Wesco Aircraft Holdings, Inc
Form 10-Q
May 03, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x 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
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 001-35253

WESCO AIRCRAFT HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-5441563
(State of Incorporation)	(I.R.S. Employer Identification Number)

24911 Avenue Stanford
Valencia, CA 91355
(Address of Principal Executive Offices and Zip Code)
(661) 775-7200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	WAIR	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 the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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. o

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

The number of shares of common stock (par value $0.001 per share) of the registrant outstanding as of April 25, 2019 was 99,743,379.

Table of Contents

INDEX

PART I FINANCIAL INFORMATION		Page
Item 1.	Financial Statements:	3
	Consolidated Balance Sheets as of March 31, 2019 and September 30, 2018	3
	Consolidated Statements of Earnings and Comprehensive Income for the Three and Six Months ended March 31, 2019 and 2018	4
	Consolidated Statements of Cash Flows for the Six Months ended March 31, 2019 and 2018	5
	Notes to the Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	36
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3.	Defaults Upon Senior Securities	37
Item 4.	Mine Safety Disclosures	37
Item 5	Other Information	37
Item 6.	Exhibits	38
SIGNATURES		39

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	March 31, 2019	September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	$32,726	$46,222
Accounts receivable, net of allowance for doubtful accounts of $2,854 and $2,877 at March 31, 2019 and September 30, 2018, respectively	316,747	283,775
Inventories	890,051	884,212
Prepaid expenses and other current assets	18,591	15,291
Income taxes receivable	3,380	2,017
Total current assets	1,261,495	1,231,517
Property and equipment, net	46,695	44,205
Deferred debt issuance costs, net	2,174	2,827
Goodwill	266,644	266,644
Intangible assets, net	155,973	163,438
Deferred tax assets	67,089	65,135
Other assets	17,445	15,710
Total assets	$1,817,515	$1,789,476
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$180,699	$180,494
Accrued expenses and other current liabilities	40,937	42,767
Income taxes payable	7,227	2,295
Capital lease obligations, current portion	2,109	2,205
Short-term borrowings and current portion of long-term debt	87,000	74,000
Total current liabilities	317,972	301,761
Capital lease obligations, less current portion	1,564	2,329
Long-term debt, less current portion	763,734	771,777
Deferred income taxes	3,505	2,803
Other liabilities	19,557	18,337
Total liabilities	1,106,332	1,097,007
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value per share: 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value, 950,000,000 shares authorized, 99,743,379 and 99,557,885 shares issued and outstanding at March 31, 2019 and September 30, 2018, respectively	100	99
Additional paid-in capital	449,173	444,531
Accumulated other comprehensive loss	(87,212)	(82,980)
Retained earnings	349,122	330,819
Total stockholders' equity	711,183	692,469

Total liabilities and stockholders' equity	$1,817,515	$1,789,476

See the accompanying notes to the consolidated financial statements

3

Table of Contents

Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Statements of Earnings and Comprehensive Income
(In thousands, except share data)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net sales	$426,474	$390,183	$821,785	$753,274
Cost of sales	317,727	284,448	614,696	553,115
Gross profit	108,747	105,735	207,089	200,159
Selling, general and administrative expenses	78,908	72,539	155,171	142,391
Income from operations	29,839	33,196	51,918	57,768
Interest expense, net	(12,388)	(11,965)	(25,302)	(23,803)
Other (expense) income, net	(314)	(108)	(531)	152
Income before income taxes	17,137	21,123	26,085	34,117
Provision for income taxes	(5,127)	(6,123)	(7,782)	(19,491)
Net income	12,010	15,000	18,303	14,626
Other comprehensive (loss) income, net of income taxes	(1,263)	2,850	(4,232)	4,115
Comprehensive income	$10,747	$17,850	$14,071	$18,741
Net income per share:				
Basic	$0.12	$0.15	$0.18	$0.15
Diluted	$0.12	$0.15	$0.18	$0.15
Weighted average shares outstanding:				
Basic	99,626,736	99,136,015	99,555,589	99,116,250
Diluted	99,950,811	99,519,925	99,930,999	99,441,385

See the accompanying notes to the consolidated financial statements

Table of Contents

Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	$18,303	$14,626
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,165	14,541
Amortization of deferred debt issuance costs	2,610	2,911
Bad debt and sales return reserve	208	519
Stock-based compensation expense	5,058	3,688
Net inventory provision	2,521	4,820
Deferred income taxes	(14)	581
Other non-cash items	289	367
Subtotal	43,140	42,053
Changes in assets and liabilities:		
Accounts receivable	(34,129)	(30,962)
Income taxes receivable	(1,369)	1,091
Inventories	(8,788)	(66,582)
Prepaid expenses and other assets	(6,599)	(2,500)
Accounts payable	(187)	9,682
Accrued expenses and other liabilities	(3,406)	6,034
Income taxes payable	4,937	5,275
Net cash used in operating activities	(6,401)	(35,909)
Cash flows from investing activities		
Purchase of property and equipment	(7,996)	(2,909)
Net cash used in investing activities	(7,996)	(2,909)
Cash flows from financing activities		
Proceeds from short-term borrowings	47,000	60,000
Repayment of short-term borrowings	(34,000)	(34,000)
Repayment of long-term debt	(10,000)	(10,000)
Debt issuance costs	—	(1,900)
Repayment of capital lease obligations	(1,444)	(1,346)
Net proceeds from exercise of stock options	12	34
Settlement on restricted stock tax withholding	(428)	(100)
Net cash provided by financing activities	1,140	12,688
Effect of foreign currency exchange rate on cash and cash equivalents	(239)	428
Net decrease in cash and cash equivalents	(13,496)	(25,702)
Cash and cash equivalents, beginning of period	46,222	61,625
Cash and cash equivalents, end of period	$32,726	$35,923

See the accompanying notes to the consolidated financial statements

5

Table of Contents

Wesco Aircraft Holdings, Inc. & Subsidiaries
Notes to the Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Wesco Aircraft Holdings, Inc. and its wholly owned subsidiaries (referred to herein as Wesco or the Company) prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements presented herein have not been audited by an independent registered public accounting firm but include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for fair statement of the financial position, results of operations and cash flows for the period. However, these results are not necessarily indicative of results for any other interim period or for the full fiscal year. The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. Actual amounts could differ from these estimates. Our financial statements have been prepared under the assumption that our Company will continue as a going concern.

Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted pursuant to the rules of the Securities and Exchange Commission (the SEC). The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended September 30, 2018 filed with the SEC on November 16, 2018 (the 2018 Form 10-K).

Except for the changes below, no material changes have been made to our significant accounting policies disclosed in Note 2 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of the 2018 Form 10-K.

Revenue from Contracts with Customers

Pursuant to Accounting Standard Codification Topic 606, Revenue from Contracts with Customers (ASC 606), we recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of ASC 606, we perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. We recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Typically, our master purchase contracts with our customer run for three to five years without minimum purchase requirements annually or for over the term of the contract, and contain termination for convenience provisions, which generally allow for our customers to terminate their contracts on short notice without meaningful penalties. Pursuant to ASC 606, we have concluded that for revenue recognition purposes, our customers’ purchase orders (P.O.'s) are considered contracts, which are supplemented by certain contract terms such as service fee arrangements and variable price considerations in our master purchase contracts. The P.O.'s are typically fulfilled within one year.

Our Contracts for hardware and chemical product sales have a single performance obligation. Revenues from these Contract sales are recognized when the customer obtains control of our products, which occurs at a point in time, typically upon delivery in accordance with the terms of the sales contract. Services under our hardware just-in-time

(JIT) arrangements are provided by us contemporaneously with the delivery of these products and are not separately identifiable from the products, and as such, once the products are delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and revenue is recognized upon delivery of the products. Payment is generally due within 30 to 90 days of delivery; therefore, our contracts do not create significant financing components. Warranties are limited to replacement of goods that are defective upon delivery. The Company does not provide service-type warranties.

Our chemical management services (CMS) contracts include the sale of chemical products as well as services such as product procurement, receiving and quality inspection, warehouse and inventory management, and waste disposal. The CMS contracts represent an end-to-end integrated chemical management solution. While each of the products and various services benefits the customer, we determined that they are a single output in the context of the CMS contract due to the significant

Table of Contents

commercial integration of these products and services. Therefore, chemical products and services provided under a CMS contract represent a single performance obligation and revenue is recognized over time for these contracts using product deliveries as our output measure of progress under the CMS contract to depict the transfer of control to the customer.

We report revenue on a gross or net basis in our presentation of net sales and costs of sales based on management's assessment of whether we act as a principal or agent in the transaction. If we are the principal in the transaction and have control of the specified good or service before that good or service is transferred to a customer, the transactions are recorded as gross in the consolidated statements of comprehensive income. If we do not act as a principal in the transaction, the transactions are recorded on a net basis in the consolidated statements of earnings and comprehensive income. This assessment requires significant judgment to evaluate indicators of control within our contracts. We base our judgment on various indicators that include whether we take possession of the products, whether we are responsible for their acceptability, whether we have inventory risk, and whether we have discretion in establishing the price paid by the customer. The majority of our revenue is recorded on a gross basis with the exception of certain gas, energy and chemical management service contracts that are recorded on a net basis.

With respect to variable consideration, we apply judgment in estimating its impact to determine the amount of revenue to recognize. Sales rebates and profit-sharing arrangements are accounted for as a reduction to gross sales and recorded based upon estimates at the time products are sold. These estimates are based upon historical experience for similar programs and products. We review such rebates and profit-sharing arrangements on an ongoing basis and accruals are adjusted, if necessary, as additional information becomes available. We provide allowances for credits and returns based on historic experience and adjust such allowances as considered necessary. To date, such provisions have been within the range of our expectations and the allowance established. Returns and refunds are allowed only for materials that are defective or not compliant with the customer's order. Sales tax collected from customers is excluded from net sales in the consolidated statements of comprehensive income.

We have determined that sales backlog is not a relevant measure of our business. Few, if any, of our contracts include minimum purchase requirements, annually or over the term of the agreement. As a result, we have no material sales backlog.

Note 2. Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASUs) to the FASB's Accounting Standards Codification (ASC).

We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

New Accounting Standards Issued

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the current requirements for testing goodwill for impairment by eliminating the second step of the two-step impairment test to measure the amount of an impairment loss. ASU 2017-04 is effective for the Company in fiscal year 2021, including interim reporting periods within that reporting period, and all annual and interim reporting periods thereafter. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 is amended by ASU 2018-01, ASU2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01, which FASB issued in January 2018, July 2018, July 2018, December 2018 and March 2019, respectively (collectively, the amended ASU 2016-02). The amended ASU 2016-02 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The amended ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. The amended ASU 2016-02 also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. A modified retrospective transition approach is permitted to be used when an entity adopts the amended ASU 2016-02, which includes a number of optional practical expedients that entities may elect to apply. The amended ASU 2016-02 is effective for the Company in fiscal year 2020 and interim periods therein, with early application permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements. We have compiled our worldwide

Table of Contents

lease population, selected a lease accounting software vendor, and are in the process of evaluating the completeness of our lease population. The adoption of the amended ASU 2016-02 is expected to result in material increases to our balance sheet for the recognition of right-of-use assets and lease liabilities. As of September 30, 2018, total future minimum payments under our operating leases amounted to $50.8 million.

Adopted Accounting Standards

On October 1, 2018, we adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The adoption of ASU 2016-01 did not have a material impact on our consolidated financial statements.

On October 1, 2018, we adopted ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which specifies the modification accounting applicable to any entity that changes the terms or conditions of a share-based payment award. The adoption of ASU 2017-09 did not have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20, ASU 2017-10, ASU 2017-13 and ASU 2017-14, which the FASB issued in August 2015, March 2016, April 2016, May 2016, May 2016, December 2016, May 2017, September 2017 and November 2017, respectively (collectively, the amended ASU 2014-09). The amended ASU 2014-09 provides a single comprehensive model for the recognition of revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It requires an entity to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended ASU 2014-09 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) with the customer, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. The amended ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

Effective October 1, 2018, we adopted the amended ASU 2014-09 (ASC 606) using the modified retrospective method of adoption, which resulted in no changes to our opening consolidated balance sheet at the beginning of October 1, 2018. Our initial and incremental contract acquisition costs including sign up commissions and set up costs, which are required to be capitalized under ASC 606, are insignificant and expensed as incurred. Our revenues recognized under ASC 606 for the three and six months ended March 31, 2019 were not materially different from what would have been recognized under the previous revenue standard, ASC 605, that is superseded. Prior period consolidated statements of earnings and comprehensive income remain unchanged.

We have designed and implemented internal controls, policies and processes to comply with ASC 606. The additional disclosures required by ASC 606 are included in Note 1 and Note 9.

Note 3. Inventory

Our inventory is comprised solely of finished goods. We record provisions to write down excess and obsolete (E&O) inventory to estimated realizable value.

We continually assess and refine our methodology for evaluating E&O inventory based on current facts and circumstances. Our hardware inventory E&O assessment requires the use of subjective judgments and estimates including the forecasted demand for each part. The forecasted demand considers a number of factors, including historical sales trends, current and forecasted customer demand, including customer liability provisions based on selected contractual rights, consideration of available sales channels and the time horizon over which we expect the hardware part to be sold.

Table of Contents

During the three months ended March 31, 2019 and 2018, net adjustments to cost of sales related to E&O inventory related activities were $(2.5) million and $0.4 million, respectively. The net adjustments reflect a combination of additional expense for E&O related provisions ($3.7 million and $5.6 million, respectively) offset by sales and disposals ($6.2 million and $5.2 million, respectively) of inventory for which E&O provision was provided previously through expense recognized in prior periods. During the six months ended March 31, 2019 and 2018, charges to cost of sales related to provisions for E&O inventory related expenses were $2.6 million and $4.8 million, respectively. The net adjustments for the six months ended March 31, 2019 and 2018 reflect a combination of additional expense for E&O related provisions ($13.8 million and $15.2 million, respectively) offset by sales and disposals ($11.2 million and $10.4 million, respectively) of inventory for which E&O provision was provided previously through expense recognized in prior periods. We believe that these amounts appropriately write-down E&O inventory to its net realizable value.

Note 4. Goodwill

As of March 31, 2019, goodwill consists of the following (in thousands):

	Americas	EMEA	APAC	Total
Goodwill as of September 30, 2018, gross	$773,384	$51,190	$16,955	$841,529
Accumulated impairment	(569,201)	—	(5,684)	(574,885)
Goodwill as of September 30, 2018, net	204,183	51,190	11,271	266,644
Changes during the period	—	—	—	—
Goodwill as of March 31, 2019, gross	773,384	51,190	16,955	841,529
Accumulated impairment	(569,201)	—	(5,684)	(574,885)
Goodwill as of March 31, 2019, net	$204,183	$51,190	$11,271	$266,644

Note 5. Fair Value of Financial Instruments

Derivative Financial Instruments

Our primary objective in using financial derivatives is to reduce the volatility of earnings and cash flows associated with fluctuations in foreign exchange rates and changes in interest rates. Our use of financial derivatives exposes us to credit risk to the extent that associated counter-parties may be unable to meet the terms of the derivatives. We, however, seek to mitigate such risks by limiting our counter-parties to major financial institutions. In addition, the potential risk of loss with any one counter-party resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counter-parties.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We have three interest rate swap agreements outstanding, which we have designated as cash flow hedges, in order to reduce our exposure to variability in cash flows related to interest payments on a portion of our outstanding debt. The first interest rate swap agreement (the "First Swap Agreement") has an amortizing notional amount, which was $225.0 million on March 31, 2019, and matures on September 30, 2019, giving us the contractual right to pay a fixed interest rate of 2.2625% plus the applicable margin under the term loan B facility (as defined in Note 6 below; see Note 6 for the applicable margin). The remaining two interest rate

swap agreements (the “Remaining Swap Agreements”), entered into on May 14, 2018, have variable notional amounts which initially will increase in amount approximately equal to amortization of the notional amount of the First Swap Agreement and then amortize thereafter. The Remaining Swap Agreements totaled $185.8 million on March 31, 2019, and mature on February 26, 2021, giving us the contractual right to pay a fixed interest rate of 2.79% plus the applicable margin under the term loan B facility (as defined in Note 6 below; see Note 6 for the applicable margin).

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the six months ended March 31, 2019, such derivatives were

Table of Contents

used to hedge the variable cash flows associated with existing variable-rate debt. No portion of our interest rate swap agreements is excluded from the assessment of hedge effectiveness.

Amounts reported in AOCI related to derivatives and the related deferred tax are reclassified to interest expense as interest payments are made on our variable-rate debt. As of March 31, 2019, we expect to reclassify $0.9 million from accumulated other comprehensive loss and the related deferred tax to earnings as an increase to interest expense over the next 12 months when the underlying hedged item impacts earnings.

Non-Designated Derivatives

From time to time, we enter into foreign currency forward contracts to partially reduce our exposure to foreign currency fluctuations for a subsidiary's net monetary assets, which are denominated in a foreign currency. The derivatives are not designated as a hedging instrument. The change in their fair value is recognized as periodic gain or loss in the other income, net line of our consolidated statements of earnings and comprehensive income. We did not have foreign currency forward contracts as of March 31, 2019 and September 30, 2018.

The following table summarizes the notional principal amounts at March 31, 2019, and September 30, 2018 of our outstanding interest rate swap agreements discussed above (in thousands).

	Derivative Notional	
	March 31, 2019	September 30, 2018
Instruments designated as accounting hedges:		
Interest rate swap contracts	$410,800	$ 435,800

The following table provides the location and fair value amounts of our financial instruments, which are reported in our consolidated balance sheets as of March 31, 2019 and September 30, 2018 (in thousands).

	Balance Sheet Locations	Fair Value	
		March 31, 2019	September 30, 2018
Instruments designated as accounting hedge:			
Interest rate swap contracts	Other current assets	$327	$ 1,045
Interest rate swap contracts	Other assets	—	1,051
Interest rate swap contracts	Accrued expenses and other current liabilities	1,206	289
Interest rate swap contracts	Other liabilities	1,920	—

The following table provides the (gain) losses of our cash flow hedging instruments (net of income tax benefit), which were transferred from AOCI to interest expense on our consolidated statements of earnings and comprehensive income during the three and six months ended March 31, 2019 and 2018 (in thousands).

Cash Flow Hedge	Location in Consolidated Statements of Earnings and Comprehensive Income	Three Months Ended March 31,		Six Months Ended March 31,	
		2019	2018	2019	2018
Interest rate swap contracts	Interest (income) expense, net	$(152)	$304	$(70)	$861

	Three Months 2019	Three Months 2018	Six Months 2019	Six Months 2018
Total interest expense, net presented in the consolidated statements of earnings and comprehensive income in which the above effects of cash flow hedges are recorded	$12,388	$11,965	$25,302	$23,803

10

Table of Contents

The following table provides the effective portion of the amount of (loss) gain recognized in other comprehensive income (net of income taxes) for the three and six months ended March 31, 2019 and 2018 (in thousands).

Cash Flow Hedge	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Six Months Ended March 31, 2019	Six Months Ended March 31, 2018
Interest rate swap contracts	$(1,088)	$1,461	$(3,282)	$2,832

The following table provides a summary of changes to our AOCI related to our cash flow hedging instrument (net of income taxes) during the three and six months ended March 31, 2019 (in thousands).

AOCI - Unrealized Gain (Loss) on Hedging Instruments	Three Months Ended March 31, 2019	Six Months Ended March 31, 2019
Balance at beginning of period	$(737)	$1,375
Change in fair value of hedging instruments	(1,088)	(3,282)
Amounts reclassified to earnings	(152)	(70)
Net current period other comprehensive loss	(1,240)	(3,352)
Balance at end of period	$(1,977)	$(1,977)

Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable and payable, accrued expenses and other current liabilities, and a credit facility including two term loans and a revolving line of credit. The carrying amounts of these instruments approximate fair value because of their short-term duration. The fair value of interest rate swap agreements is determined using pricing models that use observable market inputs as of the balance sheet date, a Level 2 measurement (as defined below). The fair value of the long-term debt instruments is determined using current applicable rates for similar instruments as of the balance sheet date, a Level 2 measurement (as defined below). The principal amounts and fair values of the debt instruments and interest rate swap agreements were as follows (in thousands):

	March 31, 2019		September 30, 2018	
	Principal Amount	Fair Value	Principal Amount	Fair Value
Term loan A facility	$350,000	$346,325	$360,000	$357,840
Term loan B facility	440,562	432,632	440,562	432,192
Revolving facility	67,000	67,000	54,000	54,000
Interest rate swap contract liability (assets), net	2,799	2,799	(1,807)	(1,807)

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, we primarily utilize reported market transactions and discounted cash flow analysis. We use a three-tier fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs. The three broad categories are:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

Table of Contents

The definition of fair value includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counter-party or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

There were no transfers between the assets and liabilities under Level 1 and Level 2 during the six months ended March 31, 2019. The following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring basis in our consolidated balance sheets as of March 31, 2019 and September 30, 2018 (in thousands).

March 31, 2019	Balance Sheet Locations	Total	Level 1	Level 2	Level 3
Instruments designated as accounting hedge:					
Interest rate swap contracts	Other current assets	$327	$ —	$327	$ —
Interest rate swap contracts	Accrued expenses and other current liabilities	1,206	—	1,206	—
Interest rate swap contracts	Other liabilities	1,920	—	1,920	—

September 30, 2018	Balance Sheet Locations	Total	Level 1	Level 2	Level 3
Instrument designated as accounting hedge:					
Interest rate swap contracts	Other current assets	$1,045	$ —	$1,045	$ —
Interest rate swap contracts	Other assets	1,051	—	1,051	—
	Accrued expenses and other current liabilities	289	—	289	—

Interest
rate
swap
contracts

We use observable market-based inputs to calculate fair value of our interest rate swap agreements and outstanding debt instruments, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Note 6. Long-Term Debt

Long-term debt consists of the following (in thousands):

	March 31, 2019			September 30, 2018		
	Principal Amount	Deferred Debt Issuance Costs	Carrying Amount	Principal Amount	Deferred Debt Issuance Costs	Carrying Amount
Term loan A facility	$350,000	$(4,494)	$345,506	$360,000	$(5,842)	$354,158
Term loan B facility	440,562	(2,334)	438,228	440,562	(2,943)	437,619
Revolving facility	67,000	—	67,000	54,000	—	54,000
	857,562	(6,828)	850,734	854,562	(8,785)	845,777
Less: current portion	87,000	—	87,000	74,000	—	74,000
Non-current portion	$770,562	$(6,828)	$763,734	$780,562	$(8,785)	$771,777

Senior Secured Credit Facilities

The credit agreement, dated as of December 7, 2012 (as amended, the Credit Agreement), by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto, which governs our senior secured credit facilities, provides for (1) a $400.0 million senior secured term loan A facility (the term loan A facility), (2) a $180.0 million revolving facility (the revolving facility) and (3) a $525.0 million senior secured term loan B facility (the term loan B facility). We refer to the term loan A facility, the revolving facility and the term loan B facility, together, as the “Credit Facilities.”

Table of Contents

As of March 31, 2019, our outstanding indebtedness under our Credit Facilities was $857.6 million, which consisted of (1) $350.0 million of indebtedness under the term loan A facility, (2) $67.0 million of indebtedness under the revolving facility, and (3) $440.6 million of indebtedness under the term loan B facility. As of March 31, 2019, $113.0 million was available for borrowing under the revolving facility to fund our operating and investing activities without breaching any covenants contained in the Credit Agreement.

During the six months ended March 31, 2019, we borrowed $47.0 million under the revolving facility, and made our required quarterly payments of $10.0 million on our term loan A facility and voluntary prepayments totaling $34.0 million on our borrowings under the revolving facility.

The interest rate for the term loan A facility is based on our Consolidated Total Leverage Ratio (as such term is defined in the Credit Agreement) as determined in the most recently delivered financial statements, with the respective margins ranging from 2.00% to 3.00% for Eurocurrency loans and 1.00% to 2.00% for ABR loans. The term loan A facility amortizes in equal quarterly installments of 1.25% of the original principal amount of $400.0 million with the balance due on the earlier of (1) 90 days before the maturity of the term loan B facility, and (2) October 4, 2021. As of March 31, 2019, the interest rate for borrowings under the term loan A facility was 5.50%, which approximated the effective interest rate.

The interest rate for the term loan B facility has a margin of 2.50% per annum for Eurocurrency loans (subject to a minimum Eurocurrency rate floor of 0.75% per annum) or 1.50% per annum for ABR loans (subject to a minimum ABR floor of 1.75% per annum). The term loan B facility amortizes in equal quarterly installments of 0.25% of the original principal amount of $525.0 million, with the balance due at maturity on February 28, 2021. As of March 31, 2019, the interest rate for borrowings under the term loan B facility was 5.00%, which approximated the effective interest rate. We have an interest rate swap agreement relating to this indebtedness, which is described in greater detail in Note 5 above.

The interest rate for the revolving facility is based on our Consolidated Total Leverage Ratio as determined in the most recently delivered financial statements, with the respective margins ranging from 2.00% to 3.00% for Eurocurrency loans and 1.00% to 2.00% for ABR loans. The revolving facility expires on the earlier of (1) 90 days before the maturity of the term loan B facility, and (2) October 4, 2021. As of March 31, 2019, the weighted-average interest rate for borrowings under the revolving facility was 5.50%.

Our borrowings under the Credit Facilities are guaranteed by us and all of our direct and indirect, wholly-owned, domestic restricted subsidiaries (subject to certain exceptions) and secured by a first lien on substantially all of our assets and the assets of our guarantor subsidiaries, including capital stock of the subsidiaries (in each case, subject to certain exceptions).

The Credit Agreement contains customary negative covenants, including restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. Our borrowings under the Credit Facilities are subject to a financial covenant based upon our Consolidated Total Leverage Ratio, with the maximum ratio set at 5.50 for the quarter ending March 31, 2019. As of March 31, 2019, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was 4.27. The Consolidated Total Leverage Ratio is scheduled to step-down to 5.25 for the quarter ending June 30, 2019; 4.75 for the quarters ending September 30, 2019, December 31, 2019 and March 31, 2020; 4.00 for the quarters ending June 30, 2020, September 30, 2020, December 31, 2020 and March 31, 2021; and 3.00 for the quarter ending June 30, 2021 and thereafter. Based on our current covenants and forecasts, we expect to be in compliance for the one year period after May 2, 2019.

The Credit Agreement also includes an Excess Cash Flow Percentage (as such term is defined in the Credit Agreement), which is currently set at 75%, provided that the Excess Cash Flow Percentage shall be reduced to (1) 50%, if the Consolidated Total Leverage Ratio is less than 4.00 but greater than or equal to 3.00, (2) 25%, if the Consolidated Total Leverage Ratio is less than 3.00 but greater than or equal to 2.50, and (3) 0%, if the Consolidated Total Leverage Ratio is less than 2.50. The calculation is determined annually, and for fiscal year 2018, no excess cash flow payment was required.

Table of Contents

The following table summarizes the total deferred debt issuance costs for the term loan A facility, the term loan B facility and the revolving facility as of March 31, 2019 and September 30, 2018 (dollars in thousands). The remaining deferred debt issuance costs as of March 31, 2019 will be amortized over their remaining terms.

	Term Loan A Facility	Term Loan B Facility	Revolving Facility	Total
Deferred debt issuance costs as of September 30, 2018	$5,842	$2,943	$ 2,827	$11,612
Amortization of deferred debt issuance costs	(1,348)	(609)	(653)	(2,610)
Deferred debt issuance costs as of March 31, 2019	$4,494	$2,334	$ 2,174	$9,002

UK Line of Credit

Our subsidiary, Wesco Aircraft EMEA, Ltd., has a £5.0 million ($6.5 million based on the March 31, 2019 exchange rate) line of credit that automatically renews annually on October 1 (the UK line of credit). The line of credit bears interest based on the base rate plus an applicable margin of 1.65%. As of March 31, 2019, the full £5.0 million was available for borrowing under the UK line of credit without breaching any covenants contained in the agreements governing our indebtedness.

Note 7. Comprehensive Income

Comprehensive income, which is net of income taxes, consists of the following (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income	$12,010	$15,000	$18,303	$14,626
Foreign currency translation (loss) gain	(22)	1,389	(879)	1,284
Unrealized (loss) gain on cash flow hedging instruments	(1,241)	1,461	(3,353)	2,831
Total comprehensive income	$10,747	$17,850	$14,071	$18,741

Note 8. Net Income Per Share

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of both outstanding stock options and restricted stock, if any, calculated using the treasury stock method. Assumed proceeds from in-the-money awards are calculated under the “as-if” method as prescribed by ASC 718, Compensation—Stock Compensation. The following table provides our basic and diluted net income per share for the three and six months ended March 31, 2019 and 2018 (dollars in thousands except share data):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income	$12,010	$ 15,000	$18,303	$ 14,626
Basic weighted average shares outstanding	99,626,736	99,136,015	99,555,589	99,116,250
Dilutive effect of stock options and restricted stock	324,075	383,910	375,410	325,135
Dilutive weighted average shares outstanding	99,950,811	99,519,925	99,930,999	99,441,385
Basic net income per share	$0.12	$ 0.15	$0.18	$ 0.15
Diluted net income per share	$0.12	$ 0.15	$0.18	$ 0.15

For the three months ended March 31, 2019 and 2018, 3,171,626 and 2,337,503 shares of common stock equivalents, respectively, were not included in the diluted calculation due to their anti-dilutive effect. For the six months ended March 31, 2019 and 2018, 3,188,879 and 3,115,284 shares of common stock equivalents, respectively, were not included in the diluted calculation due to their anti-dilutive effect.

Table of Contents

Note 9. Segment Reporting

We are organized based on geographical location. We conduct our business through three reportable segments: the Americas, EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific).

We evaluate segment performance based primarily on segment income from operations. Each segment reports its results of operations and makes requests for capital expenditures and working capital needs to our chief operating decision-maker (CODM). Our Chief Executive Officer serves as our CODM.

The following tables present operating and financial information by business segment (in thousands):

	Three Months Ended March 31, 2019				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$347,301	$66,300	$12,873	$ —	$426,474
Income from operations	35,393	1,778	1,156	(8,488)	29,839
Interest expense, net	(11,143)	(1,220)	(25)	—	(12,388)
Capital expenditures	5,087	433	236	—	5,756
Depreciation and amortization	6,115	865	87	—	7,067

	Three Months Ended March 31, 2018				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$313,250	$68,147	$8,786	$ —	$390,183
Income from operations	35,691	6,830	777	(10,102)	33,196
Interest expense, net	(10,943)	(997)	(25)	—	(11,965)
Capital expenditures	1,412	75	87	—	1,574
Depreciation and amortization	6,283	929	73	—	7,285

	Six Months Ended March 31, 2019				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$668,426	$128,038	$25,321	$ —	$821,785
Income from operations	64,384	4,274	2,230	(18,970)	51,918
Interest expense, net	(22,400)	(2,851)	(51)	—	(25,302)
Capital expenditures	6,547	924	525	—	7,996
Depreciation and amortization	12,281	1,714	170	—	14,165

	Six Months Ended March 31, 2018				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$602,765	$132,385	$18,124	$ —	$753,274
Income from operations	60,888	11,982	2,275	(17,377)	57,768
Interest expense, net	(21,591)	(2,161)	(51)	—	(23,803)
Capital expenditures	2,370	400	139	—	2,909
Depreciation and amortization	12,659	1,735	147	—	14,541

15

Table of Contents

	As of March 31, 2019			
	Americas	EMEA	APAC	Consolidated
Total assets	$1,500,383	$250,986	$66,146	$ 1,817,515
Goodwill	204,183	51,190	11,271	266,644

	As of September 30, 2018			
	Americas	EMEA	APAC	Consolidated
Total assets	$1,485,453	$248,937	$55,086	$ 1,789,476
Goodwill	204,183	51,190	11,271	266,644

Product and Service Information

Net sales by product categories for the three months and six months ended March 31, 2019 were as follows (dollars in thousands):

	Three Months Ended March 31, 2019							
	Americas		EMEA		APAC		Consolidated	
	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total
Hardware	$165,163	47.6 %	$29,466	44.4 %	$4,130	32.1 %	$198,759	46.6 %
Chemicals (1)	140,293	40.4 %	30,656	46.2 %	7,156	55.6 %	178,105	41.8 %
Electronic components	29,459	8.5 %	1,835	2.8 %	287	2.2 %	31,581	7.4 %
Bearings	3,710	1.0 %	1,377	2.1 %	989	7.7 %	6,076	1.4 %
Machined parts and other	8,676	2.5 %	2,966	4.5 %	311	2.4 %	11,953	2.8 %
Total	$347,301	100.0%	$66,300	100.0%	$12,873	100.0%	$426,474	100.0%

	Six Months Ended March 31, 2019							
	Americas		EMEA		APAC		Consolidated	
	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total
Hardware	$316,160	47.3 %	$56,605	44.2 %	$8,093	32.0 %	$380,858	46.3 %
Chemicals (1)	271,905	40.7 %	60,995	47.6 %	13,714	54.2 %	346,614	42.2 %
Electronic components	55,924	8.4 %	3,794	3.0 %	638	2.5 %	60,356	7.3 %
Bearings	9,329	1.3 %	3,013	2.4 %	2,184	8.6 %	14,526	1.8 %
Machined parts and other	15,108	2.3 %	3,631	2.8 %	692	2.7 %	19,431	2.4 %
Total	$668,426	100.0%	$128,038	100.0%	$25,321	100.0%	$821,785	100.0%

(1) Includes CMS contracts

Note 10. Income Taxes

	Three Months Ended March 31,		Six Months Ended March 31,	
(dollars in thousands)	2019	2018	2019	2018
Provision for income taxes	$5,127	$6,123	$7,782	$19,491
Effective tax rate	29.9 %	29.0 %	29.8 %	57.1 %

For the three months ended March 31, 2019, our effective tax rate increased 0.9 percentage points compared to the same period in the prior year. The difference in effective tax rates is primarily related to discrete adjustments

recognized during the

Table of Contents

three months ended March 31, 2019. Without consideration of discrete adjustments, our effective tax rate would have been 29.4% for the three months ended March 31, 2018 and 29.0% for the three months ended March 31, 2019.

For the six months ended March 31, 2019, our effective tax rate decreased 27.3 percentage points compared to the same period in the prior year. The difference in effective tax rates is primarily related to discrete adjustments recognized during the three months ended December 31, 2017 from the one-time tax imposed on accumulated earnings and profits of foreign operations as a result the enactment of the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017. Without consideration of discrete adjustments, our effective tax rate would have been 29.1% for the six months ended March 31, 2018 and 29.0% for the six months ended March 31, 2019.

Note 11. Shareholders' Equity

The following tables provide changes to our shareholders' equity for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
Balance at December 31, 2018	99,749,451	$ 100	$447,059	$ (85,949)	$337,112	$ 698,322
Issuance of common stock	(6,072)	—	—	—	—	—
Stock-based compensation expense	—	—	2,114	—	—	2,114
Net income	—	—	—	—	12,010	12,010
Other comprehensive loss	—	—	—	(1,263)	—	(1,263)
Balance at March 31, 2019	99,743,379	$ 100	$449,173	$ (87,212)	$349,122	$ 711,183

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
Balance at December 31, 2017	99,517,543	$ 99	$438,310	$ (83,361)	$297,361	$ 652,409
Issuance of common stock	(26,895)	—	34	—	—	34
Settlement on restricted stock tax withholding	—	—	(74)	—	—	(74)
Stock-based compensation expense	—	—	1,873	—	—	1,873
Net income	—	—	—	—	15,000	15,000
Other comprehensive income	—	—	—	2,850	—	2,850
Balance at March 31, 2018	99,490,648	$ 99	$440,143	$ (80,511)	$312,361	$ 672,092

Table of Contents

The following tables provide changes to our shareholders' equity for the six months ended March 31, 2019 and 2018 (dollars in thousands):

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
Balance at September 30, 2018	99,557,885	$ 99	$444,531	$ (82,980)	$330,819	$ 692,469
Issuance of common stock	185,494	1	12	—	—	13
Settlement on restricted stock tax withholding	—	—	(428)	—	—	(428)
Stock-based compensation expense	—	—	5,058	—	—	5,058
Net income	—	—	—	—	18,303	18,303
Other comprehensive loss	—	—	—	(4,232)	—	(4,232)
Balance at March 31, 2019	99,743,379	$ 100	$449,173	$ (87,212)	$349,122	$ 711,183

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
Balance at September 30, 2017	99,450,902	$ 99	$436,522	$ (84,626)	$297,736	$ 649,731
Issuance of common stock	39,746	—	33	—	(1)	32
Settlement on restricted stock tax withholding	—	—	(100)	—	—	(100)
Stock-based compensation expense	—	—	3,688	—	—	3,688
Net income	—	—	—	—	14,626	14,626
Other comprehensive income	—	—	—	4,115	—	4,115
Balance at March 31, 2018	99,490,648	$ 99	$440,143	$ (80,511)	$312,361	$ 672,092

Note 12. Commitments and Contingencies

We are involved in various legal matters that arise in the ordinary course of business. Our management, after consulting with outside legal counsel, believes that the ultimate outcome of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows. There can be no assurance, however, that such actions will not be material or adversely affect our business, financial position, results of operations or cash flows.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q.

The statements in this discussion regarding industry trends, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2018 filed with the Securities and Exchange Commission (the SEC) on November 16, 2018 (the 2018 Form 10-K) and "— Cautionary Note Regarding Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Unless otherwise noted in this Quarterly Report on Form 10-Q, the term “Wesco Aircraft” means Wesco Aircraft Holdings, Inc., our top-level holding company, and the terms “Wesco,” “the Company,” “we,” “us,” “our” and “our company” mean Wesco Aircraft and its subsidiaries. References to “fiscal year” mean the year ending or ended September 30. For example, “fiscal year 2019” or “fiscal 2019” means the period from October 1, 2018 to September 30, 2019.

Executive Overview

We are the world’s leading independent distributor and provider of comprehensive supply chain management services to the global aerospace industry, based on annual sales. Our services range from traditional distribution to the management of supplier relationships, quality assurance, kitting, just-in-time (JIT) delivery, chemical management services (CMS), third-party logistics (3PL) or fourth-party logistics (4PL) programs and point-of-use inventory management. We supply over 560,000 active stock-keeping units (SKUs), including C-class hardware, chemicals, electronic components, bearings, tools and machined parts. We serve our customers under both (1) long-term contractual arrangements (Contracts), which include JIT contracts that govern the provision of comprehensive outsourced supply chain management services and long-term agreements (LTAs) that typically set prices for specific products, and (2) ad hoc sales.

Founded in 1953 by the father of our current Chairman of the Board of Directors, we have grown to serve over 7,000 customers, which are primarily in the commercial, military and general aviation sectors, including the leading original equipment manufacturers (OEMs) and their subcontractors, through which we support nearly all major Western aircraft programs, and also sell products to airline-affiliated and independent maintenance, repair and overhaul providers. We also service customers in the automotive, energy, health care, industrial, pharmaceutical and space sectors.

Industry Trends Affecting Our Business

We rely on demand for new commercial and military aircraft for a significant portion of our sales. Commercial aircraft demand is driven by many factors, including the global economy, industry passenger volumes and capacity utilization, airline profitability, introduction of new models and the lifecycle of current fleets. Demand for business jets is closely correlated to regional economic conditions and corporate profits, but also influenced by new models and changes in ownership dynamics. Military aircraft demand is primarily driven by government spending, the timing of orders and evolving U.S. Department of Defense strategies and policies.

Aftermarket demand is affected by many of the same trends as those in OEM channels, as well as requirements to maintain aging aircraft and the cost of fuel, which can lead to greater utilization of existing planes. Demand in the military aftermarket is further driven by changes in overall fleet size and the level of U.S. military operational activity domestically and overseas.

Supply chain service providers and distributors have been aided by these trends along with an increase in outsourcing activities, as OEMs and their suppliers focus on reducing their capital commitments and operating costs.

Commercial Aerospace Market

Over the past three years, major airlines have ordered new aircraft at a robust pace, aided by strong profits and increasing passenger volumes. At the same time, volatile fuel prices have led to greater demand for fuel-efficient models and new engine options for existing aircraft designs. The rise of emerging markets has added to the growth in overall demand at a

Table of Contents

stronger pace than seen historically. Large commercial OEMs have indicated that they expect a high level of deliveries with the exception of the Boeing Company's 737 MAX aircraft impact, primarily due to continued demand and their unprecedented level of backlogs. The recent pause in deliveries and reduced production rate of the 737 MAX aircraft by the Boeing company could negatively affect total large commercial aircraft deliveries. The impact is dependent upon when the aircraft returns to service, which will be determined by factors such as certification by the FAA and other regulatory authorities, when the OEM resumes deliveries and returns to its previous production schedule and whether or not the delay creates disruptions to the related supply chain.

Business aviation has lagged the larger commercial market, reflecting a deeper downturn in the last recession, changes in corporate spending patterns and an uncertain economic outlook. While overall business aviation production levels remain below their pre-recession peak, recent indicators point to improved market conditions. Production has increased for new models, and the number of pre-owned aircraft relative to the total business aviation in-service fleet has fallen to multi-year lows. Whether these improved conditions lead to increased deliveries in the future remains uncertain.

Military Aerospace Market

Military production has fluctuated for many aircraft programs in the past few years. Increases in the U.S. Department of Defense budget for fiscal years 2018 and 2019 have supported greater production of certain military programs. In particular, we believe the services we provide the Joint Strike Fighter program will benefit our business as production for that program increases. We believe increased sales from other established programs that directly benefit from these changes also will benefit our business.

U.S. Department of Defense spending continues to be uncertain for fiscal years 2020 through 2023, given that the limits imposed upon U.S. government discretionary spending by the Budget Control Act and the Bipartisan Budget Act of 2013 remain in effect for these fiscal years, unless Congress acts to raise the spending limits or repeal or suspend the provisions of these laws. Future budget cuts or changes in spending priorities could result in existing program delays, changes or cancellations.

Goodwill

For the EMEA reporting unit, our most recent Step 1 goodwill impairment test occurred on July 1, 2018, which reflected fair value in excess of carrying value of 32.4%. For the three and six months ended March 31, 2019, EMEA has underperformed relative to the forecasts included in the July 1, 2018 Step 1 analysis. On March 31, 2019, we evaluated whether there were any events or changes in circumstances that would indicate that it was more likely than not that the EMEA reporting unit's carrying value was less than its fair value. Our evaluation considered macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, Wesco entity specific operating results and other relevant Wesco entity specific events. Our evaluation did not indicate it was more likely than not that the carrying value of the EMEA reporting unit exceeded its fair value. We consider our current forecasts to be reasonable and achievable based upon our historical performance and management’s actions currently being executed; and have concluded, as a result, that no interim triggering event has occurred. We will continue to monitor EMEA’s performance relative to the forecasts until our next annual goodwill impairment test to be performed on July 1, 2019.

Other Factors Affecting Our Financial Results

Fluctuations in Revenue

There are many factors, such as changes in customer aircraft build rates, customer plant shut downs, variation in customer working days, changes in selling prices, the amount of new customers' consigned or owned inventory and increases or decreases in customer inventory levels, that can cause fluctuations in our financial results from quarter to quarter. Ad hoc business also can be further influenced by the amount of supply chain disruption in the market due to changes in aircraft build rates, new aircraft introduction, customer or site consolidations, and other factors. While we try to mitigate the degree of fluctuations in our ad hoc business through establishing longer-term contractual relationships with our customers, such variability still will occur. We consider both shorter-term fluctuations and longer-term trends in the operation of our business which can affect quarterly trends of financial results at any given time.

We will continue our strategy of seeking to expand our relationships with existing ad hoc customers by transitioning them to Contracts, as well as expanding relationships with our existing Contract customers to include additional customer sites, additional SKUs and additional levels of service. New Contract customers and expansion of existing Contract customers to

additional sites and SKUs sometimes leads to a corresponding decrease in ad hoc sales as a portion of the SKUs sold under Contracts were previously sold to the same customer as ad hoc sales. We believe this strategy serves to mitigate some of the fluctuations in our net sales. Our sales to Contract customers may fail to meet our expectations for a variety of reasons, in particular if industry build rates are lower than expected or, for certain newer JIT customers, if their consigned or owned inventory, which must be exhausted before corresponding products are purchased directly from us, is greater than we expected.

If any of our customers are acquired or controlled by a company that elects not to utilize our services, or attempts to implement in-sourcing initiatives, it could have a negative effect on our strategy to mitigate fluctuations in our net sales. Additionally, although we derive a significant portion of our net sales from the building of new commercial and military aircraft, we have not typically experienced extreme fluctuations in our net sales when sales for an individual aircraft program decrease, which we believe is attributable to our diverse base of customers and programs.

Fluctuations in Margins

Our gross margins are primarily impacted by changes in the product mix of our sales. Generally, our hardware products have higher gross profit margins than chemicals and electronic components.

We also believe that our strategy of growing our Contract sales and converting ad hoc customers into Contract customers could negatively affect our gross profit margins, as gross profit margins tend to be higher on ad hoc sales than they are on portions of Contract-related sales. However, we believe any potential adverse impact on our gross profit margins would be outweighed by the benefits of a more stable long-term revenue stream attributable to Contract customers as well as potential market share growth and higher revenues and gross profit supported by more aggressive product pricing to compete.

Our Contracts generally provide for fixed prices, which can expose us to risks if the prices we pay to our suppliers rise due to increased raw material or other costs. However, we believe our expansive product offerings and inventories, our ad hoc sales and, where possible, our longer-term agreements with suppliers have enabled us to mitigate this risk. Some of our Contracts are denominated in foreign currencies and fixed prices in these Contracts can expose us to fluctuations in foreign currency exchange rates with the U.S. dollar.

Fluctuations in Cash Flow

Our cash flows are principally affected by fluctuations in our inventory. When we are awarded new programs, we generally increase our inventory to prepare for expected sales related to the new programs, which often take time to materialize, and to achieve minimum stock requirements, if any. As a result, if certain programs for which we have procured inventory are delayed or if certain newer JIT customers’ consigned inventory is larger than we expected, we may experience a more sustained inventory increase.

Inventory fluctuations may also be attributable to general industry trends. Factors that may contribute to fluctuations in inventory levels in the future could include (1) purchases to take advantage of favorable pricing, (2) purchases to acquire high-volume products that are typically difficult to obtain in sufficient quantities; (3) changes in supplier lead times and the timing of inventory deliveries; (4) purchases made in anticipation of future growth; and (5) purchases made in connection with new customer Contracts or the expansion of existing Contracts. Customer liability provisions in many of our contracts also may serve to mitigate our risk to related inventory remaining at the time a contract expires or is terminated. Because effective inventory management is a key competitive skill, we continuously work to improve our procurement planning and management practices to mitigate the negative impact of inventory buildups on our cash flow.

Our accounts receivable balance as a percentage of net sales may fluctuate from quarter to quarter. These fluctuations are primarily driven by changes, from quarter to quarter, in the timing and magnitude of sales within the quarter and variation in the time required to collect the payments. The completion of customer Contracts with accelerated payment terms can also contribute to these quarter-to-quarter fluctuations. Similarly, our accounts payable may fluctuate from quarter to quarter, which is primarily driven by the timing and volume of purchases or payments made to our suppliers.

Segment Presentation

We conduct our business through three reportable segments: the Americas, EMEA (Europe, Middle East and Africa), and APAC (Asia Pacific). We evaluate segment performance based primarily on segment income or loss from operations. Each segment reports its results of operations and makes requests for capital expenditures and working capital needs to our chief operating decision maker (CODM). Our Chief Executive Officer serves as our CODM.

Table of Contents

Key Components of Our Results of Operations

The following is a discussion of the key line items included in our financial statements for the periods presented below under the heading "Results of Operations." These are the measures that management utilizes to assess our results of operations, anticipate future trends and evaluate risks in our business.

Net Sales

Our net sales include sales of hardware, chemicals, electronic components, bearings, tools and machined parts, and eliminate all intercompany sales. We also provide certain services to our customers, including quality assurance, kitting, JIT delivery, CMS, 3PL or 4PL programs and point-of-use inventory management. Services under our hardware JIT arrangements are provided by us contemporaneously with the delivery of these products, and as such, once the products are delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and revenue is recognized upon delivery of the products. Our CMS contracts also include sale of chemical products as well as services. The CMS contracts represent an end-to-end integrated chemical management solution. While each of the products and various services benefits the customer, we determined that they are a single output in the context of a CMS contract and revenue is recognized over time using product deliveries as our output measure of progress under the CMS contract.

We serve our customers under Contracts, which include JIT contracts and LTAs, and with ad hoc sales. Under JIT contracts, customers typically commit to purchase specified products from us at a fixed price, on an as-needed basis, and we are responsible for maintaining stock availability of those products. LTAs are typically negotiated price lists for customers or individual customer sites that cover a range of pre-determined products, purchased on an as-needed basis. Ad hoc purchases are made by customers on an as-needed basis and are generally supplied out of our existing inventory. Contract customers often purchase products that are not captured under their Contract on an ad hoc basis.

Income from Operations

Income from operations is the result of subtracting the cost of sales and selling, general and administrative (SG&A) expenses from net sales and is one of several key measures to evaluate our performance and profitability.

The principal component of our cost of sales is product cost, which was 94.6% and 94.3% of our total cost of sales for the three months ended March 31, 2019 and 2018, respectively, and 94.4% and 94.5% of our total cost of sales for the six months ended March 31, 2019 and 2018, respectively. The remaining components are freight and expediting fees, import duties, tooling repair charges, packaging supplies, excess and obsolete (E&O) inventory and inventory valuation adjustments.

Product cost is determined by the current weighted average cost of each inventory item, except for chemical parts for which the first-in, first-out method is used, and the provision, if any, for E&O inventory. The inventory provision is calculated to write-down the value of excess and obsolete inventory to its net realizable value. We review inventory for excess quantities and obsolescence quarterly. For a description of our E&O provision policy, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Inventories" in the 2018 Form 10-K. During the three months ended March 31, 2019 and 2018, net adjustments to cost of sales related to E&O inventory related activities were $(2.5) million and $0.4 million, respectively. The net adjustments reflect a combination of additional expense for E&O related provisions ($3.7 million and $5.6 million, respectively) offset by sales and disposals ($6.2 million and $5.2 million, respectively) of inventory for which E&O provision was provided previously through expense recognized in prior periods. During the six months ended March 31, 2019 and 2018, net adjustments to cost of sales related to provisions for E&O inventory

related expenses were $2.6 million and $4.8 million, respectively. The net adjustments for the six months ended March 31, 2019 and 2018 reflect a combination of additional expense for E&O related provisions ($13.8 million and $15.2 million, respectively) offset by sales and disposals ($11.2 million and $10.4 million, respectively) of inventory for which E&O provision was provided previously through expense recognized in prior periods. We believe that these amounts appropriately write-down E&O inventory to its net realizable value.

The principal components of our SG&A expenses are salaries, wages, benefits and bonuses paid to our employees; stock-based compensation; commissions paid to outside sales representatives; travel and other business expenses; training and recruitment costs; marketing, advertising and promotional event costs; rent; bad debt expense; fees for professional services (including consulting, legal, audit and tax); and other ordinary day-to-day business expenses. Depreciation and amortization expense is also included in SG&A expenses, and consists primarily of scheduled depreciation for leasehold improvements, machinery and equipment, vehicles, computers, software and furniture and fixtures. Depreciation and amortization also includes intangible asset amortization expense.

Table of Contents

Other Expenses

Interest Expense, Net. Interest expense, net consists of the interest we pay on our long-term debt, interest and fees on our revolving facility (as defined below under "—Liquidity and Capital Resources—Credit Facilities") and our line-of-credit and deferred debt issuance costs, net of interest income.

Other Income, Net. Other income, net is primarily comprised of foreign exchange gain or loss associated with transactions denominated in currencies other than the respective functional currency of the reporting subsidiary.

Critical Accounting Policies and Estimates

The methods, estimates, and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate, and different assumptions or estimates about the future could change our reported results. For a description of our critical accounting policies and estimates, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the 2018 Form 10-K.

Effective October 1, 2018, we adopted the amended ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC 606). The following describes our new accounting policy related to our recognition of revenue from contracts with customers pursuant to ASC 606.

Revenue from Contracts with Customers

Pursuant to Accounting Standard Codification Topic 606, Revenue from Contracts with Customers (ASC 606), we recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of ASC 606, we perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. We recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Typically, our master purchase contracts with our customer run for three to five years without minimum purchase requirements annually or over the term of the contract and contain termination for convenience provisions, which generally allow for our customers to terminate their contracts on short notice without meaningful penalties. Pursuant to ASC 606, we have concluded that for revenue recognition purposes, our customers' purchase orders (P.O.'s) are considered contracts, which are supplemented by certain contract terms such as service fee arrangements and variable price considerations in our master purchase contracts. The P.O.'s are typically fulfilled within one year.

Our hardware and chemical product sales have a single performance obligation. Revenues from these sales are recognized when the customer obtains control of our products, which occurs at a point in time, typically upon delivery in accordance with the terms of the sales contract. Services under our hardware JIT arrangements are provided by us contemporaneously with the delivery of these products and are not separately identifiable from the products, and as such, once the products are delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and

revenue is recognized upon delivery of the products. Payment is generally due within 30 to 90 days of delivery; therefore, our contracts do not create significant financing components. Warranties are limited to replacement of goods that are defective upon delivery; and the Company does not give service-type warranties.

Our CMS contracts include the sale of chemical products as well as services such as product procurement, receiving and quality inspection, warehouse and inventory management, and waste disposal. The CMS contracts represent an end-to-end integrated chemical management solution. While each of the products and various services benefits the customer, we determined that they are a single output in the context of the CMS contract due to the significant integration of these products and services. Therefore, chemical products and services provided under a CMS contract represent a single performance

Table of Contents

obligation and revenue is recognized for these contracts over time using product deliveries as our output measure of progress under the CMS contract to depict the transfer of control to the customer.

We report revenue on a gross or net basis in our presentation of net sales and costs of sales based on management’s assessment of whether we act as a principal or agent in the transaction. If we are the principal in the transaction and have control of the specified good or service before that good or service is transferred to a customer, the transactions are recorded as gross in the consolidated statements of comprehensive income. If we do not act as a principal in the transaction, the transactions are recorded on a net basis in the consolidated statements of earnings and comprehensive income. This assessment requires significant judgment to evaluate indicators of control within our contracts. We base our judgment on various indicators that include whether we take possession of the products, whether we are responsible for their acceptability, whether we have inventory risk, and whether we have discretion in establishing the price paid by the customer. The majority of our revenue is recorded on a gross basis with the exception of certain gas, energy and chemical management service contracts that are recorded on a net basis.

With respect to variable consideration, we apply judgment in estimating its impact to determine the amount of revenue to recognize. Sales rebates and profit-sharing arrangements are accounted for as a reduction to gross sales and recorded based upon estimates at the time products are sold. These estimates are based upon historical experience for similar programs and products. We review such rebates and profit-sharing arrangements on an ongoing basis and accruals are adjusted, if necessary, as additional information becomes available. We provide allowances for credits and returns based on historic experience and adjust such allowances as considered necessary. To date such provisions have been within the range of our expectations and the allowances established. Returns and refunds are allowed only for materials that are defective or not compliant with the customer’s order. Sales tax collected from customers is excluded from net sales in the consolidated statements of comprehensive income.

We have determined that sales backlog is not a relevant measure of our business. Few, if any, of our contracts include minimum purchase requirements, annually or over the term of the agreement. As a result, we have no material sales backlog.

Table of Contents

Results of Operations

Consolidated Results of Operations	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(dollars in thousands)			
Net sales	$426,474	$390,183	$821,785	$753,274
Gross profit	$108,747	$105,735	$207,089	$200,159
Selling, general & administrative expenses	78,908	72,539	155,171	142,391
Income from operations	29,839	33,196	51,918	57,768
Interest expense, net	(12,388)	(11,965)	(25,302)	(23,803)
Other (expense) income, net	(314)	(108)	(531)	152
Income before income taxes	17,137	21,123	26,085	34,117
Provision for income taxes	(5,127)	(6,123)	(7,782)	(19,491)
Net income	$12,010	$15,000	$18,303	$14,626

(as a percentage of net sales, numbers rounded)	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Gross profit	25.5 %	27.1 %	25.2 %	26.6 %
Selling, general & administrative expenses	18.5 %	18.6 %	18.9 %	18.9 %
Income from operations	7.0 %	8.5 %	6.3 %	7.7 %
Interest expense, net	(2.9)%	(3.1)%	(3.1)%	(3.2)%
Other (expense) income, net	(0.1)%	— %	(0.1)%	— %
Income before income taxes	4.0 %	5.4 %	3.1 %	4.5 %
Provision for income taxes	(1.2)%	(1.6)%	(0.9)%	(2.6)%
Net income	2.8 %	3.8 %	2.2 %	1.9 %

Three Months Ended March 31, 2019 compared with Three Months Ended March 31, 2018

Net Sales

Consolidated net sales increased $36.3 million, or 9.3% to $426.5 million for the three months ended March 31, 2019 compared to $390.2 million for the same period in the prior year. The $36.3 million increase reflects higher sales across all major product categories including chemicals, Ad hoc hardware and Contract hardware. The net sales increase was the result overall of continued market growth and additional market penetration, reflecting the company’s strong position with major customers. Ad hoc and Contract sales as a percentage of net sales represented 26% and 74%, respectively, for the three months ended March 31, 2019 as compared to 25% and 75%, respectively, for the same period in the prior year.

Income from Operations

Consolidated income from operations declined $3.4 million to $29.8 million for the three months ended March 31, 2019 compared to $33.2 million for the same period in the prior year. The $3.4 million decline in income from operations was due to an increase in SG&A expenses of $6.4 million, partially offset by higher gross profit of $3.0 million. Income from operations as a percentage of net sales declined 1.5 percentage points compared with the same period in the prior year.

The higher gross profit was driven by increases in sales volume compared with the same period in the prior year. Average gross margins declined 1.6 percentage points, primarily reflecting weaker margins in the EMEA segment resulting from more aggressive pricing for hardware products, including for certain contract renewals, and the impact of weaker British Pound and Euro exchange rates for local currency denominated business. The gross margin decline also reflects the effect of

Table of Contents

lower margins for Ad hoc sales of hardware products in the Americas segment due to more aggressive pricing to gain revenue increases as well as changes in product mix.
The $6.4 million increase in SG&A expenses primarily reflects increases in personnel related costs of $6.9 million, with information technology related costs also higher by $0.4 million. These increases were partially offset by lower professional fees of $0.8 million. While higher personnel related costs primarily reflect investment to execute Wesco 2020 initiatives, the majority of these cost increases are the result of execution steps that are expected to have a defined end point. Key examples include duplicative staffing costs required during transition and consolidation of single product warehouses into multi-product service centers, severance expense and project performance incentives. The Wesco 2020 related costs, including professional fees for consulting support, totaled $9.4 million for the three months ended March 31, 2019, compared with $4.2 million for the same period in the prior year. The company estimates that the 2020 initiatives have captured approximately $2.0 million of savings for the quarter, which more than offset higher personnel related costs supporting revenue growth and related activities. SG&A as a percent of net sales declined 0.1 percentage point compared with the same period in the prior year, including the increased staffing, severance, performance incentives, and site related costs related to Wesco 2020 initiatives.

Interest Expense, Net

Interest expense, net was $12.4 million for the three months ended March 31, 2019 compared to $12.0 million for the same period in the prior year. The increase was primarily due to an increase in interest rates, partially offset by decreased average borrowing amount compared with the same period in the prior year.

Provision for Income Taxes

The income tax provision for the three months ended March 31, 2019 was $5.1 million, compared to $6.1 million for the same period in the prior year. For the three months ended March 31,2019, our effective tax rate increased 0.9 percentage points compared to the same period in the prior year. The difference in effective tax rates is primarily related to discrete adjustments recognized during the three months ended March 31, 2019. Without consideration of discrete adjustments, our effective tax rate would have been 29.4% for the three months ended March 31, 2018 and 29.0% for the three months ended March 31, 2019.

Net Income

Net income for the three months ended March 31, 2019 was $12.0 million, compared to a net income of $15.0 million for the same period in the prior year. This decrease in net income of $3.0 million was primarily driven by an increase in SG&A expense of $6.4 million and an increase in interest expense of $0.4 million, partially offset by an increase in gross profit of $3.0 million, as discussed above.

Six Months Ended March 31, 2019 compared with Six Months Ended March 31, 2018

Net Sales

Consolidated net sales increased $68.5 million, or 9.1% to $821.8 million for the six months ended March 31, 2019 compared to $753.3 million for the same period in the prior year. The $68.5 million increase reflects higher sales across all major product categories including chemicals, Ad hoc hardware and Contract hardware. The net sales increase was the result overall of continued market growth and additional market penetration, reflecting the company's strong position with major customers. Ad hoc and Contract sales as a percentage of net sales represented 25% and 75%, respectively, for the six months ended March 31, 2019 as compared to 24% and 76%, respectively, for the same period in the prior year.

Income from Operations

Consolidated income from operations declined $5.9 million to $51.9 million for the six months ended March 31, 2019 compared to $57.8 million for the same period in the prior year. The $5.9 million decline in income from operations was due to an increase in SG&A expenses of $12.8 million, partially offset by higher gross profit of $6.9 million. Income from operations as a percentage of net sales declined 1.4 percentage points compared with the same period in the prior year.

The higher gross profit was driven by increases in sales volume compared with the same period in the prior year. Average gross margins declined 1.4 percentage points, primarily reflecting weaker margins in the EMEA segment resulting from more aggressive pricing for hardware products, including for certain contract renewals, and the impact of weaker British Pound and Euro exchange rates for local currency denominated business. The gross margin decline also reflects lower margins

Table of Contents

on Ad hoc sales of hardware products in the Americas segment due to more aggressive pricing which supported the increase in sales, as well as product mix impacts. For chemical products, a gross margin decline resulted primarily from a higher volume of pass-through revenues.
The $12.8 million increase in SG&A expenses largely reflects increases in payroll and other personnel related costs of $10.8 million, professional fees of $1.4 million, marketing and travel expenses of $0.7 million, and stock-based compensation expense of $1.4 million. While higher personnel related costs primarily reflect investment to execute Wesco 2020 initiatives, the majority of these cost increases are the result of execution steps that have a defined end point. Key examples include duplicative staffing costs required during transition and consolidation of single product warehouses into multi-product service centers, severance expense and project performance incentives. The Wesco 2020 related costs, including professional fees for consulting support, totaled $17.8 million for the six months ended March 31, 2019, compared with $5.8 million for the same period in the prior year. The company estimates that the 2020 initiatives have captured approximately $3.0 million of savings for the six months of this year, which more than offset higher personnel related costs supporting revenue growth and related activities. SG&A as a percent of net sales was 18.9 percent for six months ended March 31, 2019 and 2018, including the increase in expense in the current year due to increased staffing, severance, performance incentives, and site related costs required for the execution of Wesco 2020 initiatives.

Interest Expense, Net

Interest expense, net was $25.3 million for the six months ended March 31, 2019 compared to $23.8 million for the same period in the prior year. The increase was primarily due to an increase in interest rates, partially offset by decreased average borrowing amount compared with the same period in the prior year.

Provision for Income Taxes

The income tax provision for the six months ended March 31, 2019 was $7.8 million, compared to $19.5 million for the same period in the prior year. For the six months ended March 31, 2019, our effective tax rate decreased 27.3 percentage points compared to the same period in the prior year. The difference in effective tax rates is primarily related to discrete adjustments recognized during the three months ended December 31, 2017 from the one-time tax imposed on accumulated earnings and profits of foreign operations as a result the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017. Without consideration of discrete adjustments, our effective tax rate would have been 29.1% for the six months ended March 31, 2018 and 29.0% for the six months ended March 31, 2019.

Net Income

Net income for the six months ended March 31, 2019 was $18.3 million, compared to a net income of $14.6 million for the same period in the prior year. This increase in net income of $3.7 million was primarily driven by an increase of $6.9 million in gross profit and a decrease of $11.7 million in the provision for income taxes, partially offset by an increase in SG&A expense of $12.8 million, an increase in interest expense of $1.5 million and an increase of other expense of $0.7 million, as discussed above.

Americas Segment

Americas Results of Operations	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(dollars in thousands)			
Net sales	$347,301	$313,250	$668,426	$602,765
Gross profit	$91,375	$84,351	$172,942	$159,331

Selling, general & administrative expenses	55,982	48,660	108,558	98,443
Income from operations	$35,393	$35,691	$64,384	$60,888

27

Table of Contents

	(as a percentage of net sales, numbers rounded)			
Gross profit	26.3%	26.9%	25.9%	26.4%
Selling, general & administrative expenses	16.1%	15.5%	16.2%	16.3%
Income from operations	10.2%	11.4%	9.7 %	10.1%

Three Months Ended March 31, 2019 compared with Three Months Ended March 31, 2018

Net Sales

Net sales for our Americas segment increased $34.1 million, or 10.9%, to $347.3 million for the three months ended March 31, 2019, compared to $313.3 million for the same period in the prior year. The $34.1 million increase in net sales for the three months ended March 31, 2019 reflects growth across all product groups including chemicals, Ad hoc hardware and Contract hardware sales.

Income from Operations

Income from operations decreased $0.3 million to $35.4 million for the three months ended March 31, 2019, compared to income from operations of $35.7 million for the same period in the prior year. The $0.3 million decrease in income from operations resulted from an increase in SG&A expenses of $7.3 million, largely offset by higher gross profit of $7.0 million. Income from operations as a percentage of net sales decreased 1.2 percentage points, compared with the same period in the prior year.

The $7.0 million increase in gross profit was primarily driven by sales increases compared with the same period in the prior year. Average gross margins declined 0.6 percentage points, due primarily to a change in overall sales mix and lower margins on ad hoc sales. The gross margin decline also reflects the effect of more aggressive pricing of Ad hoc sales of hardware products in the Americas segment. For chemical products, a gross margin decline resulted primarily from a higher volume of pass-through revenues.

The $7.3 million increase in SG&A expenses primarily reflects increases in payroll and other personnel related costs of $6.0 million, professional fees of $0.7 million, information technology related costs of $0.4 million, and marketing and travel expenses of $0.2 million. While higher personnel related costs primarily reflect investment to execute Wesco 2020 initiatives, the majority of these cost increases are the result of execution steps that have a defined end point. Key examples include duplicative staffing costs required during transition and consolidation of single product warehouses into multi-product service centers, severance expense and project performance incentives. The Wesco 2020 related costs totaled $5.4 million for the three months ended March 31, 2019. The company estimates that the 2020 initiatives have captured approximately $1.0 million of savings for the quarter, which substantially offset higher personnel related costs supporting revenue growth and related activities. SG&A as a percent of net sales increased 0.6 percentage points, including the increase in expense that was due to increased staffing, severance, performance incentives, and site related costs required for the execution of Wesco 2020 initiatives.

Six Months Ended March 31, 2019 compared with Six Months Ended March 31, 2018

Net Sales

Net sales for our Americas segment increased $65.7 million, or 10.9%, to $668.4 million for the six months ended March 31, 2019, compared to $602.8 million for the same period in the prior year. The $65.7 million increase in net sales for the six months ended March 31, 2019 reflects growth across all product groups including chemicals, Ad hoc

hardware and Contract hardware sales.

Income from Operations

Income from operations increased $3.5 million to $64.4 million for the six months ended March 31, 2019, compared to income from operations of $60.9 million for the same period in the prior year. The $3.5 million increase in income from operations resulted from higher gross profit of $13.6 million, offset partially by an increase in SG&A expenses of $10.1

Table of Contents

million. Income from operations as a percentage of net sales decreased 0.4 percentage points, compared with the same period in the prior year.

The $13.6 million increase in gross profit was primarily driven by sales increases compared with the same period in the prior year. Average gross margins declined 0.5 percentage points, due primarily to a change in overall sales mix, lower margins on ad hoc sales, offset partially by higher hardware Contract margins compared with the same period in the prior year. The gross margin decline also reflects the effect of more aggressive pricing on Ad hoc sales of hardware products in the Americas segment which supported the increase in sales. For chemical products, a gross margin decline resulted primarily from a higher volume of pass-through revenues.

The $10.1 million increase in SG&A expenses primarily reflects increases in payroll and other personnel related costs of $9.1 million, professional fees of $0.5 million, information technology related costs of $0.7 million, and travel expenses of $0.3 million, partially offset by a $0.4 million decline in depreciation. While higher personnel related costs primarily reflect investment to execute Wesco 2020 initiatives, the majority of these cost increases are the result of execution steps that have a defined end point. Key examples include duplicative staffing costs required during transition and consolidation of single product warehouses into multi-product service centers, severance expense and project performance incentives. The Wesco 2020 related costs totaled $7.9 million for the six months ended March 31, 2019. The company estimates that the 2020 initiatives have captured approximately $2.0 million of savings for the year to date, which substantially offset higher personnel related costs supporting revenue growth and related activities. SG&A as a percent of net sales declined 0.1 percentage point, including the increase in expense that was due to increased staffing, severance, performance incentives, and site related costs required for the execution of Wesco 2020 initiatives.

EMEA Segment

	Three Months Ended March 31,		Six Months Ended March 31,	
EMEA Results of Operations	2019	2018	2019	2018
	(dollars in thousands)			
Net sales	$66,300	$68,147	$128,038	$132,385
Gross profit	$14,121	$19,140	$27,806	$35,783
Selling, general & administrative expenses	12,343	12,310	23,532	23,801
Income from operations	$1,778	$6,830	$4,274	$11,982
	(as a percentage of net sales, numbers rounded)			
Gross profit	21.3%	28.1%	21.7%	27.0%
Selling, general & administrative expenses	18.6%	18.1%	18.4%	17.9%
Income from operations	2.7 %	10.0%	3.3 %	9.1 %

Three Months Ended March 31, 2019 compared with Three Months Ended March 31, 2018

Net Sales

Net sales for our EMEA segment declined $1.8 million, or 2.7%, to $66.3 million for the three months ended March 31, 2019, compared to $68.1 million for the same period in the prior year. The lower net sales for the three months ended March 31, 2019, reflects primarily a decline in chemical product sales, and to a lesser degree, ad hoc product sales, partially offset by higher hardware Contract sales compared with the same period in the prior year.

29

Table of Contents

Income from Operations

Income from operations declined $5.1 million, or 74.0%, to $1.8 million for the three months ended March 31, 2019, compared to $6.8 million for the same period in the prior year. The $5.1 million decline in income from operations was comprised primarily of a decline in gross profit of $5.0 million. Income from operations as a percentage of net sales was 2.7% for the three months ended March 31, 2019, compared to 10.0% for the same period in the prior year, a decline of 7.3 percentage points.

The $5.0 million decline in gross profit was partially driven by lower chemical product sales and ad hoc sales compared with the same period in the prior year. Average gross margins declined 6.8 percentage points primarily reflecting more aggressive pricing for hardware products, including for certain contract renewals, and the impact of weaker Euro and British Pound exchange rates for local currency denominated business. As well, the higher concentration of electronic products within ad hoc sales lowered gross margin, while for chemical products, the gross margin decline resulted primarily from a higher volume of pass-through revenues. Supply costs were also higher for certain chemicals contracts.

SG&A expenses were $12.3 million for both the three months ended March 31, 2019 and 2018. SG&A as a percent of net sales increased 0.5 percentage points.

Six Months Ended March 31, 2019 compared with Six Months Ended March 31, 2018

Net Sales

Net sales for our EMEA segment declined $4.3 million, or 3.3%, to $128.0 million for the six months ended March 31, 2019, compared to $132.4 million for the same period in the prior year. The lower net sales for the six months ended March 31, 2019, reflects primarily a decline in ad hoc sales and chemical product sales compared with the same period in the prior year.

Income from Operations

Income from operations declined $7.7 million, or 64.3%, to $4.3 million for the six months ended March 31, 2019, compared to $12.0 million for the same period in the prior year. The $7.7 million decline in income from operations was comprised of a decline in gross profit of $8.0 million, slightly offset by a decrease in SG&A expenses of $0.3 million. Income from operations as a percentage of net sales was 3.3% for the six months ended March 31, 2019, compared to 9.1% for the same period in the prior year, a decline of 5.8 percentage points.

The $8.0 million decline in gross profit was primarily driven by lower ad hoc and chemical product sales as well as gross margin decline on ad hoc, chemical product and hardware Contract sales compared with the same period in the prior year. Average gross margins declined 5.3 percentage points primarily reflecting more aggressive pricing for hardware products, including for certain contract renewals, and the impact of weaker Euro and British Pound exchange rates for local currency denominated business. As well, the higher concentration of electronic products within ad hoc sales lowered gross margin, while for chemical products, the gross margin decline resulted primarily from a higher volume of pass-through revenues. Supply costs were also higher for certain chemicals contracts.

The $0.3 million decrease in SG&A expenses primarily reflects decreases in payroll and other personnel related costs of $0.5 million and other miscellaneous expense of $0.1 million, partially offset by increased professional fees $0.3 million. SG&A as a percent of net sales increased 0.5 percentage points.

30

Table of Contents

APAC Segment

APAC Results of Operations	Three Months Ended March 31, 2019	2018	Six Months Ended March 31, 2019	2018
	(dollars in thousands)		(dollars in thousands)	
Net sales	$ 12,873	$ 8,786	$ 25,321	$ 18,124
Gross profit	$ 3,251	$ 2,244	$ 6,341	$ 5,045
Selling, general & administrative expenses	2,095	1,467	4,111	2,770
Income from operations	$ 1,156	$ 777	$ 2,230	$ 2,275
	(as a percentage of net sales, numbers rounded)			
Gross profit	25.3%	25.5%	25.0%	27.8%
Selling, general & administrative expenses	16.3%	16.7%	16.2%	15.2%
Income from operations	9.0 %	8.8 %	8.8 %	12.6%

Three Months Ended March 31, 2019 compared with Three Months Ended March 31, 2018

Net Sales

Net sales for our APAC segment increased $4.1 million, or 46.5%, to $12.9 million for the three months ended March 31, 2019, compared to $8.8 million for the same period in the prior year. The $4.1 million increase in net sales for the three months ended March 31, 2019 primarily reflects increases in Contract sales of hardware products, chemical product sales and ad hoc sales compared with the same period in the prior year.

Income from Operations

Income from operations increased $0.4 million to $1.2 million for the three months ended March 31, 2019, compared to income from operations of $0.8 million for the same period in the prior year. The $0.4 million increase in income from operations is due primarily to an increase in gross profit of $1.0 million, partially offset by an increase in SG&A expenses of $0.6 million. Income from operations as a percentage of net sales increased 0.2 percentage points compared with the same period in the prior year.

The $1.0 million increase in gross profit was primarily driven by increases in hardware Contract sales, chemical product sales and ad hoc sales compared with the same period in the prior year. Average gross margins declined 0.2 percentage points due primarily to a weaker sales mix and lower margins for ad hoc sales and chemical product sales, partially offset by hardware Contract sales compared with the same period in the prior year.

The $0.6 million increase in SG&A expenses was due primarily to increases in payroll and other personnel related costs of $0.5 million and rent expenses of $0.1 million, reflecting investments made to grow the business in this area of the world. SG&A as a percent of net sales decreased 0.4 percentage points.

Six Months Ended March 31, 2019 compared with Six Months Ended March 31, 2018

Net Sales

Net sales for our APAC segment increased $7.2 million, or 39.7%, to $25.3 million for the six months ended March 31, 2019, compared to $18.1 million for the same period in the prior year. The $7.2 million increase in net sales for

the six months ended March 31, 2019 primarily reflects increases in chemical product sales and ad hoc sales compared with the same period in the prior year.

Table of Contents

Income from Operations

Income from operations declined $0.1 million to $2.2 million for the six months ended March 31, 2019, compared to income from operations of $2.3 million for the same period in the prior year. The $0.1 million decline in income from operations is due to an increase in SG&A expenses of $1.3 million, partially offset by an increase in gross profit of $1.2 million. Income from operations as a percentage of net sales declined 3.8 percentage points compared with the same period in the prior year.

The $1.2 million increase in gross profit was primarily driven by increases in Contract sales of hardware products, chemical product sales and ad hoc sales compared with the same period in the prior year. Average gross margins declined 2.8 percentage points due primarily to a weaker sales mix and lower margins for ad hoc sales, partially offset by higher margins for chemical product sales compared with the same period in the prior year.

The $1.3 million increase in SG&A expenses was due primarily to increases in payroll and other personnel related costs of $1.0 million, marketing and travel expenses of $0.1 million, and other miscellaneous expenses of $0.2 million, reflecting investment being made to grow the business in this area of the world. SG&A as a percent of net sales increased 1.0 percentage point.

Unallocated Corporate Costs

	Selling, General and Administrative Expenses (dollars in thousands)				
Three Months Ended March 31, 2019	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
2019	$55,982	$12,343	$2,095	$ 8,488	$ 78,908
2018	48,660	12,310	1,467	10,102	72,539

Six Months Ended March 31,	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
	(dollars in thousands)				
2019	$108,558	$23,532	$4,111	$ 18,970	$ 155,171
2018	98,443	23,801	2,770	17,377	142,391

SG&A expenses for the Americas, EMEA and APAC segments are discussed previously. The following is a discussion on SG&A expenses not allocated to the three segments. Unallocated corporate costs include costs for corporate headquarters, along with our Wesco 2020 initiatives.

Three Months Ended March 31, 2019 compared with Three Months Ended March 31, 2018

Unallocated corporate costs were $1.6 million lower than the same period in the prior year, primarily driven by a decrease in professional fees of $1.9 million, mainly reflecting costs for outside consultants assisting with the Company's Wesco 2020 initiatives. The decreases were offset by an increase in the unallocated stock-based compensation expense of $0.3 million. Unallocated costs included $3.2 million of Wesco 2020 costs in the three months ended March 31, 2019 compared to $4.2 million for the same period in the prior year.

Six Months Ended March 31, 2019 compared with Six Months Ended March 31, 2018

Unallocated corporate costs were $1.6 million higher than the same period in the prior year, primarily driven by increases in professional fees of $0.6 million, mainly reflecting costs for outside consultants assisting with the Company's Wesco 2020 initiatives and stock-based compensation expense of $1.4 million. Those increases were partially offset by a decrease in the unallocated payroll and other personnel related costs of $0.3 million. Unallocated costs included $8.7 million of Wesco 2020 costs in the six months ended March 31, 2019 compared to $5.8 million for the same period in the prior year.

Liquidity and Capital Resources

Overview

32

Table of Contents

Our primary sources of liquidity are cash flow from operations and available borrowings under our revolving facility. We have historically funded our operations, debt payments, capital expenditures and discretionary funding needs from our cash from operations. We had total available cash and cash equivalents of $32.7 million and $46.2 million as of March 31, 2019 and September 30, 2018, respectively, of which $24.6 million, or 75.2%, and $21.3 million, or 46.1%, was held by our foreign subsidiaries as of March 31, 2019 and September 30, 2018, respectively. All of our cash and cash equivalents as of March 31, 2019 and September 30, 2018 were non-restricted. All of our foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies.

Our primary uses of cash currently are for:

- Operating expenses;
- Working capital requirements to fund the growth of our business, principally inventory;
- Capital expenditures that primarily relate to IT equipment, software development and implementation and our warehouse operations; and
- Debt service requirements, including interest expense, for borrowings under the Credit Facilities (as defined below under "—Credit Facilities").

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows, including for investment in working capital to fund growth in operations, it is necessary from time to time to borrow under our revolving facility to meet cash demands. Provided we are in compliance with applicable covenants, we can borrow up to $180.0 million on our revolving credit facility of which $113.0 million was available as of March 31, 2019. We anticipate that cash provided by operating activities, cash and cash equivalents and borrowing capacity under our revolving facility will be sufficient to meet our cash requirements for the next twelve months. For additional information about our revolving facility, see "—Credit Facilities" below. As of March 31, 2019, we did not have any material capital expenditure commitments.

Cash Flows

Our cash and cash equivalents declined by $13.5 million during the six months ended March 31, 2019. The decrease was primarily due to cash used in investing and operating activities, offset partially by cash provided by financing activities.

A summary of our operating, investing and financing activities are shown in the following table (in thousands):

	Six Months Ended March 31,	
Consolidated statements of cash flows data:	2019	2018
Net income	$18,303	$14,626
Adjustments to reconcile net income to net cash used in operating activities	24,837	27,427
Subtotal	43,140	42,053
Changes in assets and liabilities	(49,541)	(77,962)
Net cash used in operating activities	(6,401)	(35,909)
Net cash used in investing activities	(7,996)	(2,909)
Net cash provided by financing activities	1,140	12,688
Effect of foreign currency exchange rate on cash and cash equivalents	(239)	428

Net decrease in cash and cash equivalents	$(13,496)	$(25,702)

Operating Activities

Our cash flows from operating activities fluctuate based on the level of profitability during the period as well as the timing of investments in inventory, collections of cash from our customers, payments of cash to our suppliers, and the timing of cash payments or receipts associated with other working capital accounts such as changes in our prepaid expenses and accrued liabilities or the timing of our tax payments.

Table of Contents

Our operating activities used $6.4 million of cash in the six months ended March 31, 2019, $29.5 million lower than the $35.9 million of cash used in operating activities for the same period in the prior year. The $29.5 million decrease in net cash used in operating activities reflects a $1.1 million increase in cash provided from net income excluding non-cash items and a series of year-over-year differences in balance sheet changes reducing cash used for operations by $28.4 million. Comparing the six months ended March 31, 2019 with the six months ended March 31, 2018, the key balance sheet changes include:

- a favorable change of $57.8 million less cash used for inventory,
- a $3.2 million unfavorable impact on operating cash flow due to higher accounts receivable largely driven by the timing of collections along with increased sales,
- a $9.4 million unfavorable impact on operating cash flow due to a change in accrued expenses and other liabilities as a result of the timing of accruals and actual payments,
- a net $2.8 million unfavorable change in combined income taxes payable and receivable,
- a $9.9 million unfavorable difference in the change for accounts payable due to the timing of payments and accruals, and
- a $4.1 million unfavorable difference in the change for remaining working capital assets and liabilities.

Investing Activities

Our investing activities used $8.0 million of cash during the six months ended March 31, 2019 as compared to $2.9 million used during the six months ended March 31, 2018. Investing activities consist primarily of software development and implementation and the purchase of property and equipment related to Wesco 2020 initiatives.

Financing Activities

Our financing activities were a net source of $1.1 million of cash during the six months ended March 31, 2019, which consisted primarily of $47.0 million of short-term borrowings, partially offset by $34.0 million and $10.0 million for repayments of our borrowings under our revolving facility and long-term debt, respectively, $1.4 million for repayments of our capital lease obligations and a $0.4 million payment as settlement on restricted stock tax withholding (see Note 6 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q).

Our financing activities were a net source of $12.7 million of cash during the six months ended March 31, 2018, which consisted primarily of $60.0 million of short-term borrowings, partially offset by $34.0 million and $10.0 million for repayments of our borrowings under our revolving facility and long-term debt, respectively, $1.3 million for repayments of our capital lease obligations and a $1.9 million payment for debt issuance costs.

Credit Facilities

The credit agreement, dated as of December 7, 2012 (as amended, the Credit Agreement), by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto, which governs our senior secured credit facilities, provides for (1) a $400.0 million senior secured term loan A facility (the term loan A facility), (2) a $180.0 million revolving facility (the revolving facility) and (3) a $525.0 million senior secured term loan B facility (the term loan B facility). We refer to the term loan A facility, the revolving facility and the term loan B facility, together, as the “Credit Facilities.” See Note 6 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for a summary of the Credit Facilities and the Credit Agreement.

As of March 31, 2019, our outstanding indebtedness under our Credit Facilities was $857.6 million, which consisted of (1) $350.0 million of indebtedness under the term loan A facility, (2) $67.0 million of indebtedness under the

revolving facility, and (3) $440.6 million of indebtedness under the term loan B facility. As of March 31, 2019, $113.0 million was available for borrowing under the revolving facility to fund our operating and investing activities without breaching any covenants contained in the Credit Agreement.

As disclosed in Note 6 of the Notes to the Consolidated Financial Statements in Part 1, Item 1. of this Quarterly Report on Form 10-Q, our borrowings under the Credit Facilities are subject to a financial covenant based upon our Consolidated Total Leverage Ratio, with the maximum ratio set at 5.50 for the quarter ended March 31, 2019. In addition, the Excess Cash Flow Percentage (as such term is defined in the Credit Agreement) is currently set at 75%, provided that the Excess Cash Flow Percentage shall be reduced to (1) 50%, if the Consolidated Total Leverage Ratio is less than 4.00 but greater than or equal to 3.00, (2) 25%, if the Consolidated Total Leverage Ratio is less than 3.00 but greater than or equal to 2.50, and (3) 0%, if the Consolidated Total Leverage Ratio is less than 2.50. The calculation is determined annually, and for fiscal year 2018, no excess cash flow payment was required.

Table of Contents

The Credit Agreement also contains customary negative covenants, including restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. As of March 31, 2019, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was 4.27.

A breach of the Consolidated Total Leverage Ratio covenant or any of other covenants contained in the Credit Agreement could result in an event of default in which case the lenders may elect to declare all outstanding amounts to be immediately due and payable. If the debt under the Credit Facilities were to be accelerated, our available cash would not be sufficient to repay our debt in full.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for a summary of recent accounting pronouncements.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements (including within the meaning of the Private Securities Litigation Reform Act of 1995) concerning Wesco and other matters. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of management, as well as assumptions made by, and information currently available to, management. Forward-looking statements may be accompanied by words such as "achieve," "aim," "anticipate," "believe," "can," "continue," "could," "drive," "estimate," "expect," "forecast," "future," "grow," "improve," "in "outlook," "plan," "possible," "potential," "predict," "project," "should," "target," "will," "would" or similar words, phrases or These forward-looking statements are subject to various risks and uncertainties, many of which are outside our control. Therefore, you should not place undue reliance on such statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: general economic and industry conditions; conditions in the credit markets; changes in military spending; risks unique to suppliers of equipment and services to the U.S. government; risks associated with the loss of significant customers, a material reduction in purchase orders by significant customers or the delay, scaling back or elimination of significant programs on which we rely; our ability to effectively compete in our industry; risks associated with our long-term, fixed-price agreements that have no guarantee of future sales volumes; our ability to effectively manage our inventory; our suppliers' ability to provide us with the products we sell in a timely manner, in adequate quantities and/or at a reasonable cost, while also meeting our customers' quality standards; our ability to maintain effective information technology systems and effectively implement our new warehouse management system; our ability to successfully execute and realize the expected financial benefits from our "Wesco 2020" initiative; our ability to retain key personnel; risks associated with our international operations, including exposure to foreign currency movements; changes in trade policies; risks associated with assumptions we make in connection with our critical accounting estimates (including goodwill, excess and obsolete inventory and valuation allowance of our deferred tax assets) and legal proceedings; changes in U.S. income tax law; our dependence on third-party package delivery companies; fuel price risks; fluctuations in our financial results from period-to-period; environmental risks;

risks related to the handling, transportation and storage of chemical products; risks related to the aerospace industry and the regulation thereof; risks related to our indebtedness; and other risks and uncertainties.

The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect our business, including those described under Part I, Item 1A. “Risk Factors” in the 2018 Form 10-K and the other documents we file from time to time with the SEC, including this Quarterly Report on Form 10-Q. All forward-looking statements included in this Quarterly Report on Form 10-Q (including information included or incorporated by reference herein) are based upon information available to us as of the date hereof, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Table of Contents

For a description of our exposure to market risks, see Part II, Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in the 2018 Form 10-K. There have been no material changes to our market risks since September 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal matters that arise in the ordinary course of our business. We believe that the ultimate outcome of such matters will not have a material adverse effect on our business financial condition or results of operations. However, there can be no assurance that such actions will not be material or adversely affect our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Part I, Item 1A. “Risk Factors” of the 2018 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description
10.1	Amendment to the Wesco Aircraft Holdings, Inc. 2014 Incentive Award Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement dated December 14, 2018 (File No. 001-35253))
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

Date: May 2, 2019 WESCO AIRCRAFT HOLDINGS, INC.

By: /s/ Todd S. Renehan
Name: Todd S. Renehan
Title: Chief Executive Officer

Date: May 2, 2019 By: /s/ Kerry A. Shiba
Name: Kerry A. Shiba
Title: Executive Vice President and Chief Financial Officer