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CORPORATE PARTICIPANTS

Andrew J. Bergdoll *WESCO Distribution, Inc. - VP of Operations*

David S. Schulz *WESCO International, Inc. - CFO and SVP*

Hemant Porwal

John J. Engel *WESCO International, Inc. - Chairman, CEO and President*

Kevin Kerby

Les Kebler

Mary Ann Bell *WESCO International, Inc. - VP of IR*

Nelson Squires

CONFERENCE CALL PARTICIPANTS

Andrew Edward Buscaglia *Crédit Suisse AG, Research Division - Senior Analyst*

David John Manthey *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst*

Hamzah Mazari *Macquarie Research - Senior Analyst*

Josh Pokrzywinski

Robert D. Barry *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

PRESENTATION

Mary Ann Bell - *WESCO International, Inc. - VP of IR*

Okay, why don't we get started? Good afternoon, everybody, and welcome to the 2017 WESCO International Investor Day. I know some of you, my name is Mary Ann Bell, and I'm the Vice President of Investor Relations. And on behalf of the entire WESCO management team, I want to thank you for joining us today, whether you're here with us in person or whether you're listening via the webcast. Either way, we appreciate your investment of time as well as your interest in WESCO.

Before we get started with the program, I wanted to go through a couple of housekeeping items for those of us here in the room. First of all, if you haven't already done so, please put your mobile devices on mute. We do have wireless Internet service in the room and there's little cards with information on the tables in front of you on how to access it. And most importantly, we ask that you hold your questions until the Q&A segment at the end of the program. And then after Q&A, please join WESCO management and myself at a cocktail reception in the room behind us. We really hope you stay, and we get a chance to talk further.

So now getting into the presentation, turning to the second page. Here is the required safe harbor statement pertaining to the presentation and the discussions today. Many of the statements that we'll make are forward-looking and involve risks and uncertainties and actual results may differ materially from these forward-looking statements.

So with that, it's my pleasure to introduce our President, Chairman, CEO, John Engel.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Thank you, Mary Ann. Well, good afternoon, everyone. It's great to have you all here spending time with us today, and welcome to our 2017 Investor Day. Again, thanks for spending time with us. I trust that it will be a very informative afternoon, and we're looking forward to sharing the WESCO story with you, which we think is very compelling.

In addition to the presenters, I'm joined with a few of our directors from the WESCO board. I'm going to introduce them by name. I ask them to please stand. Jamie Singleton, our Lead Director; and Bobby Griffin, also on our board; and our newest addition to the board, Matt Espe will be joining us for cocktails later.

In addition to the presenters who you'll get to know much better as we go through the afternoon, we also have several members of our management team. So I'd ask them to stand as I call your name, Diane Lazzaris, she's our General Counsel; Kim Windrow, she is our leader of HR; Scott Leichtling, he runs our Integrated Supply business; Dale Kendall, runs e-commerce for us, he's been onboard for a few years, I introduced him a few years ago; Brian Begg, our Treasurer; Tony Matteo, he leads Finance for the U.S., he's Andy's business partner for Finance leadership; and then Cindy Yuan, she's Nelson's business finance partner for Canada, she leads Finance for Canada.

So let's get started. We're a company that has performed very well over the long term. That is across the multiple economic cycles since we went public 18 years ago in 1999. So far, 2017 is currently on track. Our first quarter results met expectations. And today, we're reaffirming both our second quarter and our full year financial outlooks. Going forward, we think we have excellent value creation potential and believe that it's a great time to invest in WESCO, and we'll bring that to life for you today.

Here's a copy of our agenda. I'm going to start out with a WESCO overview and then set the framework for our session this afternoon. We'll then move into a deeper dive into the businesses. And there's 2 things that we're going to highlight: first, our supply chain solution offerings; and also, the value-added services differentiation of our business models, plural, business models. So we've got a substantial amount of new material today that builds off of what we previewed at EPG just a few weeks ago. I trust that you'll find it very informative. For those of you that know WESCO well, I think it will be very insightful for you. And it does respond to some of the questions you had around our mix and our business models, competitive moats around our business. For those of you who don't know WESCO well, I trust you'll find it very instructive.

So that's our -- 2 of the things we're going to get across to you when we have the various presentations on our businesses and end markets. We'll start with Andy, who'll give a quick overview of the U.S., and then he's going to take 2 of the end market segments from a corporate level down and go through both Utility and Commercial, Institutional and Governmental market, we use the acronym CIG. He will hand it to Kevin Kerby. Kevin leads our Global Accounts organization, and Kevin will take you through the Industrial end market. He will be followed by Les Kebler. He will take you through Construction. Les runs our international business as well as our capital project Center of Excellence based out of Houston, and he'll bring Construction to life for you. We're planning a break at that point. Nelson will pick it up after the break. Nelson leads our Canadian business. He will take you through Canada end-to-end. And then Hemant will -- is batting a cleanup and will take you through Supply Chain and Operations and focus on our operations and supply chain initiatives and specifically our focus on margin improvement, margin expansion. And then Dave will wrap it up with financials. We'll then go to Q&A, as Mary Ann said, and have a nice robust Q&A session followed by a cocktail reception. Again, I hope you all can stay. We're planning on staying, and we'll spend as much time as you like this evening, and cocktails are going to be right down the hall on this floor.

So let's get started. Rich organizational history. Deep roots in electrical. Founded in 1922 as the captive distribution arm of Westinghouse. Became a separate company in 1994 when we LBO'd out of Westinghouse. IPO in 1999. We've grown and diversified over the years through both organic growth and acquisitions, over 40 acquisitions since we spun out in 1994, to become one of the world's largest distributors of electrical, industrial and communications products and services.

With our extensive portfolio, our technical expertise and a relationship with leading suppliers, we're not just a distributor, we're a supply chain management and solutions company. So we bring to the market and bring to our customer a world-class set of brands and products, and we wrap those in our industry-leading service capabilities.

This is how we go-to-market and it also represents an interesting look at our business through a different lens. And we've talked about this for years. The fact that we serve 3 distinct demand streams: capital projects, OEM and MRO. So we've talked about that. And here, we've broken out the mix of our business, and we unveiled these, for the first time, just recently at EPG.

So let me take you through each of these and give you a little bit of insight of the composition. Capital projects is roughly half of our business, typically longer cycle. And so included in that is both new construction and retrofit renovation and upgrades. MRO is a little over 1/3 of our business and that's the indirect materials and services that we provide to Industrial, Utility and CIG customers, primarily a wide range of business models that includes Global Accounts and Integrated Supply at the high end. And that's -- we've classically enjoyed high -- very high contract renewal rates and the contract structures are typically multi-year in nature, and Kevin will take you through that in a little more detail. Our OEM business is roughly 10% of our sales and this is direct materials, kits, value-added assemblies that we provide. We participate in our customers' prototype, design qualification and production processes. So they're, in essence, outsourcing a piece of their business to us. And we'll talk a bit more about that later.

We've got 75,000 customers that we serve across these demand streams, and you can imagine just a wide range of needs and businesses and business models. So it's just a wide array of needs across our very diverse customer base. We serve and service and support those customers with a broad range of business models, as shown on the bottom right.

It's important to understand, as it starts with standard branch-based distribution, but we provide technical support in the form of engineering and design support, field support, jobsite trailers, all the way up to multisite customer, global accounts engagement models as well as turnkey integrated supply.

This is our value proposition. And on the left are our competitive differentiators. And it's important to spend a little bit of time on those and then we'll bring these to life today. And you'll see these woven through the presentation this afternoon. First, broad product portfolio. Second, technical expertise and a wide range of service offerings. Blue-chip customer base, blue-chip supplier base, strong global footprint and a culture, an underlying culture, of customer service excellence, cost control and lean continuous improvement. We combine these with our deep knowledge, I'll use the term domain knowledge, of our customers' operations. So we combine these differentiators with that knowledge to provide our customers the solutions they need to keep their operations running, their projects being executed efficiently and effectively. And we're all -- all this is focused on and results in longer-term customer relationships by delivering better outcomes for our customers' businesses, as outlined on the bottom right of this chart. So these are, from a customer's lens, this is what we provide to our customers. And it's important to understand that when you think about our business, our value proposition and our distinctive advantages.

Let's talk a little bit about our industry. We're in the middle of a value chain. So we're distribution. We are between suppliers and customers, okay? We're a leader in a very large, fragmented, B2B distribution market. This market is going through a consolidation. And that bodes well for us. We play a vital role in the middle of this value chain. So we're providing value and fulfilling the needs, not just of our customers but of both our suppliers and our customers. Our suppliers need sales, marketing, delivery, service. They need demand creation for their products. Our customers need supply chain functionality fulfilled, right product -- right at the -- on time, at the right price. But also, they want to see their businesses improved. So we'll be bringing this to life as we go through today. I think it's really important to understand when we look at both ends of the value chain, we've got to deliver value on both ends of the value chain. We're in the middle of it. And we also provide an overall integrity to the supply chain. I think this is also very notable. The fact that we're a publicly traded company and all the requirements that are placed on us, the overwhelming majority of our competitors are private companies. And they number in the thousands. And so the way we run our business actually translates into higher supply chain integrity for our customers, particularly those Fortune 1000 customers when they're looking at certain requirements on how their supply chain is managed and fulfilled. And finally, I'd say the overall market trends are benefiting WESCO, and there's an overall trend of increased consolidation and outsourcing that's occurring across the value chain and it's really driven by our customers. So they're looking to do business with a smaller number of large players and that bodes very well for companies like WESCO.

So now a little deeper dive into some of our competitive differentiators. Let's first look at product portfolio, supplier relationship. I mentioned we had a blue-chip customer base, and we do, and we sell to a majority of the Fortune 500 companies as customers. We have a blue-chip supplier base as well. It is that blue-chip supplier base that forms the basis of an extensive portfolio of world-class brands and products that we then wrap our service capabilities around and that forms the basis of an advantage when we provide those solutions.

Let's shift now into services and do a little more drill down into the services aspect of our business. And we'll talk about our competitive differentiators, as I mentioned, throughout this afternoon. But specifically on services, I wanted to leave you with this point. We've taken our service capabilities, and we've bifurcated that into 4 categories of solutions, as outlined on this page. And in aggregate, it is our services that, together, we're able to meet a wide range of our customer business needs and requirements. We believe that the majority of our product sales result from the services that we're delivering to customers, that we're implementing in their operations. And this pie chart shows, to the extent, if you take our overall sales last year, to what degree are the sales impacted by these 4 categories of service-based solutions. Let's drill on those a little more.

We have 50 distinct service capabilities that we've grouped into these 4 categories. And at your feet, you'll see, in addition to the buyers or the presenters, you'll see a piece of marketing material that talks about the depth and breadth of our products as well as some of our service capabilities.

Let's start with supply chain solutions on the top left. This is all about simplifying our customers' supply chains and reducing their costs. So this includes procurement, leveraging our procurement and our scale, in terms of our ability to manage the value chain, vendor-managed inventory, business process, outsourcing at the high end.

On the top right is capital projects. Here's where we help our customers complete their projects on time, within budget and with reduced risk, be it technical cost or schedule risk. So think about this as managing and delivering against the famous triple constraint. For every project, it's scope, schedule, staffing, and we're focused on delivering against that.

Bottom left is technical expert solutions. Here's where we work with our customers to identify opportunities and then we define, procure and help implement solutions to improve their operational KPIs. So we're, in essence, engineering solutions for their application needs in this category.

And then finally, customer -- customized product solutions. This is where we provide the kits, the value-added assemblies and also process streamlining for our customers' operations. We're, in essence, freeing up capacity in their own operations, the customers' operations, their outsourcing, what's not core to us, as well as reducing their cost and their inventory. So these are the 4 categories of solutions services that we'll bring to life today. And you'll see on the customer examples that we take you through, we actually have built this into an icon, and we light up which category that particular customer relationship or when it's being serviced by, what model is being serviced. In many cases, you'll see it's multiple. So you'll see that carry through this afternoon's presentations.

Let's shift gears a little bit to our performance objectives and strategies. And these have been consistent over the years. First off, top line, growing above market, expanding margins and continuing to generate very strong and consistent free cash flow. Relative to the top line, we're focused on growth markets, leveraging our One WESCO growth and expansion initiative. We're differentiating through services and leveraging an expanding set of digital capabilities, which I'll touch on briefly in a moment. And continuing to make acquisitions, accretive acquisitions, to help increase our scope and scale in this fragmented industry. We believe scale matters in distribution. In terms of margins, doing a better job of managing our own supply chain. We've talked about this over the last 2 years. In particular, growing with our strategic suppliers, driving our pricing and sourcing initiatives, in conjunction with each other, optimizing that, and continuing to refine and optimize our distribution network. And Hemant will take you through this in great detail in terms of the progress we've made and the initiatives that are underway. As well as tightly managing our cost structure. We've had an industry-leading cost structure, historically. And we protected and defended and maintained that. And that's a source of advantage going forward.

And then finally, generating strong free cash flow. This has been a hallmark of WESCO, quite frankly. And a well-run distribution company should generate strong free cash flow through all phases of the economic cycle. That has been the case for us. And Dave will also talk about this in some detail. I do want to announce, and I'm very pleased to say that we did complete a share repurchase in the second quarter of $50 million. And that was focused on, essentially, addressing and eliminating the dilution that was associated with our management equity awards over the last 2 years. And Dave, as I said, will then -- will take you through kind of our capital allocation priorities going forward.

So those are our top performance objectives. I will talk about priorities for 2017 in a moment. So let's do a -- I'll quickly touch upon our digital capabilities. The way I'd ask you to think about this is, we have a standard set of offerings where we serve one of these Fortune 1000 companies. We have, to a large degree, some form of digital relationship. So we have standard offerings, which is classic, punch-out, EDI that forms the basis of many of these relationships with Global Account customers, Integrated Supply customers. And then on top of that, we have value-added offerings, and we spiked out a few here where we developed and have implemented and stood up custom websites and applications for specific customers. We have a mobile E-Stock application that plugs right into our system. And this is where we've implemented that in our customers' facilities, and we're running a piece of their supply chain. It starts with the stockroom, all the way up to second-tier fulfillment capabilities. So we've got an expanding set of digital offerings. The way I'd ask you to think about that is, we're essentially digitizing our business models. And we'll take you through those this afternoon. But how do we wrap digital around our business models to ensure we're still delivering that value and delivering it at a more efficient, more effective way?

So our focus -- our focus with our digital initiatives is really on customer adoption, customer retention and a better job at customer value delivery.

Let's shift to acquisitions, and we have clearly been acquisitive over the years. This has been and continues to be a strong component, a strong leg of our organic growth strategy, scale matters in distribution. We've done over 40 acquisitions since we spun out of Westinghouse in 1994. Since coming out of The Great Recession, the trough in 2010, we've done 15 acquisitions. These have been larger and more strategic. Our acquisition priorities are outlined on the top left of this page. They remain consistent. First and foremost, the comp -- consolidated core electrical in North America. Secondly, to expand into adjacent product and service categories that we can pump through our current business models. And then third, just selectively follow customers globally where appropriate. So the first 2 priorities are -- take the utmost importance versus -- and we've been driving and been consistent with those. And we do remain very disciplined with our acquisition strategy approach. We don't look at it as episodic or event-driven. We have a process. We have a pipeline in place. We continue to manage that phase-gated pipeline, and we feel very good about our prospects for continued acquisitions as we move forward. And again, it's a key growth leg of the company. Dave will take you through our capital structure and where we sit with our financial leverage ratio. We're happy to say that we are back within the leverage band coming out of the first quarter.

Let's give a little deeper insight into some of these acquisitions. I think it's important to put it in historical perspective. Those of you that know us well, I think there's not any new news on this page. Those of you that don't understand WESCO very well, I think it will help really put it in perspective. But I picked a few just to really highlight what we've done over the last decade plus and where it significantly has provided strengthening to the company. Expanding our portfolio and capabilities and giving us a much stronger market position.

So starting on the left, Carlton-Bates, that was an OEM entry. And now obviously, we've got some terrific value proposition and business model and OEM. CSC in 2006 was a Datacom entry. Now we've established a #2 position in communications and security as a result of what we've done with CSC and organic growth and investment since then. TVC, broadband communications, an excellent addition that impacted us both in the U.S. and Canadian markets. Obviously, EECOL, our largest acquisition, we've done in 2012, doubling the size of our business in Canada, achieving an undisputed #1 market position in Canada. So we're a very strong leading player. It's interesting to note that the Canadian market is much more consolidated than the U.S. The top 10 electrical distributors have 3/4 of the market, whereas the top 5 electrical distributors in the U.S. have 1/3 of the market. We are #1 in Canada. We are #2 in the U.S. We run with higher op margins in Canada. Again, we've got increased scale and scope. And this was really a terrific acquisition for us. EECOL was founded in 1919, private company. We were founded in 1922. And we've established just a tremendous market position and great range of value-added services we can provide our customers. And I think as the Canadian market returns to growth, and we did see a return to growth in the first quarter, we're set up for some very strong incrementals going forward.

Next to EECOL, Aelux. This is a turnkey lighting solutions capability that is supplier-agnostic. Very much focused on, as a primary solution, retrofit renovation and upgrades, but also supports new construction. But really, optimized retrofit renovation and upgrade projects, terrific capability, acquired in 2015. And then our last 3 acquisitions, most recent acquisitions, AED, Needham and Hill Country, all focused on construction, strengthening our construction capabilities in the U.S. market, and 3 terrific acquisitions. So just a quick snapshot on some selected acquisitions that have been significant.

Now let's shift to priorities. They are outlined here. We outlined these for you in our outlook call in December. They remain consistent. Top priority for 2017 is returning to growth, period. Returning to profitable growth. We mentioned where we were in the first quarter. We had a return to growth in Industrial, our biggest end market segment. We had a return to growth in Canada. And both of those represented the most significant headwinds we had over the last 3 years.

Industrial end market and the challenges there and the declines. It was our biggest end market segment. And certain verticals in there were particularly challenged, like oil and gas, metals and mining. And then the Canadian market with core organic declines, and then we had exchange rate, U.S. Canadian exchange rate that was at parity a few years ago and is now $0.75 on the dollar. So we've got 2 significant headwinds that we worked hard to overcome through a series of cost side actions and driving our productivity. But now, appear to be moderating and hopefully, are flipping to tailwinds. So we're encouraged with the start with the first quarter. Rest of the priorities remained intact.

Let's shift to now what you'll hear through the balance of the day. So I wanted to set up the rest of this session this afternoon with what are the key messages that you'll hear from the other presenters.

First, from the business leaders and talking through the various businesses and end markets, we've got significant growth opportunities in our markets. And they exist in and across our businesses. We're executing plans to deliver above market sales growth, and we're using services as a key differentiator. Hemant in his presentation of supply chain and operations is going to talk about the significant opportunity we have to further improve our operations and supply chain. And that we are executing plans to improve our margins. And finally, Dave will wrap it up with his financials. He'll give an update on 2017 through May. We're essentially on track and building momentum, consistent with our outlook. Our long-term growth algorithm remains intact, and Dave will take you through that and show you an illustrative example of how that work's going forward, our view of that. And fundamentally, free cash flow generation, strong, consistent, has been. It's been a hallmark, remains in place. That supports our growth plans and shareholder value creation.

So that's the opening. Very, very excited to spend time with you this afternoon. And with that, Andy, please come on up.

Andrew J. Bergdoll - *WESCO Distribution, Inc. - VP of Operations*

Thank you, John. So this is my sixth time presenting at Investor Day. So it's great to see a lot of familiar faces out there. This is my third time presenting as the leader of the U.S. business. And even though we have some familiar faces and some new folks, to just to be safe, I've got all new content, so please stay.

I've got the privilege of playing 2 roles today. First, I'm going to give you an overview of the U.S. and talk about some of the growth opportunities, the initiatives that we have. Second, I'm going to highlight, as John said, 2 of our market verticals. I'm talking about Utility and CIG or Commercial, Institution and Government. So as John said, 3 main themes to both parts of my presentation. First is significant opportunity exists for us, both in the U.S. and across both of those verticals; second, we've got strategic plans in place, strategic plans to support our growth strategies, but also strategic plans to support our operating margin expansion; and then third, to really bring to life for you how services are a key and a differentiator, and we're going to highlight that through a number of success stories.

So let's get started with the U.S. This slide gives you a profile of the market opportunity in the U.S. The U.S. MRO and OEM supply market is an $800 billion opportunity. And you'll see this analysis breaks it down into 20 different segments, with the top representing at about $500 billion adjustable spend is the MRO supply and the bottom is the OEM. WESCO's addressable spend is the blue in each one of these charts. So you'll see that's where the -- that's how the $300 billion addressable spreads out.

So 3 takeaways I'd like to make with this chart. First is, obviously, we have the large addressable spend. And if you count it up, we participate in 12 individual segments, that's the first point. Second is that our addressable spend, although it's concentrated, in the way this analysis is, in 5 segments, which you can see on the larger blue, there's another 7 segments where you'll see slivers of blue. And what's interesting there, and I've got a couple of success stories to show you that, those are segments where basically our services are pulling through, what we would think of as noncore product categories. But we've got various business models that facilitate that happening that I'll talk about. And the third is, as John said, the U.S. market, highly fragmented. There's over 3,500 distributors that participate against that of where we participate. Obviously, the top 5, which WESCO is one of them, is roughly 1/3 of the market.

So going into the -- a little more detail in the U.S., if you profile what our business looks like in the upper left, this shows how our business is segmented by customer vertical. And the real point here is we've got a strong position in each of the 4 segments. So a really good, healthy diversification of the business in the U.S. And we have the business models to support all of the demand streams that John talked about. MRO, OEM and capital projects.

So if you look in the center, you can see that we had a decline in 2016 that was really driven by Industrial, right? Kevin will highlight some things and some dynamic things that are happening in that space, and we've had a nice turn in that business.

On the right are our strategic priorities. And our strategic priorities are, in essence, unchanged from last year. #1 is achieving above-market organic growth. The next 3 points highlight the strategic plans and the execution plans we have to execute on that. The first is leveraging our capabilities. Leveraging our technicals expertise, our supplier relationships and our scale. The second is expanding our industry-leading service offerings. That's a big concentration for us, a big part of our growth engine. And the third is expanding our capabilities and really targeting, in each of the market verticals, the high-growth sectors of each of those verticals. The second 2 or the last 2 bullet points are really about expanding our operating margins and improving efficiencies. Both improving our efficiencies ourselves and improving efficiencies for our customers. Two main points there. One, deploying digital tools, really a key for driving efficiencies across our service models. And the second is optimizing our distribution network or our infrastructure in the U.S. And I'm going to give you a little snapshot of what that looks like right here or -- yes, right here.

So this is a map that shows our overall U.S. infrastructure. And our infrastructure in the U.S. is a competitive advantage, both in terms of our scope and scale, but also it enables the ability for us to specialize. So this scope gives us the ability to specialize, both by market vertical and by customer segment and service category. And that specialization is key as you'll see as we build up with some of the success stories. Now over 50% of our resources in the U.S., 50% of our people are customer facing; outside sales reps, sales managers, inside sales people and products and service specialists. So big part of our infrastructure, customer facing and engaging with customers. The brick-and-mortar infrastructure we see at the picture here, roughly 350 branches, 5 regional distribution centers, right? Five regional distribution centers. Hemant's going to build a little bit on this strategy. But you've seen us over the years, look at consolidating and having larger, stronger, more efficient branches in major markets. Some of those are acting now as a regional distribution center, customized and focused on the needs of customers in that particular region. Two new stars that are here on the map are in Dallas and in Chicago, that are a big focus on ramping them up this year.

We also have 4 platform distribution centers and those are distribution centers that are supporting products, specialty products, that we've concentrated, and we serve nationally out of 1 distribution center so we don't have to spread that inventory around in the country. And the fourth bullet points are our assembly operations. So these are -- these have traditionally been focused on the OEM part of our market and have been really the engine for that product specialization service category that John talked about. We'll show you on a number of examples how we're leveraging that capability now into our Construction space, our Utility space and other sectors. So this is the infrastructure that's the backbone and the underpinning of our service offering.

So if you think about the U.S. growth opportunities, we have, obviously, strong growth opportunities in each of the market segments. I've highlighted a few here and again, Les, Kevin, and I will expand on these as we build out each of these categories. But our #1 growth engine in the U.S. remains on the left-hand side, execution. It's really in our hands, and it's about execution. What I've highlighted here is our 6 sales growth initiatives that we're working on. The first one and the #1 is sales effectiveness. And this has been a consistent theme for us over a number of years. But it's really come to life and has gotten a whole new meaning when we think about how we operationalize One WESCO. Because the opportunity is for our sales professionals to bring the total portfolio of our products and services to our customers to solve our customer problems. And that involves a whole different way of selling. Last year, we launched a training program that's called business value selling. It started off, and we trained all of our sales leaders through a number of seminars that we held across the country. And then through a series of steps of coaching seminars, they went through and coached our entire sales force in the principles in business value selling. This is going to be a continuous process. But it's really about changing and selling solutions and outcomes with customers as opposed to selling just products. But again, we'll show you some examples of that. This year, we're building on that with sales manager training or sales leadership training, which is focused on sales leader efficiencies and process improvement in the sales process to free up sales time and our sales leadership time so they have more time with customer-facing activities. So that's a really, really big initiative.

That flows directly down to the second one, which is account management. Because all of this solution selling we're doing, it really -- the rubber hits the road in front of the customer and around how we manage an account. And for our accounts, we think about what's the addressable spend, what's our total addressable spend in products and services? And through business value selling, what are the priority issues that, that customer is facing, and how do we most effectively bring our products and services to bear against that? So account management tools and processes are a critical part of making that happen.

The third one is about integration, and it's about integrating our service capabilities into that branch infrastructure that I talked about. How do you actually able -- make it efficient for us to bring to life the 4 portfolio -- full portfolio of services to every one of our customers. And we've got a tremendous opportunity to build on our current customer base to do just that.

Project Center of Excellence is another way we're leveraging our scale. Les has got a couple of slides or a slide on that, so I won't steal your thunder, which also builds on contractor and integrator relationships. Obviously, new account development, critical part of it, and Kevin will talk a little bit about that.

So moving on to Utility. Starting the second part of our program, focused on each of the customer verticals or market verticals. Our Utility market in the U.S. represents 16% of WESCO's portfolio. Roughly 90% of that is in the U.S., where we have a market-leading position that's built on our high-value service model. What's really exciting about this slide, 10% of that Utility business is now in Canada, which basically a few years ago was practically 0. And through acquisition and organic growth, Nelson and his team have established a strong #2 position in Canada, and we've got tremendous opportunity to build out the platform in Canada.

So our Utility business has been a strong, strong growth engine for WESCO for a number of years. Through the second quarter of 2016, we had 20 consecutive quarters of organic growth in Utility. So a fantastic growth engine for us, and we've really -- we've still got a lot of runway to go there. As you know, we exited -- we made the decision to exit a large contract at the end of last year. So you see the impact of that with unfavorable comps in the first quarter of this year. But if you exclude that, our growth outside of that contract was 6%. So we're clearly outperforming the market, and we feel really, really good about the potential to extend our service market -- our service offerings in the Utility, and I'll show you a couple of examples of that.

On the right-hand side are the opportunities we're pursuing in Utility, the first bullet, that's not a surprise to anyone. Those are the long-term trends that we've been talking about for a number of years. Infrastructure investment, grid hardening, that's a long-term theme that's continuing to play out. Obviously, there's a major generation mix change as we're moving from a coal fleet primarily to gas and alternative energy and that's creating a lot of project opportunity for us. And then the integration of that new generation capacity onto the grid is driving a lot of technology investment as well. So a lot of macro things that are happening. And in addition to that, there's a lot of emerging technology that's happening in Utility. One is the conversion of streetlights -- for utilities that own street lighting -- to LED. That's a major, major trend that's happening. Many utilities are getting involved in broadband deployments. And obviously, we're participating heavily with that. And grid automation continues to be a big sales opportunity for us.

The pressure that the utilities are facing, and I'm going to talk about some of the industry dynamics that are driving that, are actually increasing the trends that we've seen over a number of years towards outsourcing, both on the project side and on supply-chain services side.

So what we see is continued expansion and build-out of our footprint in Canada, and a continued expansion of our alliance business model. And what is that, let me define that. In Utility, we basically take out limits of our global account model, multisite service model as well as our integrated supply model. And Utility, that's referred to as an alliance. But it's basically a big partnership account. And a big part of our Utility has been built on that. And what's exciting is, that's now extending out into the smaller utilities.

So if you take a snapshot of what our Utility looks like, this is a profile of our Utility business through 2 different lenses. On the left is what our business looks like if you divide it down by the utility powertrain, starting with generation through the high voltage part of the powertrain, transmission and substation, and then over to distribution. You can see that a big part of our business is distribution. Traditionally, that had been close to 90%. So now we have a very healthy diversified model in Utility and a good balance between project and day-to-day flow.

Looking on the right-hand side, that divides our business up by the customer segments in Utility. Investor-owned utilities, those are the big accounts traditionally and had been driven by these alliance relationships. Public power was really traditionally where utility distributors, like WESCO, had played historically, and you see now it's a very important part of our business, but it's no longer the majority part of our business. Probably, the fastest-growing part of our business is utility contractors as we're more and more involved in providing services and utilities around projects. That has actually enabled us to bring our business model to utility contractors.

So the bullet points down below, I won't read all of those. But that's a summary of the disruptive forces that our utility customers are facing. So you can see, it's a long, long list. So what's the takeaway? This is an industry that is facing dramatic change. They're facing dramatic change from, what, generation mix; low, low growth environment; changing workforce demographics; integration of technology, and that is driving a need, an increased need for WESCO's products and services. And we're addressing that need across the value chain and through all of the Utility customer segments.

So this is actually my favorite slide in the deck, so much so, it is actually a repeat from last year. Because this is actually the foundation of our Utility business. This is our services portfolio. So you'll see with the services that John laid out, they're still (inaudible), in particular, they're the cornerstone of our Utility business, our supply chain services and our project services. Up to -- up in the top, those are Utility supply chain services. They are very well developed. We've been pursuing these for over a decade. They get better and more mature every year. But you can see, they're highly concentrated in generation and distribution. And why is that? Supply-chain services, well, what does a utility do? A good part of utility operation is moving material and manage material, whether it's in generation station or distributing material out to their linemen that are doing work on the grid. So our services are around how do we supplement and help the utility do that more efficiently? And they're under more and more cost pressure to do that more efficiently. And in some cases, where they outsource that to us. And we're directly replenishing their trucks or directly deploying material out to their crews.

What's a little bit newer here and emerging is down below. These are our project services. And really, what we've done is we've taken some best practices from our Construction business and applied that to the Utility industry. So here, you see our Construction or our project services, really articulated in a utility -- with a utility spin on them. And what you'll see is here a lot of checkmarks in the transmission and substation part of the business. So our project services is really what has driven the growth in our transmission and substation participation. So a great model. I'm going to show you an example in one of my success stories of how we tied that together.

So I put product second because in Utility, it's our service model that pulls through the products. So you'll see here, we've got a very diverse and a broad set of products. Again that spreads across the Utility value chain. And the takeaway here is up at the top part in the orange, these are our core products. These are the [top] products where we act as a core competent distributor, we are stocking and selling these products and delivering them to utilities. What's interesting is, this shows you exactly what I'm talking about. I'm talking about a second-tier product or a product that is the Utility might direct purchase from a manufacturer. Here, the Utility is pulling those products and there's a pull because of the service model for us to expand our scope and bring in these second tier or manufacture direct products. And that opens up a lot of opportunities for us to participate. And also, it enables us to [pay under] service scope and make that efficient for the utility to do so.

So if you look at what one of these alliance programs looks like from the Utility perspective, those 14 products and services, in all those product categories, really fit into these 3 broad buckets, right? Sourcing and procurement, inventory management, inventory optimization, warehousing and logistics.

The key point here is, in a mature utility alliance, when you think about the total value that we can bring to the customer, 85% of that value is driven by the service model, as opposed to just first cost savings, which is up in the top at 15%. Now those first cost savings are extremely important, and that's extremely important. Part of our role is to help the utility be competitive. But what's happening more and more with the changes the utility industry are facing is they want to go after those 85% of the operating cost savings. And that's where we're here to help them.

So let me give you 2 great examples. This first one is with a large IOU alliance customer, and it's an existing customer that we've had for a long time. And actually, before I do that, I want to highlight, if you look in the middle and you see those 4 colored blocks, those are the 4 service solutions that John talked about. In order to bring that to light and to illustrate how that ties together, we're going to light up the boxes that are relevant in each one of our case studies.

Now this is a great one because I've got 3 of the service categories lit up. So let me explain to you how that fits in. So here, existing customer, very mature alliance relationship. They ended up getting Public Utility Commission support to go out and do a major grid hardening in part of their service territory. We worked together with them, capital project solutions, to help do the material planning, to help design those projects. Ended up being 1,700 projects over a 6-year period. So we extend that. The utility had a decision to make. Do they gear up themselves and hire the staff to go do that and put that infrastructure in place? Or do they go out and they find partners? And obviously, in this case, they went out and decided to find partners. What did they do? They picked 10 utility contractors that are actually going to execute the work, and they picked one material manager to manage that material, both to manage the procurement, the sourcing, the inventory, the warehousing logistics. And that was, of course, WESCO. So we're opening up right now. And actually, we've commissioned a 200,000-square-foot warehouse, hired 35 people, and we're ramping up this project right now. What's really neat about this is, it's gone full circle where those 10 contractors who are doing the work are now coming to us and we're applying custom product solutions to them to package that product up to help them more efficiently perform the work out in the field and help with their labor productivity. So just a great success story that we really think is scalable to other utilities.

Now here's a completely different example. This is a medium-sized public power utility, less than 500,000 meters, long-term customer of WESCO. We've done business with this utility for 30 years. Traditional blanket business. Annual blankets, 3 bids and a buy. New management came in. They're facing the same pressure as the rest of the utilities. Intense pressure on operating cost. How can we look at this business differently? Supply chain services -- it's about supply chain services, which is conveniently lit up there on the chart.

So we launched an alliance program here using our existing infrastructure. Smaller utility. We're not going to put up a dedicated warehouse, leverage our existing infrastructure to go put a service model together. This one ramped up in January. Again, very, very scalable. There are 60 major IOUs in the U.S. There's 3,500 public power entities. So we've got a lot of room to run with that model.

Okay. Now we're going to switch gears, go over to CIG, Commercial, Institutional and Government. So this market represents about 14% of our portfolio. Historically, this has been a project-driven customer segment, project-driven. A lot of the sales would have showed up in Les' presentation as construction. He's got some in there. There's a lot of it that's still served by contractor. But what's happened? Dramatic changes across the various segments of this segment, driven by technology, but also driven by our expanded scope of supply. So now we have a much larger end user sale, which pulls our services into play. So some really, really interesting examples here. So we're now in this sector, our Global Accounts business model is a major driver for us. And Kevin will highlight a few of those. So probably our most diverse customer segment. So if you look at opportunities, what is it? It's a large, fragmented, very diverse market. Wide range of WESCO growth opportunities.

Infrastructure spending, both in the U.S. and Canada, in this sector is a great tailwind for us. We also have seen major market trends that are favorable in terms of data centers, security, mobility. So a lot of macro factors are driving investment in this area. WESCO is only 1 of 2 globally enabled datacom and security distributors. So we're well positioned to bring our Global Accounts model to this sector. And it's -- like I said, it's very much of an emerging sector for our services portfolio. So of course, I'm going to give you some examples to show you how that's coming to life.

So a framework of how to think about this sector because you'll be hearing more about this with WESCO in the years to come. We brought -- we divided up into these 5 subsegments. Commercial on the left; enterprise, which will be office buildings; retail, right? Big market potential for us. Next one, communication and service providers. This has been, actually, a long-term segment for us with telco; MSOs, multi-system operators; cable and broadband; and broadcast, but explosive growth happening now with the expansion of broadband and the application of technology in that area. Data service providers, big, big market here. Internet and cloud services, companies that are providing those, obviously driven by data centers. But then are also outsourced data center providers and colos, big customer segment; and software as a solution, again, data center driven. So that center column, a lot of growth there. And then institutional, very fragmented; health care; education; we've got a couple of examples there. And government, which has been a long staple for WESCO and still a great growth opportunity for us.

So down below, you can see broad range and a very wide range of products and services that we bring to this from a diverse set of customers. If you look on the left, those are kind of our traditional categories that we sell to one segment or the other. The play here is we actually don't sell that whole portfolio really across the whole category yet. In the middle are more of our emerging categories. These are technology-driven emerging categories. Obviously, data center products and solutions, security, IP-addressable security, fiber deployments. And I put IoT here. Many of you might think of IoT as an Industrial phenomena. But it is absolutely a key player in commercial, institutional and government with sensors everywhere, which ultimately, when you think about how you most efficiently operate a business, a facility, how you leverage that facility as an asset, that's going to be a big area of growth. And on the right are all the projects and supply chain services that we offer. Here, one of the areas that's a little bit unique is multi-site technology rollout. That's a big one for retail technology rollout, multi-store rollout, and we've got some service models that really complement that; and diversity programs, which is an important part of our government business, which plays off of that second-tier model that we use in Utility.

So if you look at what our CIG business looks like when you roll it all up, the -- on the left is how that segments by product category. This traditionally had been a datacom and security business for us. That's still the largest product category, and there's still plenty of room to grow in that area. But what's interesting here is you look at how we've diversified our business, the addressable spend is really very much like you see in the rest of the business. You can see, we've got a lot more room to diversify and pull in the rest of the product categories into CIG. Some of the demand drivers, expanding demand for broadband and data center capacity infrastructure. That's a consistent theme across all 5 of those subsegments.

LED, lighting. Every one of these customers use lighting. Every one of these customers now has a compelling business case to convert their lighting to LED, not 10 years from now, today. One of the reasons why, as John talked about, Aelux and some of the renovation services, and Les will [pull] up on that, that's really about us selling solutions and bringing that opportunity to life and making that real for a customer.

Security and A/V technology. All of these customers are pulling the security, A/V, IP addressable. There's a lot of value add that we can add into that.

And there's an increasing relevance in solar and energy efficiency programs. So bottom line is we are very well positioned with our products and services portfolio to bring a lot of value to this customer segment.

So let me give you 2 success stories. So the first one is security. This is a K-12 educational, so fits in that institutional side. So the back story here is we've got a large school district, 21,000 students with a large campus, dozens of buildings. What's their issue? They want 24/7 surveillance, and they want real-time integration with the police department and their other security. Obviously, that's an issue with every school district out there. And technology was really staying in the way with this. So where do we come? We start off with -- we lead here, what you see right there, technical expert solutions. We have a team. We call them security specialists, but we have regional security specialists that are there to help our salespeople develop this kind of an application. So the salesperson brings in the security expert. What does our WESCO security expert do? They put a solution together by pulling not only their own expertise, but pulling from our manufacturing partners, pulling from our integration partners, the contractors and integrators that do this work. And we put together a solution, together with our partners, geared towards this school district. So that's an example of the technical expert solutions. But what was really exciting about this one is, here, we have IP-addressable cameras, IP-addressable servers. So in one of those warehouses that I showed you back in our infrastructure, we configured the cameras and the servers for this application. So what did that do? Well, one, it saved the contractors and the integrators a lot of money on the installation. They didn't have to do that work in the field. And in terms of the commissioning, made it a fast and seamless commissioning. Took a lot of risk out of the project, and it took a lot of risk out of the project for the end user. When this thing came, we will be able to bring the system back up to life. So a great example, and this is just on the security side. We see the same kind of examples on A/V and other technologies.

So now going to kind of the other end of the spectrum. Here is on a Global Account example in the CIG space. So this is a leading global technology company; industry leader, to be exact; started off again technical expert solutions. Here's a customer that is integrating and building new data centers continuously, looking for the latest technology, looking for the latest technology to make those data centers more efficient and how to bring them up online faster. But they're deploying these data centers globally, and they're doing it fast. So we needed a global partner to team with them. So what do we roll in? We roll in our project services because, frankly, building a data center looks a lot like building a power plant when you think about how you run the project. So we rolled in our full portfolio of project services. What does that lead to? Major data center operations that then flows to, what, a supply chain services opportunity where we then flange up our local branch operations to continue and support these data centers as they're constantly configured, reconfigured and upgraded to provide operational support. So we have over 10 WESCO locations now providing supply chain services: bin stock, storeroom management, procurement, all the things that we do in the utility alliance. So this is a great example of taking really best practices from both Utility, Construction and Industrial and applying that to the CIG space.

So in conclusion, for all 3, U.S. market, large, fragmented with many opportunities across all the customer verticals. Customers are driving technology integration across all those verticals. Every one of our customers is facing dramatic changes in their business, and they need our help and products and services to implement that. And we're well positioned to do so.

Utility. The Utility space is undergoing unprecedented change. Really -- and that's been a multiyear, but that change is accelerating now. Infrastructure investment is going to maintain -- is going to be maintained at its current level. There's plenty of support and need for infrastructure investment, and we happen to be the leading provider of products and services that are going to support that infrastructure investment.

CIG. Growth market for WESCO. That's the takeaway. Growth market for WESCO. Very diverse set of customers. Very diverse set of needs. Emerging market when it comes to supplying our services. And we got really favorable trends in terms of lighting, data centers, mobility, security, A/V. And the technology that is driving this change in CIG is also impacting and is enabling the same technology, whether it's mobility in our digital solutions, are enabling us to more effectively apply our service models to this diverse customer segment. And that's going to be a big focus as we move forward.

So with that, we're going to continue on with Industrial, and it's my pleasure to introduce Kevin Kerby, our Vice President of Global Accounts.

Kevin Kerby

Good afternoon, everyone. Thanks for being here today. I'm going to give you an overview of our Industrial market, and I'm going to leave you with 4 key messages: One is that the market is large and that we deliver 4 key solutions to our customers that meet the challenges of their 3-demand streams, their indirect material, their direct material or OEM business and their capital projects; two, that we have multiple competitive differentiators that will enable us to outperform the market in the industrial space; three, that supply chain services are intrinsically connected to every product we sell, every geography we serve, every solution we provide to our customers; and four, that the deep knowledge that we gain from our interaction with our customers uniquely and powerfully positions us to act as a trusted adviser as our customers begin their journey towards industrial networking.

But first, I want to give you a little bit of background on our Industrial business. It's about 36% or $2.6 billion of our sales. We go to the market by key verticals. We believe that, that improves our insight and knowledge around the different challenges that an aerospace and defense company would have versus an oil and gas company, versus a pulp and paper or transportation company.

We returned to growth in Q1, as John mentioned in our earnings call, and we've got multiple opportunities for growth: one is One WESCO expansion within our existing customers and accelerating the acquisition of new customers; two is to expand our services footprint. And I'm actually going to walk you through a journey, a journey that we take with all of our customers across thousands of locations every day. Three, we want to grow with value creation services, so that's where we connect what we do with our customers' challenges and initiatives around sustainability, safety, productivity and other initiatives that they have; and then four is to capitalize on the industrial networking growth opportunities. Our knowledge of our manufacturers and how they're connecting their devices with the challenges of our customers puts us in a perfect position to do that.

So if you think about that $2.6 billion worth of sales and you're going to hear me talk about this a couple of times, we're really excited about the balance that exists in that business. So more than half of the sales is in these 3 platforms: our Global Accounts platform; our Integrated Supply platform; and our OEM business. All of those target customers through a multiyear contractual agreement. So it's a very stable platform.

Another key takeaway is that we're very good, once we get customers, at keeping them. So we have a 90% renewal rate for the last 2 years with our Global Accounts customers and 100% renewal rate in 2016 with our Integrated Supply customers.

Our OEM business is focused specifically on our manufacturers, where they are looking on the production line and looking to outsource a piece of that very complex supply chain to a capable partner like WESCO.

That balance is also reflected in our 2016 sales. So we feel very good about the diversification across multiple verticals within our Global Accounts and Integrated Supply programs. We also like the balance we see in our new programs. We put a lot of focus on new customer acquisition. So we had great success in 2016 closing on over $400 million worth of new agreements. Some of those were in our historically strong verticals like oil and gas and transportation and OEM. But we also focus on new verticals like solar and pharmaceutical and medical. And we're constantly looking at and identifying other new markets where we see great growth opportunities for WESCO.

Now when we sit and talk with the CEO or Chief Procurement Officer or Chief Operating Officer, we want to capture their attention about why WESCO can meet each of the demands of their demand streams. So we couple it into these 4 basic solutions. Number one is our industrial and electrical distribution. And this is everything that's in the plant that makes the plant operate that's represented by thousands of suppliers. And we deliver that solution and we can deliver that to each one of their locations. And we also have an integrated supply solution. So this is where our customer wants to outsource all of their industrial MRO, the people, the process and the technology to WESCO. Our third solution is our customized product solution that's again specific to manufacturers where they want us to look at their cable assemblies and wire harnesses and deliver those solutions right to the product lines. We've got the technical expertise and the supplier knowledge to do that. And then the last solution, and Les is going into much more detail on this, are our capital project solutions. So this is when an Industrial customer is going to build a new plant or significantly expand or retrofit an existing plant. And we tell our customers that we can do this globally. So it's really important to our customers that they can see that execution and how we can do that everywhere in the world.

Now the blue represents our 500 locations and where they're represented around the world. That's where we have bricks and mortar in inventory and personnel. But we tell our customers -- and the green represents the service areas that we are helping our customers with today. So whether we have bricks and mortar or not, we work with partners and contractors and integrators to ensure that we can still solve our customers' problems anywhere in the world.

So who's doing that? We think that a competitive differentiator for us are the teams that we've got charged with acquiring new customers and expanding within our existing customers. So first, let's start with our customer acquisition team. This is a centralized team that, coupled with really powerful marketing, are targeting the C-suite. They're making thousands of outbound phone calls every year. They're developing and qualifying that lead and then passing that on to the appropriate sales representative.

Our second group are our global account managers. So these are teams that are focused by vertical. So we've got global account managers that just focus on oil and gas, global account managers that just focus on food and beverage, just focus on pulp and paper. And they've really got 2 key missions. One is to develop that C-level relationship to get broad and deep within the organization. And two, they're to act as the quarterback for multiple constituencies. And really, there's 3. One is corporate procurement, to identify and understand their strategy and then make sure that, that's delivered at the local level. Two is the contractor constituency. So there are hundreds of contractors -- industrial contractors, general contractors, electrical contractors -- that are operating in plants and around plants every day. And then third, they're acting as a quarterback for WESCO for our 500 operations in our various business units.

Now they're supported by our implementation teams. So these teams are geographically organized. So we get a new customer, an Industrial customer, and they've got 30 plants in North America. These teams sort of divide up those plants and then act as the binding agent between the strategy that's set by corporate procurement and the execution that they're looking for at the local level. And of course, those implementation teams are supported in part by the thousands of local sales and technical support individuals that are at our 500 locations.

Now everyone needs a scorecard. And this is the one that we use for each of our Industrial customers. This is our checkerboard. This helps chart the strategy and measure performance. This is a typical customer. This is where we begin. And what you see is a lot of white space. The white space indicates we don't have any sales and we haven't yet engaged with the customer for either that product or that service. And so we want to take them on a journey to start to fill that out. And the journey looks like something like this.

So this is a cutaway of a plant. It's a typical plant. And this is where we're going to begin with most of our customers. We're going to begin in the critical infrastructure, the switchgear, the cable conduit wire, the things that make that plant go. A lot of our industrial plants are aging. They're the oldest they've been in a couple of decades. So that's an important part of the discussion with our customers. But from day 1, we are coupling those product discussions with service discussions. We're going to talk to them about workplace safety. We're going to do arc flash studies where we can bring a technical expert to the plant site and identify and make recommendations on changes they need to make to improve workplace safety or also might talk to them about job carts. Think of a job cart as a miniature job trailer. So every industrial plant has at any time hundreds of projects going on. We provide these job trailers that have all the connectors and the fittings and everything that's necessary to improve the efficiency and operation for their personnel.

Rapidly, we're going to move to lighting. Every one of our Industrial customers is thinking about, and Andy mentioned this, LED retrofit. Now for us, we're very excited about the acquisition. Among the many that we've made is the Aelux/Lumigent acquisition. Because not only are we going to talk to them about products, with that acquisition, we're going to do those services. We're going to do the layout design. We're going to do the audits, which tell them and help them understand where do you want to do these lighting retrofits, when do you want to do them and, most importantly, how are you going to pay for them, what's the ROI look like. So by coupling those services with our knowledge and our great relationships with lighting suppliers, we form a really powerful answer for our customers.

We continue to expand within the plants. We get to know more people. Now we're talking to the storeroom managers, maybe the people that are handling abrasives and cutting tools. We're looking at and talking to the safety manager and saying, "Hey, we've got safety services offerings like safety training and fit testing of equipment." We're really starting to get an understanding of material handling, right, the processes and flow of how stuff makes its way around the plant and how we can offer and give opportunities for efficiency.

Now the other platform that I talked about of the 3, Global Accounts, Integrated Supply and OEM, so for our manufacturers, we're going to have a separate discussion, and we're going to go to the production line. Now certainly, we're going to talk to them about automation. So that's all the equipment that makes the production line go. But we're also going to talk to them about what is on the production line, and we're going to talk to them about our bill of material review, the bill of material is what tells the production line how stuff goes together. We're going to talk to them about our quality processes, and we're going to talk about kitting. If we could take some of these SKUs, these part numbers off your hands, put them together and then deliver them to the production line in a just-in-time fashion, would that add value to you? Would that enable you to put more of your resources where you want to do them?

We're going to talk to them about B&C sourcing. What do we mean by B&C sourcing? So for any one of our industrial manufacturers that got thousands of part numbers that go into their end products, some of those, the B&C parts, aren't big spend. But it doesn't matter. They are not delivered to the production line. That end product does not go out the door. We're going to continue to evolve that discussion and say for some of our customers, we're going to actually do the assembly. So we have assembly operations within some of our branches around the world where we're going to put things together like wire harnesses and cable assemblies, panel builds. These are all specific to the end user application and specific to our customers. So you get a sense of how sticky that relationship is when we're talking to production line engineers, their quality staff and really becoming involved in the day-to-day production of their material.

For some of our customers, that will continue to expand into an outsourcing discussion. So we've expanded our product footprint, and we brought a lot of services to them. And now we're talking to the COO or the CPO about outsourcing. So we're talking about our personnel in your plant taking care of the industrial MRO. You're going to focus on building aircraft engines or elevator systems, and we're going to take care of this. These services are really the most strategic, right? We're doing the strategic sourcing. We're doing the inventory management and optimization. We're building specific e-catalogs for those customers, enabling them to focus on their core products.

I don't want you to underestimate, because our customers certainly don't, our ability to execute across all of those at each one of their locations. It is an absolute imperative for our corporate procurement customers that what we do and what we deliver is seamless across all of their operations around the world. They want to be able to walk into each of those plants and confidently talk about how WESCO can deliver wherever that plant is.

So now we've been in these plants. We understand them. We have deep knowledge. We brought them expertise. We understand the manufacturing base that has been deployed to those customers, and we understand our unique customer challenges. And that's why we think we're really in a perfect position to be the trusted adviser as they go through industrial networking, right? That is going to happen. Their devices will be connected. But they're going to look to us to say, "What should we connect? And all of this data that we're getting, what should we do with it? What are the cognitive analytics that we should be focused on? How should we use predictive analytics to improve our operations?" We're going to be that trusted adviser. And this is what we're driving towards, right? This is a fully realized One WESCO customer where that white space has transitioned to blue, where we brought the services across each one of their locations. We're solving problems for them across a wide variety of the challenges they brought to us. And this is the scorecard that we bring back to our Industrial customers to indicate how we've done and how we're executing across the strategy that we jointly developed.

And here's a success story that, I think, brings it all together. So this is a $20 billion diversified manufacturer with multiple divisions. The interesting part here is that one of the divisions was really focused on our OEM solution. That was their focus. They had 5,000 SKUs that they didn't want to manage anymore. They wanted us to take on that inventory and be able to deliver to them that product in a just-in-time fashion. We were doing the global sourcing. We're doing the bill of material review. We're offering the quality assurance. Products that we were doing: wire harnesses, custom enclosures and custom panels.

A separate part of the company, completely different set of divisions, their focus really was on industrial MRO. And that's where we engage with them. So this is a separate set of plants, 25 plants in the U.S. and Europe where we were providing a different set of services.

Global sourcing. We were doing 100% of the order entry. All of that product flow was on WESCO technology. We're doing multi-tier supplier management. We're doing the category management. So we're actually setting the strategy for those different product segments. We have a lot of personnel dedicated to this with 61, and we have 61 total, and about 38 are dedicated. And you can see, 3 of those supply chain solutions are met, right? We're delivering supply chain solutions, technical expert solutions and then customized product solutions.

In terms of our growth opportunities, I mentioned every single one of our Industrial customers will be doing a lighting retrofit, an LED retrofit. They're going to look to us to provide the guidance and assistance to do that. Our industrial plants are aging. They're the oldest they've been in a couple of decades. So that will happen, and we're in a great position to support our customers as they go through that upgrade process.

Supply chain services. Many of the 50 services that John mentioned were in response to customer feedback. "Hey, could you help us in this area?" We're constantly listening to our customers to evolve our services capability.

OEM and direct material. Industrial manufacturers are increasingly looking to simplify and streamline and reduce the risks of their production line and direct material supply chains. We have the technical expertise and the geographic scope to do that.

And then lastly is industrial networking, how we're going to help the customers as they begin that journey of what they should connect, what data they should extract and how that can impact their operations.

So in summary, we've got a large Industrial end market, and it offers excellent growth opportunities for us. We've got key competitive differentiators that are going to enable us to outperform the market. We've got these long-term customer relationships; diversified markets within the Industrial business, which creates a stable platform; multiyear contracts, which enable us to grow with our customers as we spend the time in the plants; great platforms from our Global Accounts business, our Integrated Supply and our OEM platforms. And then lastly, as technology evolves, we are in the perfect place, with our knowledge of our manufacturers as they connect their devices and our understanding of our customers' operations, to deliver and assist them in that journey.

Thank you very much for your time today. With that, I'd like to introduce Les Kebler, our Group Vice President of our International.

Les Kebler

Thanks, Kevin. Good afternoon, everyone. It's a pleasure to be here. Appreciate your time and attendance and your interest in WESCO. As Kevin said, I'll be covering the Construction end market today. And I really have one key message. And that's really how our infrastructure resources, coupled with our existing infrastructure, allow us to really establish a unique position in the construction market.

So with that, I'm going to jump right into it. We broadly defined the market in 3 segments: commercial, institutional, Industrial. Our broad product portfolio -- and this is really unique to WESCO because our broad product portfolio, including electrical, data communications, safety, industrial supplies, allows us to target a relatively wide range of products. In general, about 10% of the total market is addressable for WESCO. That's about a $44 billion addressable market for us.

Each segment in the market as well as the overall market are expected to grow in 2017 and '18. So we basically have a very large fragmented market with favorable growth conditions. In addition, any increase in the infrastructure spending, any change, favorable changes in tax or regulatory environment, will only enhance the attractiveness of this market.

WESCO's Construction business is about 34% of total sales or about $2.4 billion. Our outlook for 2017 is flat to low single-digit growth. This outlook is supported by positive -- numerous positive external market indicators as well as our internal indicators, primarily our backlog. Our backlog in the first quarter was up 11% sequentially as well as being up year-over-year. The year-over-year increase is significant because that's the first time that's occurred since the second half of 2014.

So basically, we think we're very well positioned in this large fragmented market for a number of reasons. We have a network of 350 branches across the U.S., backed up by strategically located distribution centers. We've invested in our sales force, including specialized sales and marketing teams for specific segments of the market. We've expanded our digital capabilities to make things faster and easier for our customers, and we've established construction Centers of Excellence that really allow us to scale across the wider geography. And finally, recent acquisitions that specifically target the construction market have been -- have happened in key geographies across the U.S.

The characteristics of the industry really formed the basis of our strategy. So if you look at the way our strategy for the construction is set up, it's around the unique characteristics of the construction industry. The industry challenges provide significant opportunity for us to add value. The market is highly fragmented and tends to be cyclical. Productivity in the market has been a historical challenge, and that's been driven by a number of things: slow adoption of digital tools; misalignment of incentives between owners and contractors; poor project planning; poor engineering. A whole host of reasons have driven the low productivity over the past several decades. On major capital projects or projects exceeding $1 billion, cost overruns and delays are well documented especially in the last decade. And to address this, many of the EPCs are now going to a global execution model where they're actually doing fabrication and sourcing all over the world.

So to address this challenge, we separated the construction cycle into 3 distinct parts. We have the engineering design piece, the construction piece and the transition to operations. With each phase identified, we can better target the value-creation criteria. And a stronger relationship with a customer earlier in the design cycle usually provides WESCO with a broader opportunity to provide products and services and more opportunity.

So looking at the construction cycle. Our strategy is basically focused on what matters most to our customers. And in the construction industry, it's all about cost and schedule. We understand that most projects have a few things in common. They're going to be planned in advance. They're going to have finite duration, and they're going to have a bell-shaped curve of activity. Understanding that design and construction and the transition to operations overlap is really key to addressing this industry.

Through our experience, we've developed some fundamental best practices to address these issues. For example, increasing visibility and transparency of activity drives accountability for all stakeholders. We do this through project management and our RPM, remote project management, software. There are many innovative products that are presented during the design phase that can significantly reduce installation cost and time at the job site. Leveraging decades of experience, WESCO can differentiate material by risk. And with this, you move low-risk, high-volume material closer to the site and allow the customer to focus on more strategic material that is going to have a bigger impact on cost and schedule. So how does this work? Once you've done 20 plants or 50 plants or 100 plants, you can pretty much determine what kind of products they're going to need at the consumable level. What does that mean to the customer? WESCO can go in and present them with an 80% complete bill of material that allows them to eliminate or reduce engineering and procurement time and move that material to the job site. It's low risk. At the end of the project, we pack up and leave, and they're essentially left with no surplus material.

Our extensive database also provides material benchmarking for the cost of materials. So if you're running a project and, say, it's $100 million or $200 million and we have a database of 20 to 30 to 50 projects of this magnitude, we can actually present you with competitive cost information that allows you to eliminate the detailed design and procurement, which actually can take months in the construction cycle to go out to get the necessary pricing. So we essentially eliminate not only -- provide you with not only a better cost, but we're eliminating engineering and procurement man-hours.

So now I just like to kind of walk you through a couple of slides to show you the extent of the products and services we provide. We do bolt-on and external building, new construction and internal building.

So if you look at the new construction on any job site, you're going to have a data center. So it's depicted here as a small picture, but this is a $1 billion business for WESCO with a significant supply chain. There's only a few core providers in North America that can provide a complete data communications and security package. You've got Utility. Andy spent a lot of time walking through this industry. Again, unique set of suppliers and supply chain. Very difficult to decide one day you just want to get into the utility market. That's -- WESCO is the leading provider in that space.

Lighting. Lighting is 20% to 25% of any project. We're backed by a set of world-class manufacturers.

Physical Security, again, part of the data communications and security package.

Now I'll transfer to the site services that we provide, and this is really all about simplifying the supply chain, lowering procurement costs, increasing craft productivity and really trying to lower install times and have fewer craft man-hours on the site.

Prefabrication. This can be an example of a pre-terminated rack for data centers. You've got job carts. Job carts can be for mechanical or electrical rough-outs -- rough-ins, rather, and they can be -- even be managed from a VMI perspective. So we can go in and update these carts on a daily or weekly basis.

I mentioned job trailers. These are high-volume, low-risk materials that are consigned to the jobsite. This isn't just a trailer. This is essentially a WESCO branch that's connected to all other 350 branches in the United States backed up by a distribution center. So when you move that product to the jobsite, you consign it. You replicate that inventory at the local branch so you can guarantee the customer when they walk up to the trailer, they're going to get their material. They can order anything else they may want. And by the next day, you can guarantee that they'll have the trailer restocked. It's a huge value-add for people doing the large projects like this.

Kitting and staging, consolidating material by area or drawing or floor and then delivering it to the project jobsite.

Cable and cable management. Cable can be up to 20% of the spend on larger jobs. WESCO's proven material management can reduce surplus, which typically can run 10%, down to 2%. So again, significant real hard cost savings for the customer.

And then finally, just-in-time delivery. I mean, you don't have to look around, look out the window just to see that the limited jobsite space, ability to get product to lay down yards at location space is always a premium. So WESCO provides, of course, just-in-time service for our customers.

Now I'll move inside the building, kind of in the renovation or retrofit view. Some of the same products, but just to give you a sense of the scope and magnitude. Lighting, energy and metering, switchgear, all your power distribution panels, all the equipment, access control, and then physical security, centers and controls, physical security, which, again, is a part of our data communications and security package. And then you have a whole wireless and audio/video component. I'll pop those all up at once. So you have smart meeting rooms, video, wireless, all that.

So WESCO, in summary, we have a very large product portfolio that addresses many of the needs that the construction industry has. We have the ability to provide a very large component of their spend, which creates, obviously, more opportunity for us.

So I've summarized kind of the services here. And kind of our view of services, WESCO believes that value-added services drive customer loyalty and build long-term relationships. That's just a fact. Our services are focused on the industry challenges. Our objectives are to lower costs, reduce project risk, keep projects on time and on schedule.

I've summarized our services. And again, separate them by the phases, the engineering and design and the construction. So in the design phase, it means technical expertise, product -- to provide product specification and application of systems. It could be a turnkey solution such as our lighting design that was mentioned earlier. It could be innovative products, where if you bring a product in at the design phase that can sometimes reduce installation times up to 50%. What's that mean? Obviously, lower cost for the craft, the construction side. It also means a safer jobsite because you're spending less time on the site.

You have global or best cost region sourcing, especially for large, complex product -- projects that require that. You can literally have engineering, design, construction fabrication all in different countries, and you need some way to provide that service, and we do that through a material management system.

In the construction phase, it's all about right material at the right time, whether it's moving risk to WESCO in form of prefabricated assemblies or kitting or moving that material to the jobsite to improve craft productivity or reducing project risk through cable management.

We also provide the digital tools that simplify procurement and provide better visibility to supply chain. It's all about knowing where your product is so you can do the proper planning for your craft.

So providing these value-added services really creates a much stickier relationship with the customer. And again, that's what you want to do as you go through the evaluation and qualification of your clients.

I mentioned them, overall market was in a general uptrend. There are several segments of the market that are actually growing faster than the overall market, some of them much faster. And really, the key differentiator here for WESCO is our ability to use our scale and our infrastructure and our existing resources and marry those with our existing business models. And I'll run through some examples here. So if you look at LED lighting, we have a world-class manufacturing base to support this space. We have a specialized sales force that we've invested in to provide the technical and application assistance. And we have a turnkey capability, where we can actually do design, install -- design, procure and install.

So moving on to the cloud. We have an industry-leading data communications platform, #2 in North America, as it was mentioned earlier. If you looked at our Global Account model, where we can have single point of contact that allows the customer to expand that across the multiple geographies, and then if you get outside the U.S., you go to multi-country, you're really talking about 2 providers today that can actually do a global installation. And there's only one, that's WESCO, that has an integrated operating model that allows a seamless transition from the U.S. to the rest of the world to -- which really supports the rapid deployment required by these major customers today.

Major projects, WESCO has decades of experience handling major projects. We've got a proprietary material management system called RPM. It's in its fourth generation. It's been with us for 10 years now. We have a global footprint, as Kevin showed earlier. So we're able to source from anywhere in the world and supply to anywhere else in the world through all currencies.

The trend towards lump sum, which is a dynamic from the market downturn where the users are now moving the risk to the EPCs and the contractors, is actually good for WESCO. That value prop, where the cost savings and the value-add, as the risk moves downstream, down the value stream to the EPC and the contractors, they actually value WESCO's input more because they are the direct beneficiaries of any cost savings we can provide them. So that's a good thing for us.

Solar, key manufacturer support, again, especially manufacturers. We have a branch network, 350 branches throughout the U.S. Solar tends to be quick-turn, smaller projects, where you need local inventory, local branch support. So much more, much different than a large commercial project, but something WESCO has adapted very quickly.

In summary, we have the infrastructure resources to capture these new markets. So as we enter into this Internet of Things or industrial, digital transformation or whatever you want to call it, we don't know if that's going to be on the automation side, the lighting. But WESCO has the existing business models in place to pivot towards that and capture that opportunity very quickly.

I'm going to talk about some investments we've made, specifically for the construction industry. I'm going to start with our centers of -- construction Centers of Excellence. And really, what a construction COE is, it's a scalable approach to provide both standard and customized solutions for customers across a wider geography. So if you look at the requirements of our construction or contractor -- customers, what they basically need is design assistance for lighting, switchgear and the like. That's usually 50% of their spend. So you can basically back-office that in key locations around the U.S., and then these COEs work with local branches to provide local inventory, technical support, on-site services. So it allows you to cover a much larger geography.

WESCO's also recently made a number of investments in the U.S. market, specifically targeting commercial contractors: Needham in the Northeast, AED in the Southeast and Hill Country based in Austin, Texas. And what these companies bring is a strong focus on local markets and excellent, long-term relationships, so really building out the network and collectively they've added about 50 locations to the WESCO branch network.

A couple of success stories. The first one is an LED lighting retrofit. We had a national retail customer that asked us to come in and help them really design their lighting so they could showcase their stores. They started with 2 or 3 stores in a kind of a proof-of-concept that was very successful. They rolled it out to 20 stores. And now they've moved that success and decided to roll it out nationally. And really, the key here is it takes our Global Accounts program, which, again, single point of contact into the WESCO products and services, and then our construction COEs allow you to scale across a wider geography and do a very rapid step and repeat, which is what this customer wants to do. They don't want to duplicate their efforts across multiple cities or states. So it's a very effective model in delivering those solutions for customers that want to go across a wider geography.

The second example is a large oil and gas company that was doing a $750 million plant expansion. So this customer, very well aware of the productivity challenges, cost overruns, schedule delays on major projects, came to WESCO and asked, "How can we do this better?" They wanted complete visibility of the EPC, the design firm, the general contractors as well as the site subcontractors. So WESCO came in with our RPM, remote project management system. We're actually doing everything from material take-offs. We take-off the material on the drawings. There were 1,000-plus drawings on this project. We bring them into our database, and we handle everything through staging and kitting and material locally to on-site material. And what that does is, it allows the customer and the contractors and the general contractor to have complete visibility of all activity. What that does is, it eliminates -- reduces and eliminates surplus. It moves the low-risk, high-volume material close to the site. In this particular example, in this particular jobsite, we have $300,000 worth of material, it's at the jobsite, that's replenished every day. It's backed up by $500,000 worth of material in a local warehouse. So the customer essentially doesn't have to look at, worry about design or procure any of the consumable items, so a ton of cost savings there. And at the end of the project, what they really want to do is make sure they can turn over a complete list of what they've used on the project to their existing plant. You got to remember, this plant is contained within a much larger petrochemical complex. So what we will do for them at the end of the job is, we will hand them a catalog of every product they ordered and every quantity, and we will provide the exact area, all the way down to the drawing that the material came from. So what's that do? It allows the customer to not put surplus material in their warehouse. It lets them know what material they should put in to provide ongoing MRO support. So it's a huge cost savings and time and effort as far as the final phase that I mentioned earlier, the transition to operations, which is very, very key in large capital projects. And as Kevin mentioned, WESCO is uniquely positioned, that when we do move into the MRO space. Of course, we have the Global Account Integrated Supply model that immediately picks up so you get that full circle of support from the WESCO value proposition.

So in summary, we've got a very large market that's growing. Our resources, infrastructure and investment in the space, plus our ability to leverage existing models, create a unique and differentiated position for WESCO. Understanding the challenge of the construction industry create opportunity to add value.

Our services directly address the challenges of construction industry. Early engagement in the process means we have a broader scope of supply and more opportunity to provide products and services and form that stickier customer relationship. And finally, any incremental spending in infrastructure or any positive changes in the tax or regulatory environment are only going to enhance this already attractive market.

So with this, I want to thank you again for your time, and I believe we are going to go for a break. Thank you for your time.

Mary Ann Bell - *WESCO International, Inc. - VP of IR*

So we invite you to take a short break. We'll be back at 3:00. There's refreshments behind us, and the restrooms are along the hallway behind us as well. Thank you.

(Break)

Mary Ann Bell - *WESCO International, Inc. - VP of IR*

Okay, thank you all. I would like to now introduce our Group Vice President for Canada, Nelson Squires, to talk to you about our neighbor to the north.

Nelson Squires

Thank you. All right. Hi, everyone. It's great to be with you here again in New York City. Once again, it's great to see some familiar faces, both new acquaintances and people I've worked with in my past. Thanks for joining us, and welcome back.

We have an improving story to talk about in Canada. We have still some markets that we have not returned to growth, but we're very encouraged by what's happening up there. Clearly, the economy has begun to turn and is improving. And the first quarter GDP was very strong. And we're beginning to see this in some of our end markets, stabilizing to low single digits growth. But underpinning all that is something that I spent time talking to you about last year, and that is working on diversifying the business. It's a critical part of our focus going forward. We've wonderful markets, great customers, very tight-knit supplier network, but there's still an opportunity to expand what we're doing in Canada. We've made some great progress on that. And I'm happy to share some of that success with you today and talk about the things we're going to continue to focus on to grow the market.

So John talked about this earlier today, that the Canadian market is much different than here in the States. The top 5 electrical distributors comprise 75% of the marketplace. We've said this, and if you've followed our story, you know the scale matters in distribution. And certainly, in Canada, we have scale. And we have the most scale. So we're even more well-suited to deal with our customer base across Canada. And I'm going to show you some examples of where we were chosen because of our unique full-country geographic capability and the fact that we could leverage this and customers could take advantage of our broad spread across the country.

On the right side of the slide, you see the addressable market. So it's a big market. There are growth opportunities. We're taking advantage of those, and we're following a lot of the same, if not all of the same things that you've heard with regards to Utility, CIG, Industrial. Great markets in Canada and markets that we have and will continue to take full advantage of and leverage more growth as a result.

A little bit more about our business. You see we're 57% construction. And I did get a question during the break around what's going on in that marketplace? It's still pretty strong, and we're going to talk about that on a later slide, where, even though there is legislation that we're all aware of that's gone in place, first, in Vancouver last year and in Toronto this year, that's really aimed at changing the way investments are made in Canada. So not pure speculation, but actually construction for the benefit of people that are actually going to stay and prosper in Canada. It's -- the country continues to attract immigrants, more favorable immigration policy than many places. And so they need places to live, there's still a need to add more housing, more towers, more condominiums, et cetera. And so there is clearly a pull-through and then all the ancillary support for that, the hospitals, the malls, the shopping, the hospitals, -- excuse me, everything that need -- you need to support, clearly, being invested in by Canada and will be for the foreseeable future.

In the middle, you can see what our organic sales are doing. They're getting better. We're not out of the woods yet, but we're certainly seeing turning in our markets and at least stabilization in some of the ones that have not returned to growth. And I'll talk more about that in a moment. We're happy with these results, but we also think we've influenced the outcome by diversifying the business. And I'll show you 4 great examples of many that we had to choose from, where we are changing the types of customers we're calling on. We're going to continue to be a market leader in oil and gas and mining and in construction in Canada, but we're going to continue to broaden this customer base. We're not going to stop doing that.

And to the right are our strategic priorities. Pretty similar, the same themes that you've heard from John, from Andy, you'll hear as we continue throughout the day. But if I pick a few off, there's clearly an infrastructure spending windfall that's going to come over the next 10 years in Canada. I call it a windfall because it's new spending. Our number would be something in the neighborhood of $185 billion over the next 11 years. And I'm going to show you where WESCO will participate and will win in those opportunities. So that's on top of everything else. We're also working, and we had some great examples of how we can strengthen our Utility footprint. Yet that's an area that we did not exist in Canada prior to 2010. We're in it now. We're the second-largest player. We're building on that success that we've had and continue to expand our business. And that market is beginning to pick up a little bit. As the economy rises, the need for more utility infrastructure also increases, and we're seeing that.

Last but not least, we're continuing to diversify and also capitalizing on a stronger industrial market. You'll see on a future slide that capacity utilization in Canada, from an industrial standpoint, is actually back over 80% again. And that's typically the point at which companies look at reinvesting in their markets, and we're seeing that right now across the Industrial base. And we're well-positioned to take advantage of that.

A little bit more about our Canadian business and how we fit inside of WESCO's portfolio. We're just under 20% of the business. And as you can see from where we were in 2010 to where we were in 2016, the fiscal year just ending, we've roughly doubled the business or have doubled the business through both acquisitions and organic growth. And we've broadened the business. And so you see Utility, which was not -- was a very small sliver, is larger. Everything is bigger. So we have done a good job of diversifying the business where, in 2010, for example, Construction was 70% of our business. It's closer to 57% today. So we are making progress, but everything we're working on is to continue to diversify this portfolio.

Andy had his favorite slide. This is my favorite slide, because none of my competitors can show you this slide in Canada. We have the broadest geographic presence of anyone in the electrical distribution industry and, frankly, pretty much any distributor that works anywhere close to our space. Facilities across Canada and the ability to get to customers same day or next day, it's very powerful. It's something that we leverage, and our customers are choosing us because we have this geographical footprint. It's a differentiator, and we're taking advantage of that. We've got a great team of people, almost 2,000 people operating in Canada, that are customer-focused. We like to say we overserve the customer, and we're driving new sources of growth again that I'll touch on in this presentation, where we are using not just our capabilities, but our geographic scale to bring new customers in the fold.

So now to talk a little bit about our Industrial end market. So not surprisingly, because this is very historic and it tracks the fact that Canada is a natural resources-based economy, our 3 largest verticals: oil and gas, mining and water treatment. I'm going to speak to both of these -- or all 3 of these, excuse me, in more detail.

But maybe if I work from the bottom, water treatment is probably the first area where we've seen infrastructure, new money coming in from the federal government in Ottawa. That's great news. And there's a lot of opportunity even in Canada from a water treatment standpoint to really upgrade, especially working in some of the indigenous regions of the country and just bringing more infrastructure to play from that standpoint.

Mining, obviously, took a big hit with the drop in commodity prices and the slowdown in industrial demand. I would say, today, it's stabilized. We are starting to see projects that were put on hold or stopped completely or slowed down, we're beginning to see some of those come back to life. And that is represented in terms of engaging with some of the major mining companies and conglomerates that operate, and they all operate in Canada. And we're seeing increased business and increased opportunities with all of them. I would say that's still something that hasn't gotten to where we want to get it back to. But it's encouraging that over the last 6 months or so, we have seen an improving trend.

And then there's oil and gas, obviously, a very critical business for us, a very critical component of the economy in Canada. And as you can see from the table on the right, actually we're going to see record production in the oil sands this year, which is great news. Now what's really happening there is our customers are building out -- or excuse me, are utilizing the capacity that they already have installed. This has not stimulated new capital spending, but what it has stimulated is very strong turnaround work, which has led to more maintenance, more MRO sales. And in the areas where we operate, we're seeing a very nice uptick in business over prior year, again tied to that incremental spend that oil companies either did not spend or significantly curtailed their spend in 2015 and 2016.

So our overall growth, we're still waiting for that. We're still, I would say, stable. But we're beginning to see the -- in this case, the green shoots that start with more maintenance spending, and clearly, a rising tide from a production standpoint. About 32% more wells will be operated in '17 versus '16. That's a big number. And so we're beginning to see the pull-through from that.

I did want to speak to the oil sands. And so we created this slide to give you this update. I just talked about drilling activity increasing. That's a great sign, and it feels like it will continue clearly at or around the price of a barrel of oil that we sit in or exist in today. A lot of consolidation has gone on in the last, literally, year in the oil sands. We truly believe that, that's a great outcome for the industry and, therefore, for WESCO as well. And why is that? Well, scale matters in their industry as well. And the companies that are buying are paying less than what some of these properties would have sold for 7 to 10 years ago. So they've got a lower cost of capital, which means a lower cost of entry. Labor costs are back in line. They always seem to bubble because of demand. So cost of doing business is better. They're more disciplined in their spend. And so we're -- again at the beginning of this then is more spending around turnarounds and maintenance. We are seeing that happening.

A lot has been made of pipelines, whether it's Keystone XL or the Enbridge pipeline and the others that are -- that have been approved by the Trudeau government in Ottawa for going forward. There are a lot of ecological demands, so they've got to treat the country that they move through carefully. But suffice it to say, it's certainly our belief and our customers' belief that these projects are going to happen, and we're beginning to see the front end of that. And that is request for information, looking at our capabilities, looking at what we could do to support these. And so the activity is beginning to pick up. A year ago, that was at a 0. It has now picked up. And we actually expect it to pick up from here and really help us, probably not in 2017, but in 2018 and beyond.

The other thing that's helping is, unfortunately, we had the tragic fires in Fort McMurray last spring. And they were -- only about a year ago did things begin to go back to normal. The good news with the fires is none of the oil production was affected, and you could see that from the previous chart that things have bounced back. But there was a little bit of a lull in terms of the recovery and in terms of what the province was going to do, what the government was going to do. We're beginning to see that pick up pace. And where we've seen it first is in our Utility business. So we're seeing orders come in for rebuilding the infrastructure in Fort McMurray. And unfortunately, a natural disaster, but when these things happen, they typically present a downstream opportunity, and that's beginning to materialize.

The most important thing on this slide, especially for me, in my role, is the fact that our backlog in the Prairies, and so that would be Alberta and Saskatchewan, is the strongest that it's been in 3 years. And so it shrunk in '15 and '16, in line with everything else that went on, and now it's back and better than ever. It's a different mix, though, and it represents this attempt and now success that we've had at diversifying our business. We are -- stand ready to take on the next big project that occurs in the oil sands. But in the meantime, we're diversifying our base, and we've built up a very strong backlog, which we'll begin to see the fruits of in the back half of '17 and clearly into '18 and beyond.

Want to move into the Construction end market. I already talked a little bit about that. But we continue to see population growth in Canada. And so the pull-through housing schools, health care and infrastructure, WESCO is #1 in Canada in terms of serving those type of projects. It's the hallmark and really foundational about how we operate in Canada. And so we are seeing those opportunities come to fruition, and we're taking advantage of those. So our backlog is rising in construction.

Now it's, again, well understood that there have been legislation put in place to really slow down the rapid appreciation of value in -- first, in Vancouver and in Toronto. And it clearly had the desired effect in Vancouver. We are still positive year-on-year, but the rate of growth is a bit slower. In Toronto, these -- this legislation only came into place in the last 60 days, and we've not really seen much of a change, because these towers and the demand for what they call P3 in Canada, which is that physical infrastructure, hospitals, et cetera, is very strong. And we actually expect that to carry on, because Toronto and the Greater Toronto area is really a hotbed of investment. It's 38% of Canada's economy, and it's going to continue to drive investment and population growth. I did touch on industrial capacity, and that does remain a substantial opportunity for us going forward as companies reinvest.

I talked about infrastructure. And here, you can see we've not categorized all $186 billion, but we've taken some large chunks out of that. And I won't go through this in detail, but you see where a significant portion of the spend is occurring. And you see where WESCO competes and wins with regard to those infrastructure opportunities. This is all upside for our business going forward. And not unlike, I think, what we're seeing here in the States, the Trudeau government has been in 1.5 years, and we're just now beginning to see that spend starting to occur. But we do believe it's going to be on a steady path from here and increase over the next several years. WESCO is well positioned to take advantage of those opportunities.

Not unlike what you've heard from the other presenters, very similar growth opportunities across the country from Industrial, where I believe we have an ability to expand our footprint; Construction, where we're clearly by far the #1 market leader, we'll maintain and grow that business; Utility, a lot of upside, especially in a rising economy; and CIG, and I'll speak to one of our success stories here in a moment that talks about how we are expanding that business across Canada.

So I have 4 success stories today, and I'm very proud to share those with you, because these are the results of the team going out and doing what we said we're going to do. We're going to diversify the business. We're going to find new customers. We're going to convince them that we are a value-added provider and partner with them to reduce their costs and make their lives easier.

So the first one is around a university. And so I think we could all think about the alma maters that we've graduated from. And it's a mix of old and new buildings. Well, in this case, our customer decided to in-source their basically physical infrastructure management, but they needed a partner. So they looked at us, and we have come in and we are their partner in scope, including traditional things such as electrical materials, but also the fact that we can bring the lighting. And you've heard everyone talk about lighting so far today. It's a huge opportunity. We are best positioned to serve it. We have the people. We have the technical expertise. A university, a factory, they don't know how to do this. They need our help to show them how to take advantage of the savings.

In Canada, there's even another reason, and that is most provinces have a 5-year energy reduction mandate. So our conversation is actually broadening from just lighting to electrical consumption, so power consumption. And so we are bringing people, tools and capabilities to that discussion to take our customers forward and allow them to take advantage of the money that the government -- the provincial government is providing, and frankly, getting compliance. So in this case, lighting, datacom, managing some inventory. This is a brand new customer, $1 million a year in revenue over a 5-year term. And almost as soon as we got the first one started, we've signed a second one. And we expect to continue to do this and bring this right across Canada.

This next one is interesting, because what WESCO did, by really using our technical experts, is identified an opportunity that our customer and our supplier were not taking advantage of. And this was an efficiency gain where a supplier happy to sell a kit directly to a customer, but WESCO got in the middle of this and actually talked to the customer, talked to the supplier and custom-engineered a solution where we are managing this and bringing it forward. And we've now done this with 3 customers. And we're utilizing the presence that we have with the customer. And so the supplier actually is stronger as a result. We've created a new opportunity that we're going to exploit across other utilities. And for both of us, both supplier and distributor WESCO, we've displaced competitors. And so it's a great opportunity. It's a win for the customer, because we've brought them a more efficient solution. It's a win for us, and it's a win for our supplier. New sales of $4 million a year for the next 3 years, and we're going to be able to leverage this. We're going to be able to take the know-how and leverage the technical expertise and take it down the road to the next utility supplier. And so while this is certainly in a traditional market utility, which we are relatively new to in Canada, this is actually expanding this into something more meaningful and more lucrative for WESCO.

My next opportunity is the one I was talking about before. So we have a customer that is rapidly putting broadband infrastructure across Canada. And they have an internal 5-year mandate to basically get fiber to pretty much everywhere in Canada. Ottawa, so the federal government, has said that they want broadband capabilities everywhere in Canada, so not just in Toronto and Vancouver and Calgary, but everywhere, everywhere across Canada. And so this customer was doing a pretty good job of this, but they did not have the -- they had the capability, but not the footprint to basically enable this across the whole country. So they started looking at who they could partner with to be able to do this more efficiently, and frankly, do it faster. That was what they really wanted to do.

WESCO was the only one to be able to do that, because again of this geographic presence, scale matters in distribution, and our ability to bring this service to this customer. So this started in earnest on the 1st of January. What I love about this, and it's a great credit to our team in Canada, is we really use lean principles to design how we're going to manage this opportunity with the customer. We're leveraging our existing facilities, our existing equipment and our existing people. So we didn't have to go buy anything, hire anybody or build something or occupy new space. We figured out how to more efficiently run our existing operations to create the capacity to dedicate to this customer. We're off and running with a 5-year contract that is supposed to deliver $20 million a year. We're on a run rate already, 5, 6 months into this, higher than $20 million. And just in the last 4 weeks, I personally met with my team, with the senior leadership from this customer, because they wanted to talk to us about how we could bring more WESCO products into the fold, because they're impressed with us. We've dazzled them. They want to do more business with us. And so a true One WESCO, finding the place to intersect the customer, bringing more capabilities in.

My last one is even more unique. And this is a provincial farmers association. So this is an amalgamation of 42,000 farmers and foresters in one province in Canada. They have an organization already. But what they were looking for, because regulations are changing, safety regulations, working at heights, confined space, these regulations are getting tighter, and there is more training requirements for this. They needed to find someone to partner with to help manage them through this. They picked us. Why? Because we have the capabilities. We've got the technical expertise. We understand the regulations in each of the provinces and how to deal with them. We have training. We have capabilities. We have consultative services. And we have the kit, the PP&E that's required. We've set up a customized portal, customized website for this provincial association, all customized to basically take care of them. They can get online. They can request technical support, training, et cetera. It's a 3 -- we expect it to be a $3 million opportunity with a 3-year term. And we've got opportunity to really take this model right across Canada.

So I'm going to wrap up. So it's an exciting time to be in Canada. We didn't get any teams into the Stanley Cup final, but we at least got some teams into the playoffs. So we're making progress. And I'm in Toronto, so we're very high on the Leafs. But more importantly, on the 1st of July, Canada turns 150 years old. So that's pretty exciting. And it's -- while it's a mature country, it's still a country with a lot of opportunities. And it feels, in some regards, like the States did when we were bringing in so many more immigrants. So that could be 50 years plus ago. But a very exciting time. The economy is improving. Certainly, we're seeing that in our end markets. And we're really positioned -- well-positioned to take advantage of that in Canada. We've got a great team. We've got a strong group of people. And I certainly want to thank them for their efforts to get us this far, and we're going to continue to drive growth and diversify the business.

One WESCO, I hope I've given you some examples of where we're really leveraging that to drive growth in the business. And we have made progress in diversifying the business. There's more to do. There's a lot more opportunity to take advantage of.

And last, but not least, we have really transcended the organization and are using lean to underpin everything we do. I gave you the example of better utilization of existing facilities. But it really underpins everything we do in Canada. And we continue to drive process standardization. It's helped us lower our costs. It's helped us improve our margins. And it really positions us well to continue to take advantage of growth in Canada.

So thank you for your time, and it was great being with you today.

It's my pleasure now to introduce Hemant Porwal, our Global Vice President for Supply Chain and Operation.

Hemant Porwal

Thank you, Nelson. You did that well. Good afternoon. It's good to be back. This is my second Investor Day. Andy, not yet 6, but looking forward to many more.

So good afternoon. Like I said, so far today, you've heard from Andy, Kevin, Les and Nelson outline the growth opportunity for WESCO across the markets we participate in. My focus is to enable this profitable growth, expanding margins as we meet customer demand in these verticals. A critical part of the overall strategy that John has laid out for WESCO includes expanding margin and it requires global supply chain management and a fresh look at how we become a solutions provider to our customers. Since I started with WESCO a couple of years ago, we have been executing on that strategic framework. In the next few slides, I'm going to give you an update on the strategy and the progress we've made.

So WESCO is a supply chain company and we play a critical role in creating value for our customers through our products, solutions and services. We seek to create efficiencies and streamline customer supply chains from acquisition to consumption. Unlike other industries and distribution, supply chain has both the opportunity and the ability to drive sales growth and margin expansion. The mandate for my organization is straightforward, deliver profitable growth for WESCO.

The formula for achieving that growth is fourfold: one, buy as low as you can through cost side negotiations; two, sell as high as you can by pricing in our service capabilities; three, have the breadth and depth of inventory that meets customer demand; and four, most importantly, execute, [think back] and deliver flawlessly. We leverage the value chain from sourcing to customer fulfillment with the right people, process, technology and infrastructure. We have an expansive branch network, automated distribution centers and a fleet that makes daily deliveries to our customers.

Our values. WESCO is one of the largest players in industrial distribution and we need to demonstrate supply chain leadership across the value chain. Promote safety which is the #1 priority for us. Everyone in the organization feels the heat of the business. What does that mean? Everyone is accountable for growth in margin. No one is allowed to sit on the bench or view the game from the sidelines. Win with a high level of integrity and respect for our supplier partners. Our resolve to grow the strategic suppliers is building on that value which I'll talk about in more detail.

As you know, Lean is the bedrock of our organization and part of our DNA at WESCO. Last year alone, we conducted 700 Lean events to improve efficiency and effectiveness. Our mandate and values allow us to deliver on the 7 Rs of supply chain: right product, right cost, right price, right place, right quantity, right quality and at the right time. To build a company, you have to build a people. To grow a company, you have to grow the people. To transform a company, you have to transform the people.

The visual on the right is a constant reminder of the transformation we kicked off last year, as well as the journey ahead. Supply chain is the nerve center of One WESCO.

Let me give you an overview of the 6 pillars of global supply chain and operations. We have a strong, experienced management team focused on the transformation that we outlined last year. The leadership team has a good balance of long-standing WESCO associates with decades of distribution experience and also new hires who bring in fresh insight and expertise from other industries. With this mixture of talent and background, the team is well-positioned to drive the transformation. We're aligned with marketing, demand creation, sales operation and category management. The sourcing organization on your very left manages about $6 billion in spend which includes over 12,000 special pricing agreements. Our specialized pricing agreements, or SPAs, is something we negotiate with manufacturers on behalf of our customers to address [what] competitive end market dynamics. The focus for this team is cost negotiations. The pricing team is responsible for 75,000 customers: local, regional and global accounts. Their focus is on price analysis, price optimization and margin improvement. We carry over $800 million of product in inventory and stock over 1 million SKUs. Optimizing inventory levels and maximizing first cycle order fulfillment is the focus of the inventory team. The operations team manages 9 distribution centers and over 500 branches across globally. And their focus is on branch replenishment and direct customer fulfillment to the network of 500 branches that we have. The transportation team manages over $90 million of spend. They focus on customer fulfillment, fleet safety and mode optimization from the first mile to the very last mile. Finally, safety, sustainability and supplier diversity is becoming increasingly important to both WESCO and our external stakeholders. The green pillar at the very right represents WESCO's commitment. We are committed to managing an environmental footprint and better the communities we serve. To this end, we'll soon be updating our corporate social responsibility report. Having met our earlier sustainability goals, the new report will include new targets for reducing our environmental impact. In addition, as we speak, we're completing a solar installation at our branch in Santa Clara to provide renewable energy and lower our environmental footprint. Being a good steward of the environment and being active in social causes is an expectation that we take seriously and have added investments to deliver results. We're extremely proud of the results we've achieved on safety. Our safety record is industry-leading. We're 6x safer than companies we benchmark with that are part of the National Association of Wholesalers. We are over 1,300 diversity suppliers that actively engage with WESCO. Everyone in global supply chain and operations is laser-focused on customer satisfaction, productivity, profitability and social responsibility. So we have a big and complex business and increasingly, we're looking at building processes driven by technology to drive margin and help solve some of the larger problems we face in the organization today. Technology allows for disruptive innovation with efficiency and effectiveness. Businesses need a way to manage the supply chain digitally and get answers to what if scenarios that back-of-the-napkin analysis or spreadsheets cannot fully explain.

Last year, we deployed an enterprise sourcing application that has allowed us to engage with our suppliers electronically. This used to be, in the past, a lot of print, e-mail and faxes. Competitive bids that used to take us days to consolidate now happen with a click of a button. We're using the application to run electronic RFIs, request for proposals, optimize competitive bids and set up auctions.

As you know, we have over a million -- over $800 million in inventory and we sell over 1 million products, and we see variable demand from our customers. Long lead times and demand uncertainty and supply volatility can cause excess inventory. Technology in this area helps improve demand forecasts and will help to establish better inventory levels with Multi-Echelon Inventory Optimization. We're also faced with many questions today that we cannot answer easily. Who is in the best position to meet customer demand? Is it the branch or is it the DC? The answer cannot be "this feels right." We're directionally correct at best, but not precise. We're reviewing optimization technology that will allow us to perform this scenario analysis and make sound business decisions quickly. As I often tell my team, no moon shots, please. Every and all projects must meet the hurdle rate for investment priorities that we have in WESCO.

In Chicago, as we speak right now, we're piloting a last mile solution for route planning, dispatching and fleet tracking. It'll give us visibility and the necessary data to drive a world-class logistics operation. By integrating with our existing systems, this mobile solution will enable planning, execution and maximize our private fleet productivity.

Any strategic transformation in my mind requires 3 basic tenets. First, as a leader, you have to set the agenda; second, do it the right way; and third and most importantly, take others with you. So while technology is clearly an enabler, strategy fostered in the culture able to change and adapt is going to be the competitive differentiator for WESCO. We're building a foundation of world-class processes that'll add new capabilities and new ways of working.

Now I'm going to give you an update on the strategy outlined last year and how we're going to deliver a step-change in our performance over the next few years. Historically, in WESCO, our spend used to be negotiated locally with a very limited strategic supply base. The organization itself was tactical and transactionally focused. For sourcing and inventory, we're in Phase 2 of our evolution. Recent investments in tools and people and the development of new processes are transforming WESCO from a decentralized to a central-led organization. Centralization also has allowed us to transition routine, non-value-added functions from branches, freeing up their time to focus on serving customers. We even raised business process outsourcing for tactical activities like processing special pricing agreements and expediting purchase orders. These resources are also helping us improve service levels at our branches as we serve our customers.

Our sales team now is engaged with customers to understand product specification and preference for categories of spend that we've identified to consolidate. Once we establish a baseline, it'll allow us to negotiate regionally and/or nationally, whatever maximizes WESCO leverage. We've communicated with the strategic suppliers, our intentions of consolidating spend, keeping front-and-center regional requirements. These actions should result in higher product turn from an inventory standpoint and an improved cash conversion cycle. We standardized payment terms for all new suppliers and we put in initiatives for electronic payment which impacts both gross margin and cash flow.

We are starting to exercise our supply chain muscle. Last year, I laid out the approach towards spend rationalization. The tree map on the left is a visual of our supply spend today. Strategy from a sourcing standpoint is straightforward. Step one, reduce complexity. We have over 10,000 suppliers in the bottom left quadrant which is target-rich for consolidation. Step two, is leverage our spend. Examine supplier relationships across WESCO and improve the value-to-price equation. Step three is grow with our strategic suppliers. We have long-standing partnerships with suppliers in this group. Executing on this strategy allows us to reduce complexity while improving costs and increases supplier volume rebates which helps gross margin. Earlier this year, we launched a sourcing strategy called RFI the Tail which is focused on reducing our tail spend. We're actively assessing 3,000 customers that are across 22 product categories, 800-plus suppliers and 11,000 SKUs, looking for opportunities to drive volume to our strategic suppliers. Our pilot project right now is showing progress and we're going to extend the program nationally. When customers accept products that meet their definition of same form, fit and function, it streamlines the SKUs we have to carry in that inventory and unlocks cash which is a huge focus for WESCO. This effort isn't easy and requires due diligence collaboration between sales, sourcing, suppliers and our customers to achieve the desired results. Our strategic suppliers are excited about this approach as well. They view RFI the Tail as an initiative that not only grows sales for them, but also as a channel for new customer acquisition. For WESCO, it reduces our spend it, it reduces the complexity of managing tail spend suppliers, it improves margins and increases spend with strategic suppliers.

Last year, I talked about how we were able to reduce complexity and leverage spend by consolidating packaging suppliers, using reverse auctions. We leveraged the same strategy with some of our direct material spend with where we have complete control of our end customer demand. Two examples I'll walk you through today is for negotiations we executed in our specialty wire and cable and safety portfolio.

We started off with several rounds with an RFQ that resulted in several benefits. We got all the suppliers to give us consistent quotes. We prepared suppliers when using the system and we enabled clarifications of requirements prior to the e-auction. We had a total of 35 suppliers participate in these 12 separate auctions that lasted about 4 hours in total. We set the expectation early on that the outcome of the auction would be winner-take-all.

Through these events, we were able to recognize savings of a few million dollars in acquisition costs and post-auction, we've been conducting due diligence with supplier visits and quality certifications. We've been placing orders right now with vendors who won the auction and so far, we're pleased with the outcome. E-sourcing is an example of how we're leveraging technology to simplify our supplier engagement and accelerate our quote-to-order cycle. It's allowing us to engage with suppliers on a national basis and we're planning to expand on e-sourcing our spend. This strategy is driving margin expansion for WESCO.

Now, let's talk pricing. So we compete in markets today with many of our competitors. Many of our customers are making buying decisions through multiple bids and we need to give our sales team the flexibility to react to local competitive dynamics. Phase 2 of the evolution was the structural alignment of internal pricing resources, from being purely tactical to being more strategic. We've got them partnering now with our regional sales team and our product category teams and that journey has already started.

We executed 2 strategic organizational changes this year. First, we aligned pricing managers with regional sales leaders, allowing for better communication and market-specific pricing, driven by local and regional insights. Second, we aligned existing resources to create a pricing team focused on executing pricing strategies by product category. We now have a monthly cadence to review sales and margins against set goals, with a cross-functional team that's representing sourcing, inventory, pricing and product category. This is driving a higher level of collaboration and consistent decision-making across the organization.

Today, we still depend on analytics from our pricing managers and analysts. We're making investments as an organization to transition the reporting to automated dashboards that provide insight and execution into our pricing strategies. Less time spent organizing data, more time spent identifying actions to improve margins. This price intelligence will enable our sales and pricing team with real-time information and speed decision-making in highly competitive scenarios.

Last year, I introduced to you the framework we were using internally and our approach to pricing discipline. The step one of this process starts by assessing our gap-to-goal, and we define gap-to-goal as the margin -- the delta between the margin -- pocket margin and the desired margin. In step 2 of this process, we use a diverse pricing tool kit of top supplier deep dives, best-in-class analysis, top SKUs reviews and margin clinics to target areas for improvement. Enforcing standards and discipline in step 3 is more actionable when decisions are backed by good data and sound analytics. It gives our sales team confidence so that we can minimize price overrides and drive margin expansion.

We've completed over 200 gap-to-goal sessions last year and these sessions are bringing together resources from sales, pricing and sourcing to conduct deep dives in improving margins. In these sessions, we're focusing our efforts to uncover opportunities for customer segmentations, price calibration and raising price on stale invoices in line with industry price increases. The benefit of gap-to-goal is evident and the progress is being monitored monthly to ensure that identified actions are being executed.

In WESCO, our Lean culture accelerates a mindset where we believe in making today better than yesterday and tomorrow better than today. Version 2.0 of the margin journey is implementing a daily margin management program. This program designed on Lean principles is being piloted across several districts in the U.S. It's focused on visualizing margin performance daily at a branch level, driving local accountability and facilitating root cause analysis. I talked to you about my vision to drive growth and increase profitability for WESCO. Pricing is going to be a key lever to drive that vision.

Operations and transportation is an area where we have managed well, but there's always room for continuous improvement. Branch consolidations have been core to our strategy and we'll continue those efforts opportunistically. Since 2010, we have merged and/or consolidated 119 branches and opened 62 new locations. Branch consolidations help us with improving customer service and also lowering our total cost to serve. Future state will be strategically located branches, distribution centers and sales offices, optimized around meeting our end customer demand. We've also negotiated a few global contracts for facilities management which drives consistency and common standards across our network. The transportation team is now a Center of Excellence based in Pittsburgh and managing spend globally for us. We're driving consistent service level agreements with our carriers which is critical to ensure that we meet the transportation needs at our distribution centers and also our branches. We'll continue to operate a robust commercial fleet, given the product characteristics of what our customers buy from us today. For example, we have large use of cable, conduit and transformers so we'll continue to run that fleet. The focus is on building an infrastructure that enables growth, centered around the service capabilities that you heard Les and Kevin and Andy talk about, and delivers economic value for both WESCO and our shareholders.

Let me give you an overview of the transformation within our distribution center network. Today, our DCs play the primary role of branch replenishment. Last year, we kicked off a project to enhance the capabilities of our warehouse management system, enabling a One WESCO DC strategy. The design principles for a One WESCO strategy is simple. It's situated in major transportation hubs, close to end customer demand and carrying inventory that is germane to the trading areas we serve. They're capable of next day replenishment to our branches and direct order fulfillment to our customers and importantly, support our One WESCO strategy by providing branches access to WESCO's entire portfolio of products and services. Using inbound and outbound shipment data for a few years in analytics and modeling, we developed a multiyear road map. We're going to optimize our network footprint for lowest costs to serve, factoring in handling costs, transportation costs and facility costs. Our plan in 2017 as you already heard from Andy is to open 2 new One WESCO distribution centers, running on fully automated warehouse management systems. We're also going to convert in 2017, 3 of our Legacy DCs to One WESCO distribution centers.

So One WESCO distribution center as we plan on it, will have industry-leading capabilities and they'll be servicing all 3 demand streams in WESCO, the capital projects, our OEM and our MRO. So while branch replenishment and customer fulfillment will always be foundational for our DCs, the One WESCO DC will also have a heavy focus on performing job functions that Les talked about: cable management, assembly, getting job parts ready for on-site customer use, kitting and staging projects, service capabilities that WESCO is focused on, all centered around increasing customer efficiency and profitability. Simplifying the supply chain of our customers and reducing their operational costs is of tangible value to them. It builds stickiness in the relationship as you heard from several of the WESCO leaders already, and it allows us to expand margins.

As I said earlier, the transportation team is now managing the portfolio globally. We recently completed negotiations for less than truckload carriers for neighbors up in the north that service our branches in the Canadian provinces of Ontario, New Brunswick, Nova Scotia and Newfoundland. So what we did here is we pooled spend for about 900 lanes, representing all of the business units that operate in those regions and we put out 1 consolidated bid using our e-sourcing platform that I talked about earlier. Prior to this bid, these suppliers will be managed locally. So we conducted 3 rounds of negotiations and the focus of those negotiations was cost, quality and service. Post-bid, we consolidated spend to 3 core providers, we've achieved better service level agreements that will improve delivery to our branches and customers and we've also delivered double-digit savings to the P&L.

In summary, we started the journey in 2015 to build a center-led supply chain and operations function which is foundational to driving margin expansion. The strategic roadmap we're executing against is simple. For sourcing and inventory, it is consolidating our supply base to reduce complexity, leveraging our spend and growing with our strategic suppliers. For pricing, partner with our branches on gap-to-goal and build price confidence with our inside sales teams, that will lower price override and drive margin growth. For operations and transportation, optimize a physical footprint and lower the cost to serve. We've engaged both local teams and corporate teams on the playbook which I expect will constantly mature as we adapt our own strategy to meet and exceed customer demand.

To build a company, you have to build the people. To grow a company, you have to grow the people. To transform a company, you have to transform the people. There is a sense of purpose at the heart of everything that we're doing today in supply chain and operations which is building confidence. We're still in the early days of our transformation, but as John and other leaders have said, scale matters in distribution, and we plan to leverage our capabilities and translate them into actions that will deliver 20 basis points of margin improvement annually. We have the footprint and the capacity to support our growth.

In closing, I'd like to thank you for your attention today. It is personally rewarding to see how far we have come in the past 2 years. Focus for the next several months is going to be on execution.

I'll now hand over the podium to Dave who will give you financial updates. Thank you.

David S. Schulz - *WESCO International, Inc. - CFO and SVP*

Thank you, Hemant. Good afternoon. As Hemant mentioned, I'm Dave Schulz, I'm the CFO at WESCO. I've been with the company for about 7 months now. It's a pleasure to be here with you and thank you for your interest in our company.

Over the past couple of hours, we provided you with an overview of our company, the end markets in which we compete and our competitive advantages. We discussed our services portfolio and how we leverage these capabilities to drive value for our customers. I'll now switch gears and provide you our perspective on financial objectives and how we intend to drive value for our shareholders.

Three key points I'll be making: quarter results through the end of May are on track with our guidance, and we continue to see improving sales momentum, and we are reaffirming our Q2 and full year outlook; second, we will continue to be disciplined in our capital allocation and recently completed a $50 million share repurchase; third, our long-term growth algorithm drives double-digit EPS growth through a combination of market opportunity, share gains and operating leverage.

Our financial performance goals are consistent with what we shared with you in the past. First, we'll grow sales faster than the market by leveraging our organic growth strategies and acquisitions. The combination of operating leverage from revenue growth and margin improvement initiatives will result in double-digit EPS growth and we remain laser-focused on cash, and we expect free cash flow generation above 90% of our net income. We believe that delivering strong financial performance including significant free cash flow generation and effectively allocating capital will improve return on invested capital and lead to superior investor returns.

Let me provide you some historical context for our financial results. Since going public in late '90s, we've more than doubled sales through both organic growth and through acquisitions, resulting in a 5% compound annual growth rate from 1999 to 2016. Our adjusted EPS through that same time period grew at a rate of 10%. Now on the bottom left of this slide, you can see that free cash flow generation grew at a slightly faster rate than EPS at 11%. For the period of 1999 through 2016, we've delivered 13% total shareholder return. This is near the top quartile for all industrial companies over the same period. Now on this slide, you can see that we've chosen to show you several periods. The first is 1999, that's essentially after the company went public. We've also showed you the metrics from 2002 and 2009. These were trough years in the previous cycles. And you can see that we've shown you 2016 which, based on our outlook for revenue growth in 2017, we also believe is a trough year. So you can see that 2009 to 2016 bar indicates that we've grown from trough-to-trough at a 14% average annual TSR.

One of the hallmarks of WESCO has been our ability to leverage scale and manage our cost profile. On the left-hand side of the chart, you can see that our sales per employee and SG&A as a percentage of sales are favorable to the leading industry benchmark and we're using here the National Association of Electrical Distributors. We've also demonstrated our agility to respond to the changing end market environment. And over the past 2 years, we've eliminated approximately 1,000 positions. We've eliminated or consolidated approximately 40 branches including businesses in Australia and Brazil, given what we perceived as the end market opportunity in those markets. We're also investing a portion of those savings to deliver competitive advantage and improve our margins. So over the course of the last couple of years, we've added end market sales and marketing leaders and we've added product category leaders. We've also established and expanded our e-commerce capabilities and we created the global supply chain organization to leverage our scale and drive margin improvement as you just heard from Hemant.

In 2017, included in our plan and in our outlook are additional investments primarily in growth areas, some that you've heard about today including lighting and lighting retrofits, cloud computing and additional capabilities in our e-commerce group.

Switching gears to our capital structure. Over the past 4 years, we've generated over $1 billion of free cash flow. Our target leverage range is 2x to 3.5x par debt to EBITDA and we finished the first quarter of 2017 at 3.4x, and we used the portion of that free cash flow to buy down our debt. Our debt structure is about 60% fixed rate and we have plenty of flexibility, with over $700 million of liquidity as of the end of March. Our goal is to ensure that we remain disciplined with our capital structure while also maintaining the appropriate amount of flexibility to support our growth strategies.

Let me provide you an update on our results year-to-date. We announced our first quarter results at the end of April and we noted improved business momentum and a return to growth in our Industrial end market and in Canada. Organic sales were down 2% and EBIT margins were down about 10 basis points from the prior year. And we again delivered strong free cash flow at 114% of net income. Based on preliminary results for May for the second quarter to date, we continue to see growth in the Industrial end market and in Canada.

Quarter-to-date, organic sales are flat versus the prior year, including the impact of Easter timing and results are in line with our expectations and our outlook. And recall, our outlook for reported sales in Q2 is for revenue to be down 2% to up 1% versus the prior year, noting that foreign exchange is a drag on sales, primarily due to the weakening of the Canadian dollar versus the prior year period.

Let me provide you some perspective on our 2017 outlook. Again, as John mentioned earlier, we are reaffirming our outlook for the full year that calls for sales to be flat to up 4% on a reported basis. EPS in the range of $3.60 to $4, and that's with a tax rate of about 30% and 49 million shares outstanding.

Note that our outlook is unchanged from what we provided to the Street back in December of 2016. And what I'd like to do is provide you some perspective on what's changed year-to-date versus our original expectations. And as you can see on the slide here on the positive side of the ledger, our results in Canada and in the Industrial end markets have performed slightly better than we had anticipated in our original outlook. We've also seen better results in our Utility end market, noting that we did walk away from a very significant contract that is impacting our reported and organic results within Utility.

Also on the positive side, our Q1 reported tax rate was 25%, below our guidance of about 30%. Results for Q1 on the tax rate included 3 percentage point benefit from the adoption of the accounting standard exchange for equity awards, and this benefit was not included in our original guidance with a tax rate of about 30% on the quarter.

On the negative side, timing of price increases, the customers has impacted margin. Gross margin was down versus the prior year but was up sequentially versus the fourth quarter of 2016.

Now recall, we indicated back in December that our 2017 outlook includes a back half recovery. So we're more weighted towards the back half. Results year-to-date are in line with our expectations and we will update our 2017 outlook during our earnings call on July 27.

I'd like to provide you some additional perspective on capital allocation and discuss the recent actions that we've taken. We prioritize the use of cash to support organic growth, to fund the accretive acquisitions and to maintain the target leverage of 2x to 3.5x par debt to EBITDA. We also prioritized repurchasing shares. Recall that in December of 2014, our Board of Directors authorized a 3-year, $300 million share repurchase program. During 2015, we bought back approximately $150 million worth of shares. As we think about share repurchase going forward, our current authorization ends in December and we do anticipate updating a new repurchase program before the end of the year. We intend to repurchase shares each year to offset the dilutive impact of management awards. In May, as I mentioned, we completed a share buyback of $50 million which essentially offset the dilutive impact of equity awards granted in 2016 and 2017. So essentially, we plan to keep the current diluted shares outstanding at or below current levels. In addition to that, we will opportunistically repurchase shares within the context of the authorized share repurchase plan. And you can see from the chart on the right that we've deployed about 1/3 of our available capital to each of debt reduction, acquisitions and share repurchases from 2015 to today. Going forward, we will maintain the same priorities for capital deployment in the context of creating shareholder value.

Let me now turn to our long-term growth algorithm and recall from our earlier discussion, our financial performance goals. First, our goal is to grow sales ahead of the market. We expect to outperform the market by 1 to 2 points. We also anticipate 1 to 3 points of growth from acquisitions. This is consistent with our historical inputs and the impact from those acquisitions that we made previously. On EPS, our goal is to deliver double-digit growth. We expect EPS will benefit from sales growth and margin expansion which we refer to as pull-through. One of the hallmarks of this business is the ability to drive gross margin improvement to operating profit. For those of you that are not as familiar with our company, pull-through is the change in operating profit divided by the change of gross profit, and we're targeting 50% pull-through, enabled by gross margin improvement and operating cost leverage. And finally, on the right-hand side of this slide, free cash flow, our intent is to generate greater than 90% of net income each year.

So let me provide you an illustration for 2020. Recall that earlier in the presentation, I shared that our historical revenue growth is mid-single digit CAGR. In this illustration, we assume average market growth of 3% plus the benefit of share gains for a total organic growth of 4%, and that's 4% CAGR through 2020. We expect to deliver 10%-plus EPS growth, driven by gross margin expansion, 50% pull-through as I just explained, and this assumes that we maintain about a 30% tax rate and we hold a number of shares outstanding flat. Again, this is a 10%-plus EPS growth, driven by organic sales and margin expansion.

Our long-term growth algorithm also assumes we add 1 to 3 percentage points to sales growth from acquisitions. In this example, assuming that we add an additional 2 percentage points to the top line, our EPS growth would be incremental to the 10%-plus I just explained on organic growth.

So to summarize, our long-term growth algorithm, using this example of 3% market growth through 2020 results in annual EBIT margin expansion of 30 to 40 basis points, double-digit-plus EPS growth and about $800 million of free cash flow generation. A final point about pull-through. We need a sufficient combination of sales leverage and gross margin expansion to deliver a 50% pull-through. Essentially, we need enough gross margin improvement to offset the inflation impact on SG&A. Because of this, we generally get the 50% pull-through at sales growth levels above 3%. Below that, excluding management actions, there's not enough sales leverage to offset the inflation on SG&A, and pull-through will be less than 50%. Above a 3% to 4% organic sales growth level, we would anticipate investing a portion of the incremental profit to drive future growth. So clearly, the point I want to make here is that sales leverage over a consistent period is a key factor in our ability to achieve the 50% pull-through.

The basis for our confidence over the long term algorithm is our ability to over time, expand operating margins. On this slide, you can see our operating margins through the history from 1999 to 2016. We've also highlighted the trough and the margin that we achieved during the trough during several cycles. Note that the volume leverage through the cycle, along with margin improvement initiatives, resulted in margin expansion from trough-to-trough. So as we think about our example for the out years, we believe we can deliver margin improvement in the 30 to 40 basis point range, driven by volume leverage as I discussed, 4% organic sales growth, and the initiatives that Hemant described from supply chain initiatives perspective and our continuing to focus on cost management.

To summarize, we are focused on delivering growth and margin expansion and we anticipate that markets will improve. We have rightsized the organization and added capabilities to drive growth and margin expansion over the long-term. Our long-term algorithm delivers double-digit EPS growth from organic sales and operating leverage, global supply chain initiatives to improve margins and our continued focus on expense controls. We also expect to deliver strong cash flow generation, enabling us to deploy capital to drive shareholder value. And we believe the combination of strong operating performance and capital deployment translates to an improvement of our return on invested capital and in total shareholder returns.

Thank you for your interest in WESCO and with that, I'll turn it back over to John.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Thank you, Dave. So let me make a few closing comments then we'll open it up for Q&A. So we had several objectives for today's session. First was to give you a deeper insight into our business, our business mix, looking through the lens of capital projects, MRO and OEM. So to give you a sense of that business mix, the characteristics of that, how that performs across the cycle, the drivers and the growth opportunity, so that was objective one. Objective two was deeper insight into our customer value proposition, what our customers need and demand, and focused on our One WESCO engagement, so how we're engaging our customers, our supply chain solution offerings and the value added services differentiation of our business models. Services are of increasing importance to our customers. They're of increasing importance to our customers because they are looking at, in today's value chain and ecosystem, doing a bit of business with a smaller number of larger players and they have, through the course of this last economic cycle, actually taken cost out of their business capabilities out of their businesses. So if this turns to an up cycle, they don't have the resources to do everything they used to do and they're driving more consolidation and outsourcing. It's a critical point and, thus, consequently, services are even more important to us. The good news is we've got a strong array of services, we've been focused on those and they have increasing importance going forward. So that was the second objective, the nature of our business, our value proposition, our service differentiation. And the third, most importantly, our long-term growth algorithm is intact and our free cash flow generation capability of our business is strong, has been consistent, will continue to be consistent. And as Dave showed, I think it's very instructive, look at our history since we went public 18 years ago and we've improved this business significantly trough-to-trough through the various economic cycles. Now, the last couple of years have been challenging, they haven't been an overall economic recession, but the industrial market clearly have been in malaise and some would argue, in a recession. And given our market mix, we had particular headwinds due to the mix of our businesses tied to Industrial, our largest end market segment, and our Canada exposure. So we had some real challenges that we faced. We think we faced of those well. We actually believe we strengthened the company in these last couple of years. We gave you a much greater sense of the actions we've taken. We've got a leaner cost structure, we're well positioned and we're very focused on driving the next run of growth off of what we will view, hopefully, looking in the rearview mirror, a trough year last year. So that's our focus. We again reaffirmed our outlook for the year. Our outlook and commitment is a return to growth and given the first quarter results and the results thus far in the second quarter, we're on track. With that said, the second quarter needs to be a big step up and so as we move through the next couple of months, that will be critical. And final point, as Dave mentioned, we'll give a revised outlook on the full year when we announce our second quarter earnings, okay?

So with that, let me open it up for Q&A. And what I would ask is raise your hand. We have some mics that will come around. And because it's webcast, please state your name, your question clearly, wait for the mic so it's recorded and we'll take it from there.

QUESTIONS AND ANSWERS

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

So go ahead, Dave.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Dave Manthey with Baird. First question, what was the year-to-year organic average daily sales growth rate in May?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

So we're not completely closed yet, Dave. So we've given a quarter-to-date, we'll give you the final, May, when we do earnings.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

But if you said that you're seeing continued momentum and I believe ex-Easter and ex-foreign exchange, you were about flat in April with a little bit of upward bias, is it safe to say we're somewhere flattish to low single-digit growth, something like that?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Again, we're in the final closing of the -- but second quarter, quarter-to-date through 2 months is a measurable step up in momentum versus first quarter. First quarter, we were down 2%, as Dave mentioned, as I mentioned at EPG. And now we have a few more days under our belts since EPG. And as Dave mentioned today, we're flat, flattish.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then last question, Dave, you and I talked about this after the last quarter. Have you given any more thought to the tax rate guidance for the full year? It seems like you're coming in the first half in the high 20s which would necessitate a low 30s for the back half of the year. And it think you were talking 30% prior to the accounting change in the beginning part of this year.

David S. Schulz - *WESCO International, Inc. - CFO and SVP*

So that's correct. So the question is our tax rate. We had a very favorable tax rate in Q1. How are we thinking about that from a guidance perspective? So again, it is something that we will address during our July earnings call on Q2. It obviously is something I do see a forecast in our tax rate every month. There are a couple of considerations that we're keeping in mind, things like discrete items that are difficult for us to forecast. Obviously, we've had some benefits of some of those discrete items related to these equity awards, but we have no visibility on those discrete items going forward yet. So it is something that we will address as part of our Q2 earnings call and the outlook that we will provide at that time.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Rebecca, can you come up here to Dean? He's raising his hand.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

It's Deane Dray with RBC. So the topic is free cash flow and free cash flow conversion. And I see that Dave has been sucked into this underpromise and overdeliver tendency that you all have practiced for years. And Dave, just to let you in on this, it used to be an 80% or better and then historically, you would be so much higher than that. Now you've inched it up to 90% or better. I checked your history. Last 3 years, you've averaged 120%, so the idea of 90% is just very conservative, let's just leave it at that. So that aside, when I look at this free cash flow generation, $800 million target, that's at 90%. And so we know you can do significantly above that, so maybe we can talk about where that incremental capital can be deployed if we use our estimate of something closer to 110% or 120%. And why don't we just start there?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Thank you for that question, Deane. Okay, so 2 comments I would make. I think that we have been a strong and consistent free cash flow generator. Obviously, you're right. We've been delivering above 100% in this last cycle and particularly, the last several years. So you look at the last 4 years in aggregate, we've generated over $1 billion of free cash flow, but we've also had a challenged top line. So when you look at how our model works, we're not making the incremental investments in working capital because we were essentially liquidating working capital with a challenged top line. That's an important point. I think as we return to growth, we're still highly confident on strong free cash flow generation. We've shown that historically too, even when we're growing organically mid-single digits to high single-digits, even double-digits, we're still producing very strong free cash flow as we continue to work improvements to our working capital and asset management. So you're right, the $800 million is based upon a 90% assumption that was illustrative. We're not giving 2018 outlook yet and we're not giving a 2019 or 2020 outlook. What we did was just bring our long-term growth algorithm to life under one illustrative example. I think the point I would leave you with is, we've been a strong and consistent free cash flow generator. It's been a hallmark of WESCO. We're highly confident that will continue in the future. And the math supports an $800 million and we said it's 90-plus-percent. So clearly, it's $800 million-plus. And as we return to growth, we'll use some of that free cash flow to support the expansion of our business, obviously. But I think we've got a great opportunity for the next 4-year run to put that cash to use. We've been very clear on our priorities for cash utilization and so, I do want to restate that. We're confident that operating with financial leverage ultimately results in a better return, so we'll continue to operate with a self-imposed financial leverage ratio of 2x to 3.5x. We've ticked in the upper end of that band now, right, at the end of the first quarter which is what we were driving to do, and so that gives us a bit more breathing room to do what we would like to do. Now, we've also made acquisitions even when we've been a bit above this 3.5x for the right deal. So I think we've got that control structure in place, that will remain in place, and then we've laid out our priorities. The difference is -- and we want to continue to keep debt within that range, invest in our business, continue to do the acquisitions. And the third lever that we added and this was a few years ago which our board supported, was the share repurchase program. And today, we're happy to announce that in May, as Dave and I said, we did $50 million of repurchases that basically takes out the dilutive effect of our management equity awards for the last 2 years and so, we would want to continue to do that on a go-forward basis. I think the bottom line is what I would leave you with is it's been a terrific output of our business model, how we run the business, gives us -- it's really allowed us to create a boatload of value, supporting the acquisitions, investments in our business. And as we look to the future, we expect that to continue.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

And just as a follow-up and on the same topic on capital allocation. For M&A, often at these outlook meetings, you share a bit more detail about the funnel sizes of potential acquisitions. And if you had to rank priorities, is it more geography or product line extensions, supplier relationship-type that would be the motivation.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Great question. So I would say that the pipeline process is intact. It's a phase-gated process, we continue to run that. As you know, when you look at the companies that we've been buying, by and large, they've been private companies. So we can't always control the timing of when they close. In some cases, they're put into play and it may be a high-priority target that we've been working for something out of our control and we need to be prepared to move. In other cases, we're inspiring the timing, but in almost all cases, it's hard to control the timing exactly. The EECOL deal I've mentioned before publicly, we worked that for over 5 years. So we have a strong and robust pipeline. It has a large number of targets. At any given time, we have n number of companies under NDA and we have very tight screening process, a high internal hurdle rate, and there's many, many, many deals. It's a multiple, a large multiple, of anything that we close. So there's no change in that regard. Relative to near-term priorities and I put a finer point on this in the last 12 to 18 months, and they remain intact in the short term, is we were prioritizing the U.S. over Canada and anything outside of the U.S. And the reason is that -- a little history on our acquisitions, I said we've done over 40 since we went public in 1994. We did not do our first Canadian acquisition until 2010, it was TVC Communications. Now we didn't do it for Canada. We did it because we wanted a broadband play, but it gave us operations in Canada. Since 2010, we did 6 acquisitions in Canada. So we didn't want to take, over the last 18 to 24 months, while we're facing other challenges in our end markets and such, to really digest those, make sure they're running well, start to extract synergies and such, and we prioritized the U.S. above Canada. If you look at our last 4 acquisitions we've done, Aelux, AED, Needham and Hill Country, they've have all been in the U.S. So I would say in the short term, that's still the case. We want to take advantage of the improving market in Canada organically and leverage what we've been investing in and doing. And Nelson shared his insights on that, so the priority will be U.S. over Canada or outside the U.S. in the short term. I think as we move forward, at some point, Canada will raise in priority again in the future.

Hamza, right but back there, Rebecca.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

It's Hamzah Mazari from Macquarie. You guys have about 60% of your portfolio as service and technical expertise and at the same time, you referenced your digital investment. Maybe walk us through how your portfolio is maybe defensive against online transparency or pricing. And then lastly, how come you don't have an ROIC target in any of the presentations?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Yes, so thanks, Hamzah. What we really attempted to do today was to give a much greater insight into the nature of our business, the value proposition. And remember, services is something we're delivering to customers but we're not explicitly running it is a services business, we're repricing those services. It's kind of part and parcel to how we're engaging the customer and delivering value. So I would say 2 points. One is, again, the degree to which services is impacting our business, I think is very notable and then the mix of our business is very instructive as well when you look at capital projects, the nature of that business versus MRO and OEM. Even the MRO which we gave you a sense of, you look at that MRO, where we're picking up the MRO, it's not because it is -- I'll call it just run-of-the-mill transactional MRO business. We're not competing head-to-head with the traditional MRO distributors. And in fact, if you try to purchase through our website, you're not going to see a lot of pricing transparency around our SKUs or even a large percentage of our SKUs. So that's where we're very different, our pricing. And for electrical, quite frankly, that value chain still, to a large degree, has a lot of opaque pricing. And the reason is a lot of what we do is very much application-specific, it's spec-driven, subject to an RFP or RFQ process. And the suppliers are an integral part of that costing and pricing equation. So we alluded to these SPAs and so, they're special pricing agreements that are negotiated based upon the value that's being delivered in that particular customer engagement, whether it's a project or an MRO agreement or such. So the nature of pricing for how electrical's [work] to start is a bit different. We're not a catalog house and so there's other more standard catalog houses and B2B wholesale distribution. They were catalog models, they've been put on the web. And what traditionally was opaque pricing, list minus discount, that wasn't transparent is now transparent. So the nature of those businesses are they're in the crosshairs of an e-commerce player that can provide same day, next day delivery on a product whose purchasing characteristics are -- it's not RFP or RFQ, not tech, spec-driven, they aren't these other services that are wrapped around implementing that product and meeting the customers' needs. So again, we've gotten a lot of questions about this. We're very different than those traditional retail catalog houses that are now on the web. And where they have essentially their opaque pricing, it used to be opaque. Just go back a few years ago, it's not, it's transparent. Very different and that was one of the things we were attempting to really address head on. It's been the nature of our business for quite some time, but it's become a greater question recently because of what's happening in our competitive ecosystem. With respect to ROIC, Dave talked about it not in terms of a target, but in terms of improving our ROIC. So the way I'd ask you to think about that is, as we return into growth and we get that good pull-through, put acquisitions aside for a moment, this is actually an important point, we're going to get an ROIC expansion as we get the op margin expansion. And so, that's really an important point. Our criteria for our acquisitions are that they must be able to deliver above our weighted average cost of capital plus some premium that we typically determine the size of that is based upon the risk of that deal. So we'll take our weighted average cost of capital and we'll set an incremental hurdle rate based upon the challenges of that unique deal, and we've got to be above that. In terms of an IRR, we want these deals to be accretive in year 1 and that's how we've been managing the acquisition equation. With all that said, we've had a few years of margin challenges and EBIT declines, right? And that goodwill doesn't get amortized, so it's obviously hit us in declining ROIC, but it's a -- but the model, as we return to growth and we get the EBITDA expansion, the pull-through, the ROIC expands as well.

Over here, Vince.

Unidentified Participant

John, I think one of the negatives that Dave pointed out for '17 was the timing of supplier price increases ahead of customer price increases. When does that kind of catch-up?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

So I've commented on this the last several quarters and I would say is, so far as we're going through the second quarter, the environment has not changed yet materially. There's typically a lag effect in terms of the ability to push price increases through in general for distribution. And particularly for us, given our mix which is a bit different, as I've said, than some other distributors, but I would characterize the current environment as one of being inflation starting to tick up in our supply base. Our suppliers would like to push price increases through, we would as well, we're actually -- we're aligned on this. But thus far, by and large, for our customers and the demand streams were serving, these are more supply push, they haven't been demand pull yet. So that lag effect we're seeing and our ability to really push those price increases through because of demand -- our customer's demand equation hasn't really picked up materially yet. There's a lag, so I don't want to foreshadow is that a quarter away or 2 quarters away, except to say, I do think we're in a rising inflation environment. So if we were to look at the inflation curve and our expectations we're all looking at, we're in a rising inflation environment. And ultimately, it's going to create a set of conditions where all distribution can do a better job of pushing it through in conjunction with suppliers. But, Vince, it needs to turn more in a demand pull and we need to get to that phase of the cycle and we're not seeing that yet.

Unidentified Participant

And broadly, how much inflation have you absorbed that you haven't been able to pass on?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

That's a tough question. We do disclose price quarter-to-quarter in our quarterly earnings calls. And last year, we saw some price declines to the tune of 0.5 point or so. I mean historically, that's not something we've seen. I think I wouldn't say that's the biggest headwind we have. We have relatively stable billing margins which is priced by this acquisition cost over the last 4 to 5 quarters, relatively stable within couple 10s of basis points. I feel pretty good about that, given the environment, challenging pricing environment we're in. We've had some movement at the gross margin line due to some other factors between billing and gross margin. So I would say the bigger headwind and overall challenge the last couple of years hasn't so much been price because again, we're not like -- more like the catalog houses and the pure-play MRO distributors. It's been overall business mix. Industrial, our biggest end market, being down. Certain verticals in that facing precipitous declines. Oil and gas was 10% of our sales, 3 years-plus years ago, it's 5% now. So oil and gas, metals, mining and such and then Canadian [marked] declines in the business on a C-dollar basis and then the exchange rate went from parity to $0.75 on the dollar. Those have been the 2 massive headwinds, not pricing. Pricing's been challenging, but it's nowhere near to the same order of magnitude.

Amy, Rob Barry, right up here. Sorry, next, in front of Vince.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Rob Barry from Susquehanna, just a few things. John, I think at the last presentation last year, the outgrowth target for revenue was 2% and now, it's 1% to 2%. So it feels like it's pulled off just a little bit. Is that just some conservatism given the end markets or...

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

I wouldn't misread that. There's no intent to send a different signal. Again, we're showing an illustrative case.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Okay, and then as David alluded to growth investment, reinvesting in the business once growth's got to 3%, 4%-plus, but I think you were planning for some growth investment this year. Fair amount actually, I think. I mean, just based on how the business is tracking so far, is that still in the plan? Is that maybe in the back half you'd see some dialing up of growth investments?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

That's a great question, Rob. That is how we built our plan but our plan is second half-weighted. And we've been very clear, both Dave and myself and Mary Ann, that we want to ensure we have a return to growth. That's all-in as a company, enterprise-level, not a particular end market segment or country before we start releasing that investment. So I would tell you, absolutely, we've kept a vise grip on the incremental investments as we've moved through the first part of the year thus far. But again, we laid out a plan that was more second half-weighted, the momentum vector is moving in the right direction, and that's still the basis of our plan. So I haven't changed the basis of our plan and that's what we'd like to do. And to the extent -- this business has some cyclicality to it, all businesses do to some degree, right? But typically, our volatility, we don't see things swing month-to-month or even quarter-to-quarter. And once they start moving in a certain direction, there's a run, right? So I think that's our whole premise of how we've built the plan which we took you through in great detail during the outlook call and since then is that. And so, focusing on return to growth, we're encouraged that Industrial has in Q1, right? And mix-wise, it's continued in Q2 as I've said, right, at EPG. And today, we're restating that in Canada as well. So that's encouraging, but we've got to get the whole enterprise back to growth, right, before the pull-through model starts to work again and then we can start stepping up the incremental investments.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Fair enough. And then on the supply chain initiatives a few years ago, 2.5 I think it was when Hemant first started. You came out with this 20 bp goal which I think is good progress annually, but I think there was an impression at the time that you had just started, you're just scratching the surface and that maybe that can grow over time and it's...

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Well, I think look, I would say this, Rob. I actually, in retrospect as I think about the environment and the headwinds we're facing, the whole competitive ecosystem which we've talked about, we actually are making traction, but it's not resulting in true incremental bottom line yet. And we have relatively stable billing margins in the last 4 to 5 quarters, sequentially, consecutively, let's say last 4 to 5 consecutive quarters which is a good indicator. So we continued, I mean, that's a grind it out every day, try to find ways to improve. I think we made substantial progress with the quality, the depth, the breadth, the execution initiatives. We haven't had all the supporting elements in the market cycle to support us getting it through yet, but I'm confident that as we return to growth and when inflate -- Vince's question, when inflation starts to work its way through the value chain, we'll see that typical distributor benefit.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

And then just maybe finally, a housekeeping item on the repos. Was that in the outlook? I think you have guided 49 million shares, is that still...

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

I'll let Dave address that.

David S. Schulz - *WESCO International, Inc. - CFO and SVP*

So we had provided you with an outlook that we would expect, about 49 million shares. And so if you take a look at how we ended Q1, we were at 49.3 at the end of Q1. So the share repurchase was included in how we thought about 49 million shares. Obviously, the timing of the repurchase was not known at that time. We knew that we were targeting 2017 as something that we had talked about with our Board of Directors, obviously. But we still anticipate about 49 million shares for the full year 2017.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Right here, Josh.

Josh Pokrzywinski

It's Josh Pokrzywinski from Wolfe Research. John, just a -- and I know this is an illustrative outlook, but following through on the framework you have, you get back to peak revenues, we'll say some time during the forecast period. I think it works out to 2019, but the point is less about a particular year. And if I followed the margin framework along with that, your call it, $40 million of [op] profit, right, of peak on peak revenue, back to [peak] revenue. And if I add up supply chain and some of the headcount reductions that you have, maybe apples-to-apples number is more like $70 million, $80 million. Can you just conceptualize for us what needs to happen or what are the risks and opportunities on closing the price mix gap? You talked about Canada, you talked about oil and gas. I mean, it seems like you're not really underwriting any improvement or kind of back to peak framework in that, but maybe just talk about what's the nirvana scenario? And what are you guys thinking about in terms of that mix component because it doesn't get quite get captured in a long-term framework?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Yes, I would tell you, I think that we've given you a long-term framework and there's potential. When you look at that long-term framework and you were to overlay it versus our historical performance across the cycles, where is the upside? The upside is on the top line. So any incremental top line, once you return to growth and you get above that tipping point, the pull-through really expands dramatically. And so then it becomes a question of, quite frankly, are we optimizing operating margin expansion or are we -- are we taking that incremental, plowing it back into the business to increase our capabilities and our scale to drive even future growth? I still believe strongly that we're in this large fragmented market and I do believe that consolidation is starting to pick up. We only touched upon it a bit here, but this has been a clear trend over the last several years. Our suppliers are consolidating at an increasing rate. And when you look at the -- I'm not saying the last quarter or last year but the last several years. Since the trough of The Great Recession, there's been much more significant consolidation in our supply base. So I think it's going to be incumbent upon us and the other large leaders in our part of the value chain to continue to scale up and consolidate as well. And so the framework is one that, quite frankly, it doesn't optimize or maximize [op] margin but it does ensure very good earnings growth at an EPS level double-digit but also, as we drive to that algorithm to the extent we get the sales growth and we start getting some -- driving the sales growth a bit higher which is what our objective would be, we'd get that incremental pull-through that allows us to invest in the business, that's the cycle now. Given all that, we'll still have strong free cash flow generation, right, even as we're growing, and so there's a tremendous value creation [with it]. That's how we're thinking about it, so, I also want to be very careful here, this is -- look, our top priority right now, given these last 3 years we came through, is returning to growth. So that's our myopic focus, right? And so we've not given you -- and these are not guidance or outlook numbers for '18, '19 or '20. I think as we return to growth, if we can -- that's our focus this year, it's our outlook. As we return to growth, we'll go through our normal process at the end of the year, December outlook call for 2018. And then you can begin to look at what our year-to-year outlook is within the context of that long-term algorithm, right? So -- but that long-term algorithm should be thought of as not a stretched target, but kind of this -- we got to deliver that as a minimum.

Josh Pokrzywinski

I guess in that context, do you view that whatever the gap is, $60 million, $70 million, $80 million, as a structural component that remains in place or an opportunity to be closed with the right kind of mix environment? I guess independent of how you guys think about investment, is it a corporate viewpoint that like, look, the 2014 mix scenario, we're not counting on that coming back?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Again, you're getting -- you're crossing into -- you're asking us to be more precise on the recipe that can get into -- which I don't want to do. I do think that given the mix of our business today, our mix is different today than it was coming out of the trough of the recession because of the cycle we just went through. With that said, we've also, as a result of some of our growth initiatives, positioned ourselves very well for some new growth markets. But we didn't spend a lot of time on definitizing today, but we did spike out what those were. And so we're going to always work, Josh, to try to improve our mix. We know where we have higher margins versus others, right, and we're going to try to take advantage of where we see the greatest pockets of growth. Is that a structural, which is your key question, is that a structural opportunity that we're saying is there forevermore or can we capture some of that? I think we can capture some of that. I don't want to commit to capturing that. It's going to be a function of -- or I don't want to commit to the timing of when we can potentially capture that. Let me say it that way, okay? It's going to be -- I mean, priority again is let's get back to growth and then we'll have a much better sense of what that mix equation is going to be, and I think there's opportunities there.

Josh Pokrzywinski

And if I could just sneak one more in. There's been an awful lot of choppiness in lighting markets lately.

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

In -- what was that? Lighting?

Josh Pokrzywinski

Lighting, which went from this nirvana market to one that I think a lot of people are more fearful of. You guys are obviously very boots-on-the-ground there, what's your perspective? How do you feel about that? How are you calling on customers differently or how are customers engaging in that market differently, I guess, given what we see elsewhere as maybe a bit more chop in that...?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

So I got this question kind of head on twice at EPG, and I went off down to a monologue on my bullishness on lighting. I'm very bullish mid- to long-term. So I won't repeat all that. I'll do a more condensed version, Mary Ann, okay? But I am very bullish on lighting mid- to long-term. Historically, look, you have a century-old technology that has been completely disrupted. It is truly disruption. You went from kind of analog to digital. LED digital manifestation of lighting now, semiconductor capital economics curve is the underlying curve that is driving that. So we've gone from a product -- a set of products that are sold discretely, somewhat loosely connected together to a subsystem or system sale where controls is the differentiator. It's a very important point, one, point one. Point two, historically, for decades, the lighting market was driven based on the construction cycle. So if you were to look at the composition of lighting sales and what drove it, it was completely tracked -- the construction market. Once lighting was installed, you had a replacement lamp business, fine. LED changes all that. Because you have the semiconductor capital economics curve, you've got prices that are going like this and performance is going like that. So essentially, the ROI, the breakeven points, the IRR and net present values are all improving, such that you can retrofit cost-effectively, more and more of existing structures. So every structure that exists, what percentage penetration is LED of every facility, every type of structure that's presently on the planet? So there's the big market. Third point, the value chain is open for disruption. So I don't want to get into this in great detail, except to say that the value chain got very -- it was a mature value chain because the technology wasn't spinning at a rapid rate, I'm going to overstate just to make a point -- for decades. There were incremental improvements in the lamp technology, incremental improvements in ballast and controls, that was it, relative to LED. So this does create the opportunity for players in the value chain, right, to figure out how to offer a more complete solution versus where they played historically, and it also gives the opportunity for new entrants to come in. So the fact that we get choppy a given month, a quarter or even a year doesn't faze me one iota. I think for the rest of my business career, lighting retrofit renovation upgrades as part of, again, lighting as a systems sale and as a subsystem is part of an energy management and control solution for new construction or upgrading or retrofitting a facility, terrific growth opportunity. We're fortunate to have a wide array of supplier partnerships and we try to give you a sense of our solution selling capabilities, how we go about this business. Lumigent/Aelux acquisition was terrific, we went after that for a reason and it's able to essentially grab a much bigger piece of the value chain and provide a turnkey solution. So again, I'm not fazed by any volatility in a given month, quarter, et cetera. And the other thing is because of the rate of technology spin, there are large incumbents that have been in the value chain that may not survive. And I'm not -- that could be true for some distribution, it could be true for agents, it could be true for manufacturers. And so we'll look back 5 years from now and you'll see some different players in that value chain, 10 years, even to a greater degree, my view.

Right here, Rebecca.

Andrew Edward Buscaglia - *Crédit Suisse AG, Research Division - Senior Analyst*

Andrew Buscaglia, Credit Suisse. I just wanted to talk about some of the larger CapEx spend that your customers are making, that larger projects are about half your business, correct? And that's what [conduced] the margins. So first off, how much are -- you're talking about your second half of your guidance is a little more back half weighted? How much of that is predicated on some of that spend ticking up? And then secondly, have you seen a change in your customers, in your discussions with customers, since December when there was some euphoria that deregulation could potentially help some of those projects move forward versus now where things are a little -- seem a little bit more gridlocked?

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

Thanks, Andrew, and I'm going to ask Les to give you some deeper insight right in the projects. Just one thing I'll state before I hand it off to Les is, roughly half of our business is capital projects, but I do not want to leave you with the impression it's only large projects. So that's projects of all sizes and varieties. It's essentially the broad array of nonresidential construction and industrial projects and it includes not just new construction, it's retrofit renovation upgrades. So it's a very important point. With that said, we have tremendous strength and deep roots in the construction industry -- it goes way back into our Westinghouse roots. So the larger and more complex the project, it's right in our sweet spot, but it's not exclusively driven by that. So, Les?

Les Kebler

Yes, so the -- so as far as large projects, the -- as far as large projects, really what we haven't seen yet is the pipeline get filled. So once that -- when does the trough hit? When does the decrease in spending over the last couple of years -- it's going to take a little bit of time to get the major projects back in line. So what we're seeing now is the initial spending around smaller projects, turnaround small CapEx. When you get into major CapEx that has to go through a series of approvals, design, EPC and that takes a little bit longer. So that would tend to push out that spend, although the trend is there, it would tend to push out the timing a little bit.

Andrew Edward Buscaglia - *Crédit Suisse AG, Research Division - Senior Analyst*

And then how much of your second half weighted guidance is predicated on any of that picking up or is it not...

John J. Engel - *WESCO International, Inc. - Chairman, CEO and President*

So we've not given what the drivers are there, Andrew, right? And so let's be clear, when we gave our outlook for 2017 in the December outlook call, we took you through by end market. We've said we were second half-weighted. We did expect the capital spending would start to contribute to some degree. We didn't quantify to what degree in the second half. We've not seen a meaningful contribution yet. Here's what I will say, and I mentioned this at EPG just a few weeks ago. The last 2 years, 2015, 2016, by and large, our customers were saying, we're going to spend less capital. We're going to spend less capital this year, and by and large, they spent less capital. And many of our customers this year are saying we're going to spend more capital. It doesn't mean they will spend more capital, but at least they're saying they're going to spend more capital. So I think this does get into confidence, what are they seeing in their business? Are they confident given the political environment, what they're seeing demand for their products, their own production rates? Where is capacity utilization? Do they really want to incrementally invest or not? That's what's different in '17. With all that said, we haven't seen that hit our business yet in a meaningful way. And as Les talked about, there's a time lag, right? As he kind of went through in his presentation, but clearly laid out the whole CapEx project cycle. So I would -- I'd ask you to think about it this way, that is a big upside for us when that kicks back in.

Any more? Well, thank you for your time and your support of WESCO. We do have cocktails momentarily right down the hall. Very much appreciate you spending the afternoon with us. Thanks a lot.
