WESCO International, Inc. (NYSE: WCC): Long

May 8th, 2025 — *Low-Voltage Valuation, High-Voltage Business – UPSIDE: 73%/DOWNSIDE: -27%* — Garrett Wallis

WESCO International, Inc.

Summary Financials

(USD in $, except for per share data)

Share Price ([Date of Share Price])	$158.00
FD Shares Outstanding	50
Market Capitalization	**$7,837**
Less: Cash	--
Plus: Debt	5,046
Enterprise Value	**$12,882**
52 Week Range	$125.20-$216.17
% of 52-Week High	73.1%
Avg Daily Value Traded (Last 3 months)	$172
as a % of Market Cap	2.2%

	Actual FYE December 31,			Projected Fiscal Years Ending December 31,				
	2022A	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**
Revenue	$21,420	$22,385	$21,819	$22,515	$23,564	$24,847	$26,249	$27,686
y / y growth		*4.5%*	*(2.5%)*	*3.2%*	*4.7%*	*5.4%*	*5.6%*	*5.5%*
EBIT	$1,438	$1,406	$1,223	$1,319	$1,449	$1,574	$1,709	$1,849
Margin	*6.7%*	*6.3%*	*5.6%*	*5.9%*	*6.1%*	*6.3%*	*6.5%*	*6.7%*
y / y growth		*(2.2%)*	*(13.0%)*	*7.8%*	*9.9%*	*8.6%*	*8.5%*	*8.2%*
Net Income	*$803*	*$708*	*$660*	*$677*	*$858*	*$991*	*$1,112*	*$1,249*
y / y growth		(11.8%)	(6.8%)	2.6%	26.7%	15.5%	12.2%	12.3%
EPS - [GJW]	$ *15.33*	$ *13.54*	$ *13.05*	$ *13.73*	$ *17.61*	$ *20.60*	$ *23.44*	$ *26.69*
y / y growth		(11.7%)	(3.6%)	5.2%	28.3%	17.0%	13.8%	13.9%
Consensus EPS				$13.33	$15.96	$18.83	$19.60	
Variance to Consensus				**3.0%**	**10.3%**	**9.4%**	**19.6%**	
FCF / Share	($1.69)	$7.67	$19.89	$14.39	$16.35	$18.00	$20.56	$23.07
y / y growth		*(554.5%)*	*159.5%*	*(27.6%)*	*13.6%*	*10.1%*	*14.2%*	*12.2%*
FCF % of NI	*(11.0%)*	*56.6%*	*152.5%*	*104.8%*	*92.8%*	*87.4%*	*87.7%*	*86.4%*
EV / EBIT	9.0x	9.2x	10.5x	9.8x	8.9x	8.2x	7.5x	7.0x
P / E - [GJW] - Base Case	10.3x	11.7x	12.1x	11.5x	9.0x	7.7x	6.7x	5.9x
P / E Consensus				11.9x	9.9x	8.4x	8.1x	
FCF Yield	(1.1%)	4.9%	12.6%	9.1%	10.3%	11.4%	13.0%	14.6%

Investment Thesis

WESCO International, Inc. (WCC) represents a unique opportunity to invest in a stable and dominant business at the nexus of several powerful secular trends. The proliferation of electrification, data centers, AI, infrastructure modernization, and manufacturing reshoring represent powerful tailwinds for WCC and create the opportunity for meaningful fundamental improvement.

At 11x NTM P/E and 8x NTM EV/EBITDA, WCC shares present investors with an attractive risk/reward setup in the face of material macroeconomic uncertainty. WCC's core business has provided consistency, but recent strategic shifts towards higher margin service offerings will create optionality for TAM expansion and profitability improvements.

My thesis is built upon three key pillars:

1. Secular trends will support sustained long-term organic & inorganic revenue growth
2. Strengthening the competitive position through value chain expansion and digital capabilities investment
3. Strong free cash flow generation will support continued shareholder returns and deleveraging

Through these drivers, WCC should deliver a base case return of 73% (excl. dividends) through December 2028, representing a 16.2% IRR for investors (17.3% w/ dividends). Furthermore, with an EPV implied share price ~4% below the current market, investors pay very little for exposure to end markets with the potential for high secular growth.

Business Description

Wesco International is a global leader in electrical distribution and supply chain solutions, delivering millions of products and value-added services across sectors including construction, industrial, OEM, data center, utility, broadband, and security. Serving nearly 140,000 customers in over 50 countries, Wesco operates through three strategic business units—Electrical & Electronic Solutions (EES), Communications & Security Solutions (CSS), and Utility & Broadband Solutions (UBS).

The company is undergoing a strategic shift from pure distribution toward higher-margin, service-based offerings such as advisory, project deployment, logistics, and digital supply chain management. This transformation is powered by digital tools and recent acquisitions (e.g., Rahi, Ascent, entroCIM), positioning Wesco to capitalize on secular growth drivers like electrification, data centers, grid modernization, and AI-led automation.

Variant View

- Duration advantage over internal investment period: For the past few years, WCC has been allocating considerable capital to improve its digital capabilities. This investment has been through both the balance sheet & income statement, depressing earnings. The ability to hold through this investment period to end in the next 12-24 months will benefit patient investors, "trading time for value".
- Under appreciated de-leveraging story: Management plans to allocate 25% of FCF to shareholders return, which will include decreasing leverage. The relative impact to the income statement is material and will accelerate EPS growth beyond the MSD top-line performance the business will likely execute on.
- High margin convexity & Lower than perceived tariff risk: Distributors are low margin businesses, but the combination of lower SG&A investment, de-leveraging, and removal of preferred shares will drive LDD EPS growth from low base margins.

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Material Business Developments

Management Strategy

- Following the acquisition of Anixter in 2020, WCC transformed its business strategy to improve the fundamentals of the business, extend its growth runway, and further solidify its competitive position. This strategy involves transforming from a traditional distributor into a “tech-enabled” supply chain solutions provider, which emphasizes higher margin services supported by new digital capabilities and expansion into strategic verticals facing tailwinds. Over the past 3 years, WCC has realigned its business units around this strategy and invested significant capital in its internal IT infrastructure to support this initiative through increased automation and improved cross-selling capabilities being addressed through its acquisitions.

Acquisitions

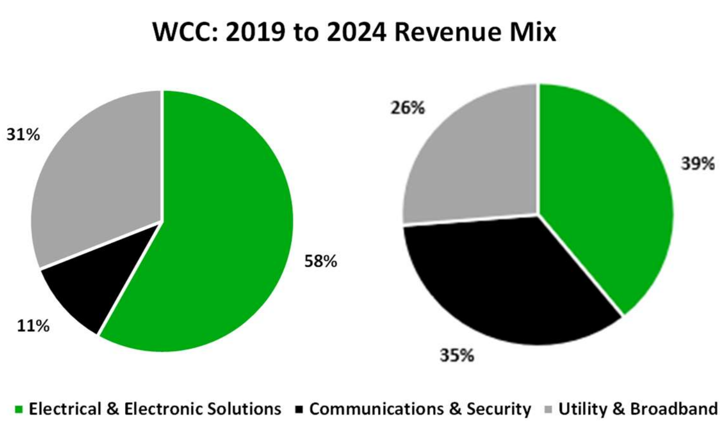
- In 2020, WCC completed a transformational acquisition through the purchase of Anixter International for $4.5B, which significantly enhanced the company’s scale and end market exposure. This transaction more than doubled revenues and expanded its footprint in communications, security, and utility verticals globally.
- WCC has also completed a handful of smaller acquisitions since the strategic shift in 2020 totaling ~$480MM. These purchases helped bolster the company’s position in data centers through new capabilities in design-build, software, IT infrastructure, and cloud services.

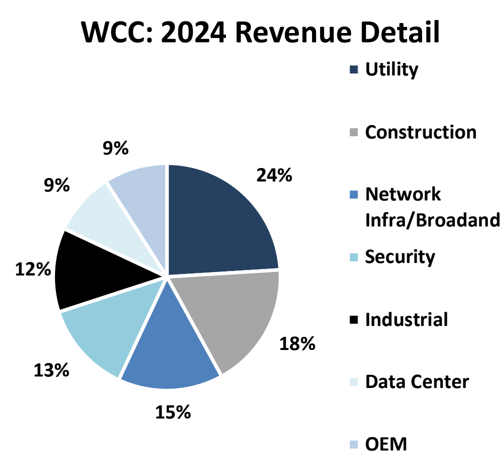
Divestures

- In 2024, WCC completed the divesture of Wesco Integrated Supply (WIS) (~$350MM), which represented approximately ~3% of WCC sales. WIS primarily provided on-site procurement and inventory management services, which was a low margin capitally intensive business with long sales cycles. This transaction allowed capital to be reallocated to its higher margin, faster growing business verticals and value-added services.

Key Thesis Points

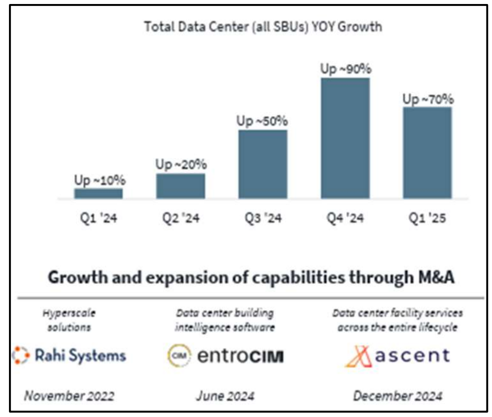
- **Exposed to Powerful Secular Trends**
    - WCC’s 2020 business strategy shift has transformed its end market exposure and placed it at inflection point of rising infrastructure investment.
        - Prior to 2020, WCC’s end customers were largely North America focused with an emphasis on the U.S.
        - Additionally, the company’s end market exposure on a vertical basis was concentrated in construction, industrial OEMs, and utilities. WCC did not have the products or capabilities to serve communications, data center, and security customers at scale or competitively.
        - Now WCC has exposure to end markets that aren’t simply GDP growers but experiencing significant investment from commercial clients. Additionally, the growth in areas such as reshoring and electrification are supported by geopolitical goals.
        - **The result being WCC has significantly diversified its revenue base and decreased the volatility and concentration of its top-line growth algorithm.**





        - Additionally, increased the company’s penetration and presence in global markets, increasing its revenues 2x while maintaining relatively similar geographic exposure. The ability to deliver at scale and across the globe with multinational customers improves the competitive position of WCC.

- New end markets have secular tailwinds, which will soon be material to the long-term growth algo.
  - First, data center customers currently represent ~9% of total revenues and approximately 1/3 of the CSS segment. In 2024, while the broader CSS market experienced headwinds, WCC's data center business posted 9~0% YoY growth in Q4 2024. Through 2025, management expects data centers to drive ~20% top-line growth, which would support an MSD algo for CSS. **Furthermore, data center jobs were previously low-margin for WCC, but with the acquisitions of firms like Ascent and entroCIM the company will be able to layer on high-value services, boosting the overall profitability of the portfolio**.



  - The proliferation of clean energy and electrification across the country is spurring an investment cycle in grid upgrades, which have long been put on hold. WCC's utility business has been a key source of margin, but the cyclical nature of utility investing cycles has created earnings volatility. If the U.S. were to finally to see an inflection in electricity demand, stable investment in the grid would result in improved profitability and lower revenue variability within WCC's utility segment. **Utility EBITDA margins are about 300 bps higher than EES & CSS**. The utility business has been a dark spot for the business in 2024, which creates a great opportunity for a rebound in sales within WCC's highest margin segment.
  - Furthermore, the current political administration is clearly signaling its citizens and the rest of the world that the U.S. will be increasing its production capacity. Investors can debate whether this is politically, or economically sound or which industries will be reshored, but at the end of the day I think it is fair to say U.S. manufacturing capacity will be incrementally increasing not shrinking. This places WCC directly in the value chain for U.S. corporations or multinational looking to move facilities closer to consumers, which will directly benefit the EES and CSS business segments.
- **In aggregate, the exposure to data centers, the potential secular inflection in utility investments and reshoring create the opportunity for a stable MSD revenue algorithm with a potential surprise to HSD, which is unique for a stable distribution business trading at a LDD P/E multiple.**

- **Business Shift to Higher Margin Revenue Mix, and Eventual Curtailment of Digital Investments**
  - Similar to most distribution businesses, a competitive moat is hard to come by as a middleman in the supply chain for commodity products. However, WCC has been actively improving its competitive position through the geographic expansion of its product portfolio and extension in value-add services.
    - The company's long-term goal (2028/20230) is to deliver to 10% EBITDA margins (2024: ~6%), which can not be done through distribution alone. This has prompted the acquisition of service provider companies, which expand WCC's "line card" (revenue opportunities).
    - The acquisition of companies like Rahi, entroCIM, and Ascent allow WCC to not simply compete on price with rival distributors, but stand out with additional service capabilities. This positions WCC to be the one stop shop for acquiring products and the services need to implement them. **Through mix shift alone, WCC should be able to pick up at least 100bps of incremental margin, which would be a ~15% relative increase.**

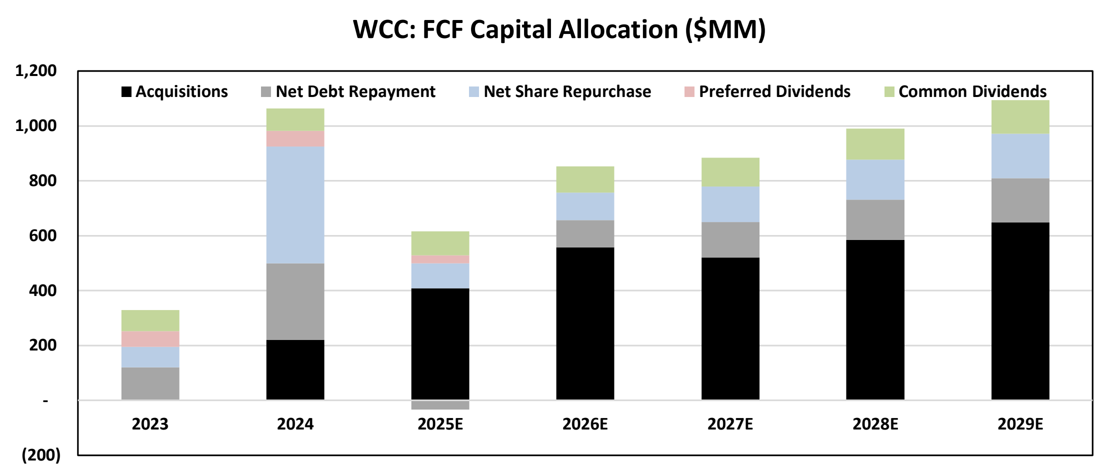
WCC: Service Margin Potential	2019	2020	2021	2022	2023	2024	Average
Distributors:							
RXL	5.2%	4.1%	6.5%	7.5%	7.0%	6.0%	**6.1%**
Graybar		3.8%	5.2%	6.7%	6.4%	5.6%	**5.6%**
Service Providers:							
J	7.3%	5.6%	9.6%	9.9%	10.5%	10.6%	**8.9%**
WSP.TO	8.2%	8.3%	9.3%	9.5%	10.4%	10.9%	**9.4%**
DXPE	7.3%	5.5%	6.0%	8.5%	10.1%	10.0%	**7.9%**
PWR	7.1%	8.1%	8.1%	8.7%	8.2%	8.6%	**8.1%**
DY	9.1%	9.3%	7.5%	9.3%	11.6%	11.6%	**9.7%**
Distributor Avg.	5.2%	4.0%	5.8%	7.1%	6.7%	5.8%	**5.8%**
Service Avg.	7.8%	7.4%	8.1%	9.2%	10.2%	10.3%	**8.8%**
WCC	**4.8%**	**5.2%**	**6.3%**	**7.4%**	**7.2%**	**6.6%**	**6.3%**

    - Furthermore, the cross-selling opportunities will drive increased efficiency across the organization, driving additional profitability uplift if SG&A is managed.
  - Regarding SG&A, WCC management has allocated significant capital to improving the company's technological capabilities. The investments in the company's digital capabilities are a key part of reaching WCC's long-term profitability goals. For example, the company has spent $380MM (through 2024) on the development and

deployment of its ERP consolidation (~$120MM remaining), which will benefit the business through improved: pricing, margin tracking, inventory turns, acquisition integration, and sales effectiveness. The company has also invested in tools for real-time asset monitoring, EDI integration, customized customer portals, and ecommerce tools, however, the ERP investment will likely be the most impactful.

- **<u>This period of sustained investment activity creates a phenomenal opportunity for value investors with a duration advantage.</u>** While annual investments of $100MM-$200MM within a business doing $20B in sales does initially seem material, it is important to recognize these investments from a margin perspective as well as where they land on the financial statements. As a distributor, WCC has relatively slim bottom-line margins, which means incremental improvement is materially positive on a relative basis. By 2027, management expects to have completed and deployed a significant portion of technology investments. **<u>As part of the EPV calculation, I tried to understand the income statement impact of these investments, which appears to be approximately $100MM today. Adjusting for these expenses, 2024 net income would rise by ~15%, which just exemplifies the outsized impact the end of this investment period will have profitability (the convexity of low base effects).</u>**

- **Strong Free Cash Flow, Fuels Deleveraging & Shareholder Returns**
  - The free cash flow profile of WCC is what makes this opportunity so unique and is a critical driver of returns going forward. **<u>Over the next three years, management expects to deliver ~$1B of FCF per year, which is fairly optimistic. My base case analysis has this figure closer to ~$800MM, however, this still creates incredible optionality for WCC to increase shareholder returns.</u>**
    - In management's latest investor day, WCC shared its capital allocation strategy, which involves allocating ~75% of FCF for "Value Accretive M&A and Optionality". While I don't see WCC executing in M&A deals at the same size as Anixter, the company has ample opportunity to continue further tuck-in and technology-focused acquisitions. The remaining ~25% of FCF will continue to be devoted to shareholders returns through share repurchases, debt paydown, and continued dividend increases.
    - Since 2022, after finalizing much of the Anixter integration and reorienting the business, WCC has devoted significant capital to shareholder returns. The chart below shows how WCC has allocated FCF recently and my projects for allocation going forward.



    - In 2024, WCC reduced debt by $278MM and repurchased $425MM in shares. It is clear WCC management is focused on disciplined capital allocation and looking to take advantage of the FCF generating nature of its assets. **<u>At a ~10% forward FCF yield, I see share repurchases as incredibly accretive for shareholders.</u>**
    - Additionally, WCC announced in Q1 2025 that the company will be redeeming its preferred stock. This will remove $57MM in annual dividend payments from WCC's income statement freeing up additional cash flows. **<u>Furthermore, the $57MM in payments was approximately 9% of 2024 net income, which will be a material lift to margins going forward. In my Base Case, FCF for shareholder returns is responsible for ~50% of my project total return through the holding period.</u>**

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Business Tailwinds	Business Headwinds
• Secular trend in AI/Data Center investments • Electrification driving incremental power requirements • Reshoring of manufacturing, increasing commercial construction and power needs • Historical underinvestment in the power grid	• Macro uncertainty can delay capital investment plans across the globe • Dollar weakness suppresses international earnings • Resurgence in inflation causing earnings volatility and reducing investor sentiment

Primary Signposts

- Utility & Broadband (UBS) segment inflects revenue growth positive in the second half of 2025. This is the highest margin business, which has been experiencing destocking for the past 12-18 months. The inflection in this segment could signal the end of this dynamic as well as the beginnings of a secular investment trend.
- Incremental decrease in SG&A margin by the middle of 2026. Over the next 12 to 24 months, WCC's income statement investments should start to come to an end, which should result in a deceleration in fixed cost growth. This will be a key sign that the investments are not only over, but also facilitating the expected top-line synergies promised. Base case only assumes 65bps of margin decline over the forecast period.
- $250MM to $500MM of M&A over the next 18 months would confirm that the company has a healthy pipeline of accretive deals to help support a MSD revenue growth algo. This will be important not only for growth, but also for margins if the company is able to deliver on tucking in more service businesses.

Metrics to Monitor

- **<u>ROA</u>**: I will be keeping a close eye on WCC's ROA, because it will provide insight into whether the company is doing accretive M&A as well as improving their inventory position. WCC has lagged on their inventory efficiency, so steadily improving ROAs will be a key indicator of incrementally stronger business quality.
- **<u>SG&A Margin</u>**: In my Base Case, 32% of the total return is driven by SG&A leverage, so this metric will be important to monitor. WCC's ability to curtail the technology investments and deliver on promised operating leverage will be key for shareholders to realize at least LDD IRRs in this stock.

Pre-mortem

- **<u>Margin Compression/No-Expansion:</u>** Given the macroeconomic backdrop, WCC could experience a segment wide slowdown in sales, coupled with its internal investment could materially dampen margin expansion or lead margin compression. The same convexity of low base effects, which would drive significant upside could also result in material EPS decline in this scenario. From 2024 margins, a 50bp decline in NI margin results in a ~16% decline in EPS with flat revenue.
- **<u>Poor & Outsized M&A Execution:</u>** If WCC's core business were to slow down materially, management may feel forced to devote significant capital to acquisitions of poor quality. This could not only reduce the profitability of the company, but also increase it leverage profile.

Key Signposts to Opposing Thesis

- **<u>Segment Level Profitability:</u>** I would keep my eye on EES and CSS segment level profitability. This could be an early indicator of slowdowns in key segments, which will be a driving force for higher profits.
- **<u>M&A Announcements:</u>** If management starts announcing M&A deals which don't coincide with its previously stated strategic vision, shareholders may see the degradation of business quality at WCC.

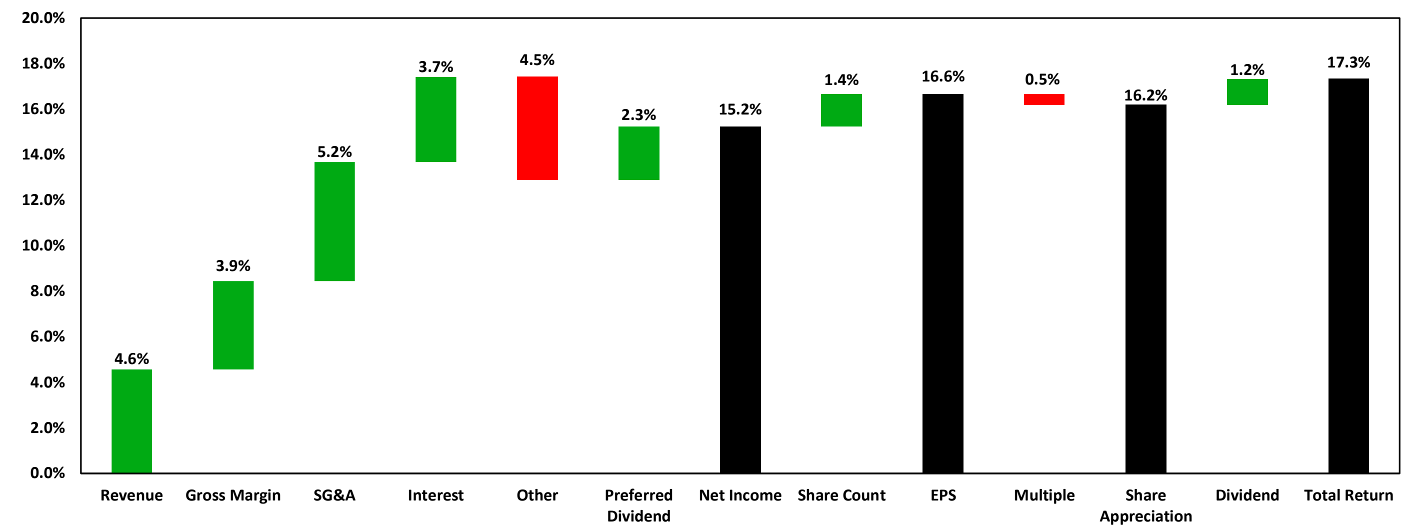
Projected Bridge

- In my Base Case, I project a ~3.5-year IRR of 17.3%, which is largely driven by capital allocation decisions of WCC management.
- While SG&A margin decline is the largest contributor of return (30%), the combination of deleveraging, share repurchases, dividend payments, and the redemption of WCC's preferred shares will contribute to 50% of the return.
- I'm also not relying on any multiple expansion to earn his return, even though execution of the Base Case would likely yield a higher multiple in light of ROAs going from 4.4% to 6.6%.
- The conservative nature of these return drivers should provide safety investors to earn at least a LDD IRR if macroeconomic headwinds are short lived and management is a good steward of capital.

WCC Return Attribution

Driver	Return	% of Total
SG&A	5.2%	30%
Revenue	4.6%	26%
Gross Margin	3.9%	22%
Interest	3.7%	22%
Preferred Dividend	2.3%	14%
Share Count	1.4%	8%
Dividend	1.2%	7%
Multiple	-0.5%	-3%
Other	-4.5%	-26%
Total	**17.3%**	**100%**

WCC: IRR Bridge (Q1 2025 to Dec. 2028)



	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Revenue	**8,359**	**12,326**	**18,218**	**21,420**	**22,385**	**21,819**	**22,515**	**23,564**	**24,847**	**26,249**	**27,686**
growth Y/Y%	*2.2%*	*47.5%*	*47.8%*	*17.6%*	*4.5%*	*-2.5%*	*3.2%*	*4.7%*	*5.4%*	*5.6%*	*5.5%*
GP	**1,581**	**2,328**	**3,792**	**4,661**	**4,844**	**4,713**	**4,886**	**5,137**	**5,439**	**5,771**	**6,111**
GP margin%	*18.9%*	*18.9%*	*20.8%*	*21.8%*	*21.6%*	*21.6%*	*21.7%*	*21.8%*	*21.9%*	*22.0%*	*22.1%*
EBITDA	**408**	**469**	**1,000**	**1,617**	**1,588**	**1,406**	**1,508**	**1,650**	**1,787**	**1,938**	**2,097**
EBITDA margin%	*4.9%*	*3.8%*	*5.5%*	*7.5%*	*7.1%*	*6.4%*	*6.7%*	*7.0%*	*7.2%*	*7.4%*	*7.6%*
flow-through margin%	*-3.9%*	*1.5%*	*9.0%*	*19.3%*	*-3.0%*	*32.0%*	*14.6%*	*13.5%*	*10.7%*	*10.8%*	*11.0%*
EBIT	**346**	**347**	**802**	**1,438**	**1,406**	**1,223**	**1,319**	**1,449**	**1,574**	**1,709**	**1,849**
EBITDA margin%	*4.1%*	*2.8%*	*4.4%*	*6.7%*	*6.3%*	*5.6%*	*5.9%*	*6.1%*	*6.3%*	*6.5%*	*6.7%*
flow-through margin%	*-3.4%*	*0.0%*	*7.7%*	*19.9%*	*-3.3%*	*32.3%*	*13.7%*	*12.4%*	*9.8%*	*9.6%*	*9.8%*
EBT	**282**	**123**	**582**	**1,137**	**992**	**951**	**960**	**1,083**	**1,211**	**1,359**	**1,526**
EBITDA margin%	*3.4%*	*1.0%*	*3.2%*	*5.3%*	*4.4%*	*4.4%*	*4.3%*	*4.6%*	*4.9%*	*5.2%*	*5.5%*
flow-through margin%	*0.6%*	*-4.0%*	*7.8%*	*17.3%*	*-15.0%*	*7.2%*	*1.3%*	*11.8%*	*10.0%*	*10.5%*	*11.6%*
Net Income - Common	**223**	**70**	**408**	**803**	**708**	**660**	**677**	**858**	**991**	**1,112**	**1,249**
EBITDA margin%	*2.7%*	*0.6%*	*2.2%*	*3.7%*	*3.2%*	*3.0%*	*3.0%*	*3.6%*	*4.0%*	*4.2%*	*4.5%*
flow-through margin%	*-2.1%*	*-3.9%*	*5.7%*	*12.3%*	*-9.8%*	*8.5%*	*2.4%*	*17.2%*	*10.4%*	*8.6%*	*9.5%*
SG&A	**1,173**	**1,859**	**2,792**	**3,044**	**3,256**	**3,306**	**3,378**	**3,487**	**3,653**	**3,832**	**4,014**
SG&A margin%	*14.0%*	*15.1%*	*15.3%*	*14.2%*	*14.5%*	*15.2%*	*15.0%*	*14.8%*	*14.7%*	*14.6%*	*14.5%*
Interest Exp.	**64**	**227**	**268**	**294**	**389**	**365**	**345**	**335**	**332**	**319**	**293**
Interest exp. Margin %	*0.8%*	*1.8%*	*1.5%*	*1.4%*	*1.7%*	*1.7%*	*1.5%*	*1.4%*	*1.3%*	*1.2%*	*1.1%*
Preferred Dividends	**-**	**30**	**57**	**57**	**57**	**57**	**29**	**-**	**-**	**-**	**-**
Pref. Dividends margin%	*0.0%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Variance, Valuation, and Financials

Variance to Consensus & Drivers

- In my Base Case, EPS CAGRs at ~15%. While this may seem aggressive, this would only be ~20% above the street estimate for 2028 EPS.

- Furthermore, this earnings growth is not wholly reliant on revenue growth far and above the base rates of this business. My Base Case assumes a 4.9% revenue CAGR, which is in line with the 2010 to 2019 CAGR of the business (5.7%). Additionally, the business was not exposed to the high growth end markets it is today in the previous decade.

- From 2024 to 2029, I estimate Net Income margin will expand by ~148bps. While this is low nominally, given the low current margin base this would increase profits by almost 50%, which is a large driver of the annual EPS growth rate.

- The attribution of this margin expansion is largely centered around items within the control of management. The redemption of the preferred dividend and reduction in leverage alone account for ~59% (87bps) of the bottom-line margin improvement.

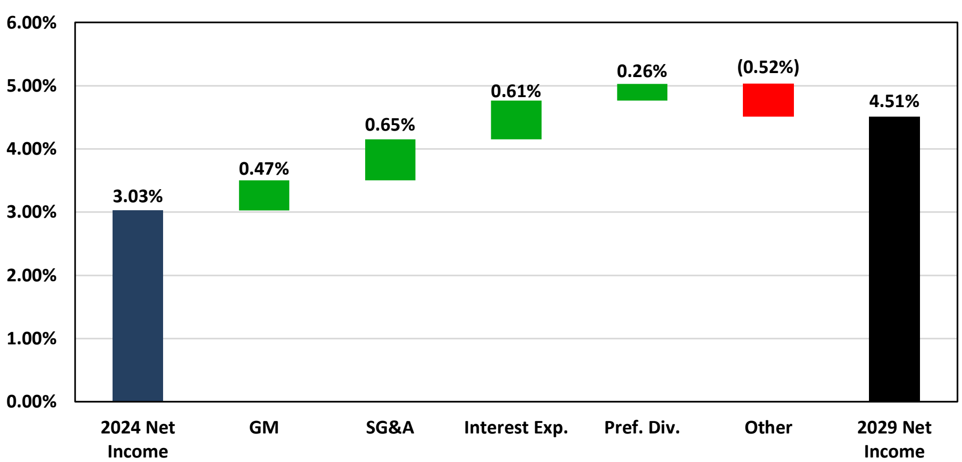
- In addition, the continued capital allocation to share repurchases will reduce the share count by ~7.5% over the next five years, further boosting EPS growth.

WCC Forecast Comparison

		2025	2026	2027	2028	2029	*'24-'29 CAGR*
Revenue	Base	22,515	23,564	24,847	26,249	27,686	*4.9%*
	Bull	22,679	23,970	25,582	27,353	29,202	*6.0%*
	Bear	21,877	22,304	22,918	23,594	24,248	*2.1%*
EBITDA	Base	1,508	1,650	1,787	1,938	2,097	*8.3%*
	Bull	1,536	1,717	1,904	2,115	2,341	*10.7%*
	Bear	1,381	1,399	1,389	1,382	1,370	*-0.5%*
Net Income	Base	677	858	991	1,112	1,249	*11.7%*
	Bull	697	909	1,085	1,249	1,436	*14.8%*
	Bear	584	662	672	669	673	*-1.3%*
EPS	Base	$13.73	$17.61	$20.60	$23.44	$26.69	*15.4%*
	Bull	$14.13	$18.68	$22.64	$26.53	$31.07	*19.0%*
	Bear	$11.83	$13.56	$13.88	$13.93	$14.11	*1.6%*
EBITDA Margin	Base	6.7%	7.0%	7.2%	7.4%	7.6%	*3.3%*
	Bull	6.8%	7.2%	7.4%	7.7%	8.0%	*4.5%*
	Bear	6.3%	6.3%	6.1%	5.9%	5.7%	*-2.6%*
Net Income Margin	Base	3.0%	3.6%	4.0%	4.2%	4.5%	*8.3%*
	Bull	3.1%	3.8%	4.2%	4.6%	4.9%	*10.2%*
	Bear	2.7%	3.0%	2.9%	2.8%	2.8%	*-1.7%*

Variance to Consensus		2025	2026	2027	2028
Revenue	Base	0.0%	0.3%	1.2%	1.5%
	Bull	0.8%	2.1%	4.2%	5.8%
	Bear	-2.8%	-5.0%	-6.7%	-8.8%
EBITDA	Base	-1.0%	0.4%	-0.2%	8.2%
	Bull	0.8%	4.5%	6.3%	18.0%
	Bear	-9.4%	-14.9%	-22.4%	-22.9%
Net Income	Base	2.6%	10.0%	7.4%	19.5%
	Bull	5.6%	16.5%	17.6%	34.2%
	Bear	-11.6%	-15.1%	-27.2%	-28.1%
EPS	Base	3.0%	10.3%	9.4%	19.6%
	Bull	6.0%	17.0%	20.2%	35.4%
	Bear	-11.3%	-15.0%	-26.3%	-28.9%
EBITDA Margin	Base	-0.1%	0.0%	-0.1%	0.5%
	Bull	0.0%	0.2%	0.2%	0.8%
	Bear	-0.5%	-0.7%	-1.2%	-1.1%
Net Income Margin	Base	0.1%	0.3%	0.2%	0.6%
	Bull	0.1%	0.5%	0.5%	1.0%
	Bear	-0.3%	-0.4%	-0.8%	-0.8%

WCC: 2024 to 2029E Margin Expansion



WCC Margin Expansion

Driver	Chg.	% of Total
SG&A	0.65%	44%
Interest Exp.	0.61%	41%
GM	0.47%	32%
Pref. Div.	0.26%	18%
Other	-0.52%	-35%
Total	**1.48%**	**100%**

Multiple & DCF based Valuation

- For the valuation, I utilized the average of a P/E & NOPAT multiple, as well as a sanity check with a DCF.
- **P/E Valuation:**
  - Under my Base Case, I arrive at a Dec. 2028 share price of $267, which represents a 69% upside and 15.4% IRR.
  - My Base Case assumes a 10x exit multiple, which is below the 10yr median of 11.6x. This is an attractive risk reward at 2.4x given a downside scenario, which is roughly flat EPS and multiple compression to 8x.
- **NOPAT Valuation:**
  - Under my Base Case, I arrive at a Dec. 2028 share price of $280, which represents a 77% upside and 16.9% IRR.
  - My Base Case assumes a 12x exit multiple, which is roughly in line with the current valuation.
- I utilized a DCF to triangulate my thinking and valuation work, based on a 12x terminal/exit multiple and 12% discount rate (my personal yardstick). Under these assumptions, WCC's share are currently 15% undervalued, which coincides with my EPV analysis implying the market is not currently pricing in growth.

WESCO International, Inc.

Multiple-Based Valuation

P/E Based Valuation	**Bear**	**Base**	**Bull**
2029E EPS - [GJW] - Base Case	$14.11	$26.69	$31.07
Normalized Forward Multiple	8.0x	10.0x	12.0x
2028E Value/Share	**$112.88**	**$266.89**	**$372.90**
Upside to Current Price	***(28.6%)***	***68.9%***	***136.0%***
IRR	***(8.8%)***	***15.4%***	***26.5%***
Upside/Downside Ratio		***2.4x***	***4.8x***

NOPAT Based Valuation	**Bear**	**Base**	**Bull**
2029E NOPAT - [GJW]	$904.2	$1,442.2	$1,613.8
Normalized Forward Multiple	11.0x	12.0x	13.0x
TEV	**$9,946**	**$17,306**	**$20,979**
Less: Debt	(4,888)	(4,745)	(4,653)
Plus: Cash	596	708	779
Equity Value	**$5,653**	**$13,268**	**$17,105**
Shares	48	47	47
2028E Value/Share	**$117.70**	**$279.66**	**$363.31**
Upside to Current Price	***(25.5%)***	***77.0%***	***129.9%***
IRR	***(7.7%)***	***16.9%***	***25.6%***
Upside/Downside Ratio		***3.0x***	***5.1x***

P/E Valuation	$112.88	$266.89	$372.90
NOPAT Valuation	$117.70	$279.66	$363.31
Average	**$115.29**	**$273.27**	**$368.10**
Upside to Current Price	***(27.0%)***	***73.0%***	***133.0%***
IRR	***(8.3%)***	***16.2%***	***26.1%***
Upside/Downside Ratio		***2.7x***	***4.9x***

WESCO International, Inc.

DCF Analysis

Terminal Multiple (TEV/NOPAT)	12.0x
Discount Rate	12.0%
Tax Rate	22.0%

Years	**1**	**2**	**3**	**4**	**5**
	2025E	**2026E**	**2027E**	**2028E**	**2029E**
EBITDA	$1,508	$1,650	$1,787	$1,938	$2,097
Less: D&A	(190)	(201)	(212)	(229)	(248)
EBIT	**$1,319**	**$1,449**	**$1,574**	**$1,709**	**$1,849**
Less: Taxes	(290)	(319)	(346)	(376)	(407)
NOPAT	**$1,029**	**$1,130**	**$1,228**	**$1,333**	**$1,442**
(+) D&A	190	201	212	229	248
(-) CapEx	(120)	(140)	(140)	(140)	(140)
(-) Change in NWC	(143)	(202)	(281)	(314)	(370)
Unlevered FCF	**$955**	**$989**	**$1,020**	**$1,108**	**$1,180**
Terminal Value (TEV/NOPAT)					17,306
Unlevered FCF + Terminal Value	**$955**	**$989**	**$1,020**	**$1,108**	**$18,486**
Discount Factor	0.9x	0.8x	0.7x	0.6x	0.6x
Discounted Value	**$853**	**$789**	**$726**	**$704**	**$10,490**

TEV	$13,562
Less: Debt	(5,158)
Plus: Cash	682
Total Equity Val	**$9,086**
Shares	49
Value/Share	**$186.18**

VALUE/SHARE SENSITIVITY

		Terminal Multiple		
		11.0x	12.0x	13.0x
Discount Rat	9.0%	$202.53	$221.74	$240.94
	12.0%	$169.41	$186.18	$202.95
	15.0%	$141.01	$155.70	$170.39

EPV Valuation

WCC: Earnings Power Value	
Revenue	22,250
Operating Margin	5.5%
Sustainable Operating Income	1,224
Adjustments:	
Acquired Intangibles Amortization	43
Over Depreciation	30
Growth & IT Investment	55
Total Adjustments	128
Adj. Sust. Op. Income	1,352
Tax Rate	20%
NOPAT	**1,081**
WACC	9.0%
EPV Operating Business	**12,014**
(+) Cash	682
(-) Debt	5,158
EPV Equity	**7,538**
S/O - Diluted	49.6
Share Price	$151.97
Current Share Price	$158.00
EPV Above/(Below) Current Price	**-3.8%**

- For my EPV analysis, I utilized a midpoint LTM revenue number for 2025, because I wanted to be sure to give credit to the rebounding UBS Segment.
- In determining the sustainable operating margins of the business, I looked at the historical period both including and excluding the Anixter (and other recent) acquisitions to determine what mid-cycle earnings may be. Operating margins clearly improved post-2019, however, Covid and acquisition integration did cause some negative volatility.
- The margin goal posts were somewhere between 5% and 6%, which resulted in my using a 5.5% EBIT margin for my sustainable operating margin level.
- **Growth Expenses**:
  - I've discussed previously the impact on earnings WCC's technology investments have had over the past few years. I have taken steps to address these items in my adjustments in the EPV valuation.
  - Approximately 50% of the incremental intangibles over the past few years have been from acquisition. The resulting amortization is a non-cash expense and pressures reported profitability. The resulting adjustment is a $43MM addback to earnings.
  - Post the acquisition, depreciation has increased dramatically well in excess of expected capital expenditure requirements. When adjusted for forecasted maintenance capex, over depreciation is in the range of $30MM per year.
  - A significant portion of the growth and IT related investments are flowing through the income statement. My estimate is growth expenses are in the range of $50 to $100MM per year, so I utilized the low end of the range. Additionally, management outlined $54MM of adjustment to their non-GAAP earnings for 2024, which included digital transformation costs, capitalized cloud costs, and restructuring expenses, so I feel comfortable with my $50MM adjustment.
- Utilizing this adjusted NOPAT and a 9% WACC, I arrived at an EPV share price of $152, 4% below the current market price.
- This provides a clear indication the market is currently pricing in a near no-growth scenario for WCC.
- It is also important to recognize that the stock is down 25% from its recent high in December of last year. Recent tariff news and slowdowns in the global economy have impacted investor sentiment.

EPV - Equity Value Sensitivity

		Sustainable Margin				
		4.5%	*5.0%*	*5.5%*	*6.0%*	*6.5%*
WACC	*7.0%*	8,427	9,699	10,970	12,242	13,513
	8.0%	6,815	7,927	9,040	10,152	11,265
	9.0%	5,560	6,549	7,538	8,527	9,516
	10.0%	4,556	5,446	6,336	7,226	8,116
	11.0%	3,735	4,544	5,353	6,163	6,972

EPV % Above/(Below) Market Value

		Sustainable Margin				
		4.5%	*5.0%*	*5.5%*	*6.0%*	*6.5%*
WACC	*7.0%*	6%	22%	38%	54%	70%
	8.0%	-14%	0%	14%	28%	42%
	9.0%	-30%	-17%	-5%	8%	20%
	10.0%	-43%	-31%	-20%	-9%	2%
	11.0%	-53%	-43%	-32%	-22%	-12%

- **However, WCC's growth opportunities have never been as plentiful as they are today, so I believe the recent market selloff in WCC shares provide investors a reasonable opportunity to buy a stable distribution business with increasingly greater vectors of out performance without paying for the upside.**

WESCO International, Inc. (NYSE: WCC): Long

May 8th, 2025	*Low-Voltage Valuation, High-Voltage Business – UPSIDE: 73%/DOWNSIDE: -27%*	Garrett Wallis

Financials & Ratios

WCC Base Case	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue	8,359	12,326	18,218	21,420	22,385	21,819	22,515	23,564	24,847	26,249	27,686
COGS	6,777	9,998	14,425	16,759	17,542	17,106	17,629	18,427	19,408	20,479	21,575
GP	1,581	2,328	3,792	4,661	4,844	4,713	4,886	5,137	5,439	5,771	6,111
SG&A	1,173	1,859	2,792	3,044	3,256	3,306	3,378	3,487	3,653	3,832	4,014
EBITDA	408	469	1,000	1,617	1,588	1,406	1,508	1,650	1,787	1,938	2,097
D&A	62	122	199	179	181	183	190	201	212	229	248
EBIT	346	347	802	1,438	1,406	1,223	1,319	1,449	1,574	1,709	1,849
Interest exp.	64	227	268	294	389	365	345	335	332	319	293
Other	-	(2)	(48)	7	25	(93)	14	30	30	30	30
EBT	282	123	582	1,137	992	951	960	1,083	1,211	1,359	1,526
Tax Provision	60	23	116	275	226	232	252	223	218	245	275
Net Income	222	100	466	862	766	719	708	860	993	1,115	1,251
NCI	(1)	(1)	1	2	1	2	2	2	2	2	2
Pref. Dividends	-	30	57	57	57	57	29	-	-	-	-
Net Income - Common	223	70	408	803	708	660	677	858	991	1,112	1,249
Shares Outstanding - Diluted	43.5	46.6	52.0	52.4	52.3	50.6	49.3	48.7	48.1	47.4	46.8
EPS - Diluted	$ 5.14	$ 1.51	$ 7.84	$ 15.33	$ 13.54	$ 13.05	$ 13.73	$ 17.61	$ 20.60	$ 23.44	$ 26.69
EPS growth %	*6.7%*	*-70.6%*	*nmf*	*95.5%*	*-11.7%*	*-3.6%*	*5.2%*	*28.3%*	*17.0%*	*13.8%*	*13.9%*
Cash Flow:											
CFO	224	544	67	11	493	1,101	830	936	1,006	1,115	1,219
Free Cash Flow	180	487	12	(88)	401	1,007	710	796	866	975	1,079
Free Cash Flow/share	$ 4.15	$ 10.45	$ 0.24	$ (1.69)	$ 7.67	$ 19.89	$ 14.39	$ 16.35	$ 18.00	$ 20.56	$ 23.07
FCF/Share growth %	*-24.9%*	*152.1%*	*-97.7%*	*nmf*	*nmf*	*159.5%*	*-27.6%*	*13.6%*	*10.1%*	*14.2%*	*12.2%*
Growth & Profitability:											
Revenue Growth %	2.2%	47.5%	47.8%	17.6%	4.5%	-2.5%	3.2%	4.7%	5.4%	5.6%	5.5%
Gross Margin %	18.9%	18.9%	20.8%	21.8%	21.6%	21.6%	21.7%	21.8%	21.9%	22.0%	22.1%
SG&A Margin %	14.0%	15.1%	15.3%	14.2%	14.5%	15.2%	15.0%	14.8%	14.7%	14.6%	14.5%
EBITDA Margin %	4.9%	3.8%	5.5%	7.5%	7.1%	6.4%	6.7%	7.0%	7.2%	7.4%	7.6%
EBIT Margin %	4.1%	2.8%	4.4%	6.7%	6.3%	5.6%	5.9%	6.1%	6.3%	6.5%	6.7%
Net Income Margin %	2.7%	0.6%	2.2%	3.7%	3.2%	3.0%	3.0%	3.6%	4.0%	4.2%	4.5%
Ratios:											
Asset Turnover	1.7x	1.0x	1.4x	1.4x	1.5x	1.4x	1.4x	1.4x	1.4x	1.5x	1.5x
Inventory Turns	6.7x	4.6x	5.4x	4.8x	4.9x	4.9x	5.0x	5.0x	5.1x	5.2x	5.3x
ROA - unlevered	6.9%	2.9%	6.4%	9.7%	9.3%	8.1%	8.4%	8.8%	9.2%	9.5%	9.8%
ROA - levered	4.5%	0.6%	3.2%	5.4%	4.7%	4.4%	4.3%	5.2%	5.8%	6.2%	6.6%
ROE	9.9%	2.1%	10.8%	18.0%	14.1%	13.3%	12.3%	13.8%	14.2%	14.1%	14.1%
Net Debt/EBITDA	2.77x	9.49x	4.50x	3.02x	3.02x	3.10x	2.85x	2.58x	2.33x	2.08x	1.86x