. No one customer accounted for more than 4% of our sales in 2011.

The following table outlines our sales breakdown by end market:

Year Ended December 31,	2011	2010	2009
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(percentages based on total sales)

Industrial	43%	42%	40%
Construction	35%	38%	36%
Utility	11%	13%	17%
Commercial, Institutional and Governmental	11%	7%	7%

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**Industrial.** Sales to industrial customers of MRO, OEM, and construction products and services accounted for approximately 43% of our sales in 2011, compared to 42% in 2010. Industrial sales product categories include a broad range of electrical equipment and supplies as well as lubricants, pipe, valves, fittings, fasteners, cutting tools and power transmission 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.

**Construction.** Sales of electrical and communications products to contractors accounted for approximately 35% of our sales in 2011, compared to 38% in 2010. Customers include a wide array of contractors and engineering, procurement and construction firms for industrial, infrastructure, commercial and data and broadband communications projects. Specific applications include projects for refineries, railways, hospitals, wastewater treatment facilities, data centers, security installations, offices, and modular and mobile homes. In addition to a wide array of electrical products, we offer contractors communications products for projects related to IT/network modernization, physical security upgrades, broadband deployments, network security, and disaster recovery.

**Utility.** Sales to utilities and utility contractors accounted for approximately 11% of our sales in 2011, compared to 13% in 2010. Customers include large investor-owned utilities, rural electric cooperatives, municipal power authorities and contractors that serve these customers. We provide our utility customers with products and services to support the construction and maintenance of their generation, transmission and distribution systems along with an extensive range of products that meet their power plant MRO and capital projects needs. Materials management and procurement outsourcing arrangements are also important in this market, as cost pressures and deregulation have caused utility customers to seek improvements in the efficiency and effectiveness of their supply chains.

**Commercial, Institutional and Governmental ("CIG").** Sales to CIG customers accounted for approximately 11% of our sales in 2011 compared to 7% in 2010. Customers include schools, hospitals, property management firms, retailers and federal, state and local government agencies of all types, including federal contractors.

### Business Strategy

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

We have identified selected end markets and product categories that we believe provide substantial opportunities for above market growth. The end markets are construction, government, international, and utility. The product categories are data communications and security products, and lighting and sustainability. We believe our business model of global accounts and integrated supply programs also provides a significant growth opportunity. We have focused our growth efforts on these end markets, products, and business model as discussed below.

**Grow Our Global Account Customer Relationships and Base.** Our typical global account customer is a Fortune 1000 industrial or commercial company, a large utility, a major contractor, or a governmental or institutional customer, in each case with multiple locations. Our global account program is designed to provide customers with supply chain management and cost reductions by coordinating and standardizing activity for MRO materials and OEM direct materials across their multiple locations. Comprehensive implementation plans are managed at the local, national and international levels to prioritize activities, identify key performance measures, and track progress against objectives. We involve our preferred suppliers early in the implementation process, where they can contribute expertise and product knowledge to accelerate program implementation and achievement of cost savings and process improvements.

Over the past ten years, growth from our global account programs have been a material component of our organic growth strategy. Our objective is to continue to increase revenue from our global account programs by expanding our product and service offerings to existing global account customers and expanding our reach to serve additional customer locations. We also plan on expanding our customer base by capitalizing on our industry expertise and supply

chain optimization capabilities.

**Extend Our Leadership Position in Integrated Supply Programs.** Our integrated supply services are focused on customers in the industrial, utility, construction and CIG markets. We combine our personnel, product and distribution expertise, electronic technologies and service capabilities with the customer's own internal resources to meet particular service requirements. Each integrated supply program is configured to reduce the number of suppliers, total procurement costs, and

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administrative expenses as well as improve operating controls. Our integrated supply programs focus on supply chain optimization and replace the traditional multi-vendor, resource-intensive procurement process with a single, outsourced, automated process. Our services range from timely product delivery to an outsourced procurement function. We believe that customers will increasingly seek to utilize such services to consolidate and manage their MRO and OEM supply chains. We plan to expand our position as an integrated supply services leader providing MRO supplies in the United States by building upon established relationships within our large customer base and premier supplier network, and extending our services to additional customers and locations outside the United States.

**Expand Our Relationships with Construction Contractors.** Our construction sales are focused on contractors, particularly those involved with healthcare, government facilities, enterprise data communications, telecommunication and energy and government infrastructure-related projects. We believe that significant cross selling opportunities exist for electrical and data communications products and we intend to use our global account programs, LEAN initiatives and project management expertise to capitalize on construction business opportunities.

**Expand Government Business.** Our dedicated government business development and sales team is focused on serving federal, state and local government agencies. In addition to coordinating business at a federal, state and local level, we are focused on monitoring all activity and opportunities related to the American Recovery and Reinvestment Act and have seen positive results from these efforts.

**Expand Products and Services for Utilities.** Our utility customers continue to work on operating efficiency and cost reduction. As a result, we anticipate an increase in distribution grid improvement and transmission expansion projects. Accordingly, we are focused on expanding our logistical and project services, integrated supply services and project management programs to increase our scope of supply on distribution grid, generation and other energy projects.

**Expand International Operations.** We seek to capitalize on existing and emerging international market opportunities through collaborative investments with key customers and suppliers. We follow our established customers and pursue business that we believe utilizes and extends our existing capabilities. We believe this strategy of working through well-developed customer and supplier relationships significantly reduces risk and provides the opportunity to establish profitable business. Our priorities are focused on global energy and construction projects, as well as attractive vertical markets such as infrastructure, data communications, alternative energy and integrated supply and procurement outsourcing.

**Grow Our Communications Products Position.** Over the last several years, there has been a convergence of electrical and data communications contractors. Our ability to provide both electrical and communications products and services lines as well as automation, electromechanical, non-electrical MRO, physical security and utility products has presented expanded cross selling opportunities across WESCO. Communications products have continued to be in demand due to networking upgrades, low voltage security investments, data center upgrades and increasing broadband utilization. We are investing in the expansion of our communications sales force and geographic footprint. In December 2010, we expanded our capabilities into broadband and telecommunication product lines with the acquisition of TVC Communications.

**Grow Lighting System Sales.** Lighting applications are undergoing significant innovation driven by energy efficiency and sustainability trends. We expanded our sales team and marketing initiatives and will continue to add resources in this product category and in product and service offerings to provide overall energy solutions.

**Pursue Strategic Acquisitions.** Since 1995, we have completed 36 acquisitions. In 2011, we acquired two businesses: RECO LLC ("RECO") and Brews Supply, Ltd. ("Brews"). We believe that the highly fragmented nature of the electrical and industrial distribution industry will continue to provide acquisition opportunities. We expect that any future acquisitions will be financed with internally generated funds, additional debt and/or the issuance of equity securities.

**Drive Operational Excellence.** LEAN continuous improvement is a set of company-wide strategic initiatives to increase efficiency and effectiveness across the entire business enterprise, including sales, operations and administrative processes. The basic principles behind LEAN are to systematically identify and implement improvements through simplification, elimination of waste and reduction in errors. We apply LEAN in our distribution environment, and develop and deploy numerous initiatives through the Kaizen approach targeting improvements in sales, margin, warehouse operations, transportation, purchasing, inventory, accounts receivable,

accounts payable, and administrative processes. Our objective is to continue to implement LEAN initiatives across our business enterprise and to extend LEAN services to our customers and suppliers.

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

Products and Services

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## Products

Our network of branches and distribution centers stock more than 250,000 unique product stock keeping units and we provide customers with access to more than 1,000,000 different products. Each branch tailors its inventory to meet the needs of its local customers.

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

General and Industrial Supplies. Wiring devices, fuses, terminals, connectors, boxes, enclosures, fittings, lugs, terminations, tape, splicing and marking equipment, tools and testers, safety and security, personal protection, abrasives, cutting tools, tapes, consumables, fasteners, janitorial and other MRO supplies;

Wire, Cable and Conduit. Wire, cable, raceway, metallic and non-metallic conduit;

Communications Products. Structured cabling systems, broadband products, low voltage specialty systems, specialty wire and cable products, equipment racks and cabinets, access control, alarms, cameras, paging and voice solutions;

Power Distribution Equipment. Circuit breakers, transformers, switchboards, panel boards, metering products and busway products;

Lighting and Controls. Lamps, fixtures, ballasts and lighting control products;  
and

Control, Automation and Motors. Motor control devices, drives, surge and power protection, relays, timers, pushbuttons, operator interfaces, switches, sensors, and interconnects.

The following table sets forth sales information about our sales by product category:

Year Ended December 31, (percentages based on total sales)	2011	2010	2009
General and Industrial Supplies	34%	35%	35%
Wire, Cable and Conduit	18%	18%	18%
Data and Broadband Communications	17%	15%	14%
Power Distribution Equipment	11%	12%	13%
Lighting and Controls	9%	10%	11%
Control, Automation and Motors	11%	10%	9%

We purchase products from a diverse group of more than 18,000 suppliers. In 2011, our ten largest suppliers accounted for approximately 28% of our purchases. Our largest supplier accounted for approximately 10% of our total purchases. No other supplier accounted for more than 5% of our total purchases.

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

## Services

As part of our overall offering, we provide customers a comprehensive portfolio of value added services which includes more than 50 value add solutions, in 11 categories ranging from construction, e-business, energy, engineering services, green and sustainability, production support, safety and security, supply chain optimization, training, and working capital. These solutions are designed to address our customer's business needs through:

Providing technical support for manufacturing process improvements;

Implementing inventory optimization programs, including just-in-time delivery and vendor managed inventory;

Participating in joint cost savings teams;

Assigning our employees as on-site support personnel;

Consulting and recommending energy-efficient product upgrades; and

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Offering safety and product training for customer employees.

**Competitive Strengths**

We compete directly with global, national, regional and local distributors of electrical and other industrial supplies. Competition is primarily focused on the local service area, and is generally based on product line breadth, product availability, service capabilities and price. We also compete with buying groups formed by smaller distributors to increase purchasing power and provide some cooperative marketing capability. While increased buying power may improve the competitive position of buying groups locally, we believe it is difficult to coordinate a diverse ownership group to provide consistent quality products and services across multiple geographic regions. Although certain Internet-based procurement service companies, auction businesses and trade exchanges remain in the marketplace, the impact on our business from these competitors has not been significant to date.

**Market Leadership.** Our ability to manage complex global supply chains, multi-site facility maintenance programs and construction projects that require special sourcing, technical advice, logistical support and locally based service has enabled us to establish a strong presence in our served markets. We have utilized these skills to generate significant revenues in a broad range of industries with intensive use of electrical and industrial products.

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

**Extensive Distribution Network.** We operate approximately 400 geographically dispersed branch locations and eight distribution centers (four in the United States and four in Canada). Our distribution centers add value for our customers, suppliers, and branches through the combination of a broad and deep selection of inventory, online ordering, next-day shipment and central order handling and fulfillment. Our distribution center network reduces the lead-time and cost of supply chain activities through automated replenishment and warehouse management systems and economies of scale in purchasing, inventory management, administration and transportation. This extensive network, which would be difficult and expensive to duplicate, provides us with a distinct competitive advantage and allows us to:

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

**Low Cost Operator.** Our competitive position has been enhanced by our consistent favorable operating cost position, which is based on use of LEAN, strategically-located distribution centers, and purchasing economies of scale. As a result of these factors, our operating cost as a percentage of sales is one of the lowest in our industry. Our selling, general and administrative expenses as a percentage of revenues for 2011 were 14.2%.

**Geography**

Our network of branches and distribution centers are located primarily in the United States, Canada, and Mexico with offices in 11 additional countries.

We attribute revenues from external customers to individual countries on the basis of the point of sale. The following table sets forth information about us by geographic area:

	Net Sales			Long-Lived Assets		
	Year Ended December 31,			December 31,		
	2011	2010	2009	2011	2010	2009
(In thousands)						
United States	\$4,994,641	82				