

ANIXTER INTERNATIONAL INC  
Form 10-Q  
October 24, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-10212

ANIXTER INTERNATIONAL INC.  
(Exact name of registrant as specified in its charter)

Delaware 94-1658138  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
2301 Patriot Blvd.  
Glenview, Illinois 60026  
(224) 521-8000

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company   
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At October 18, 2017, 33,272,347 shares of registrant's Common Stock, \$1 par value, were outstanding.



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This report may contain various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “intends”, “anticipates”, “contemplates”, “estimates”, “plans”, “projects”, “should”, “may”, “will” or the negative thereof or other variations thereon or comparable terminology indicating our expectations or beliefs concerning future events. We caution that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, a number of which are identified in this report. Other factors could also cause actual results to differ materially from expected results included in these statements. These factors include but are not limited to general economic conditions, the level of customer demand particularly for capital projects in the markets we serve, changes in supplier or customer relationships, risks associated with nonconforming products and services, political, economic or currency risks related to non-U.S. operations, new or changed competitors, risks associated with inventory and accounts receivable, copper and commodity price fluctuations, risks associated with substantial debt and restrictions contained in financial and operating covenants in our debt agreements, capital project volumes, the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, information security risks, the impact and the uncertainty concerning the timing and terms of the withdrawal by the United Kingdom from the European Union, and risks associated with the integration of acquired companies including, but not limited to, the risk that the acquisitions may not provide us with the synergies or other benefits that were anticipated.

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

## ANIXTER INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
(In millions, except per share amounts)				
Net sales	\$2,016.4	\$ 1,956.3	\$5,913.6	\$ 5,728.2
Cost of goods sold	1,619.2	1,559.6	4,741.0	4,567.3
Gross profit	397.2	396.7	1,172.6	1,160.9
Operating expenses	316.2	309.4	939.9	956.6
Operating income	81.0	87.3	232.7	204.3
Other expense:				
Interest expense	(18.9 )	(19.8 )	(55.7 )	(59.7 )
Other, net	0.3	(2.1 )	(0.9 )	(5.7 )
Income from continuing operations before income taxes	62.4	65.4	176.1	138.9
Income tax expense from continuing operations	24.8	25.1	67.5	54.6
Net income from continuing operations	37.6	40.3	108.6	84.3
Income (loss) from discontinued operations before income taxes	—	0.2	—	(1.0 )
Income tax expense (benefit) from discontinued operations	—	0.1	—	(0.4 )
Net income (loss) from discontinued operations	—	0.1	—	(0.6 )
Net income	\$37.6	\$ 40.4	\$108.6	\$ 83.7
Income (loss) per share:				
Basic:				
Continuing operations	\$1.12	\$ 1.21	\$3.24	\$ 2.53
Discontinued operations	—	—	—	(0.02 )
Net income	\$1.12	\$ 1.21	\$3.24	\$ 2.51
Diluted:				
Continuing operations	\$1.11	\$ 1.20	\$3.20	\$ 2.52
Discontinued operations	—	0.01	—	(0.02 )
Net income	\$1.11	\$ 1.21	\$3.20	\$ 2.50
Basic weighted-average common shares outstanding	33.6	33.4	33.6	33.4
Effect of dilutive securities:				
Stock options and units	0.4	0.2	0.4	0.1
Diluted weighted-average common shares outstanding	34.0	33.6	34.0	33.5
Net income	\$37.6	\$ 40.4	\$108.6	\$ 83.7
Other comprehensive income (loss):				
Foreign currency translation	17.5	(9.3 )	40.5	3.9
Changes in unrealized pension cost, net of tax	1.1	0.9	3.0	8.8
Other comprehensive income (loss)	18.6	(8.4 )	43.5	12.7
Comprehensive income	\$56.2	\$ 32.0	\$152.1	\$ 96.4

See accompanying notes to the Condensed Consolidated Financial Statements.

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ANIXTER INTERNATIONAL INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	September 29, 2017	December 30, 2016
(In millions, except share and per share amounts)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 76.9	\$ 115.1
Accounts receivable, net	1,482.5	1,353.2
Inventories	1,231.9	1,178.3
Other current assets	46.2	41.9
Total current assets	2,837.5	2,688.5
Property and equipment, at cost	370.2	343.4
Accumulated depreciation	(219.3	) (203.1
Property and equipment, net	150.9	140.3
Goodwill	779.3	764.6
Intangible assets, net	394.4	415.4
Other assets	90.4	84.8
Total assets	\$ 4,252.5	\$ 4,093.6
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,107.3	\$ 1,006.0
Accrued expenses	264.4	257.9
Total current liabilities	1,371.7	1,263.9
Long-term debt	1,270.1	1,378.8
Other liabilities	154.4	158.7
Total liabilities	2,796.2	2,801.4
Stockholders' equity:		
Common stock - \$1.00 par value, 100,000,000 shares authorized, 33,620,740 and 33,437,882 shares issued and outstanding at September 29, 2017 and December 30, 2016, respectively	33.6	33.4
Capital surplus	273.5	261.8
Retained earnings	1,356.6	1,247.9
Accumulated other comprehensive loss:		
Foreign currency translation	(113.4	) (153.9
Unrecognized pension liability, net	(94.0	) (97.0
Total accumulated other comprehensive loss	(207.4	) (250.9
Total stockholders' equity	1,456.3	1,292.2
Total liabilities and stockholders' equity	\$ 4,252.5	\$ 4,093.6
See accompanying notes to the Condensed Consolidated Financial Statements.		

ANIXTER INTERNATIONAL INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2017	2016
(In millions)		
Operating activities:		
Net income	\$108.6	\$ 83.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21.5	21.1
Amortization of intangible assets	27.1	28.6
Stock-based compensation	13.3	12.4
Deferred income taxes	1.3	3.0
Accretion of debt discount	1.7	1.6
Amortization of deferred financing costs	1.6	1.8
Pension plan contributions	(14.8 )	(16.8 )
Pension plan expenses	7.9	18.1
Changes in current assets and liabilities, net	(53.9 )	93.4
Other, net	(4.2 )	(8.3 )
Net cash provided by operating activities	110.1	238.6
Investing activities:		
Capital expenditures, net	(30.9 )	(24.9 )
Other, net	—	(4.7 )
Net cash used in investing activities	(30.9 )	(29.6 )
Financing activities:		
Proceeds from borrowings	1,324.2	710.2
Repayments of borrowings	(1,370.9 )	(879.2 )
Repayments of Canadian term loan	(70.9 )	(58.5 )
Proceeds from stock options exercised	3.5	0.2
Other, net	(0.2 )	(0.6 )
Net cash used in financing activities	(114.3 )	(227.9 )
Decrease in cash and cash equivalents	(35.1 )	(18.9 )
Effect of exchange rate changes on cash balances	(3.1 )	(7.3 )
Cash and cash equivalents at beginning of period	115.1	151.3
Cash and cash equivalents at end of period	\$76.9	\$ 125.1
See accompanying notes to the Condensed Consolidated Financial Statements.		

ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The unaudited interim condensed consolidated financial statements of Anixter International Inc. and its subsidiaries (collectively referred to as "Anixter" or the "Company"), sometimes referred to in this Quarterly Report on Form 10-Q as "we", "our", "us", or "ourselves" have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Therefore, certain information and disclosures normally included in financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. Certain prior period amounts have been reclassified to conform to the current year presentation. The results as discussed in the Condensed Consolidated Financial Statements reflect continuing operations only, unless otherwise noted.

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Anixter's Annual Report on Form 10-K for the year ended December 30, 2016 ("2016 Form 10-K"). The condensed consolidated financial information furnished herein reflects all adjustments (consisting of normal recurring accruals), which are, in the opinion of management, necessary for a fair presentation of the Condensed Consolidated Financial Statements for the periods shown.

The Company maintains its financial records on the basis of a fiscal year ending on the Friday nearest December 31, with the fiscal quarters spanning thirteen weeks, with the first quarter ending on the Friday of the first thirteen-week period. The third quarter of fiscal year 2017 ended on September 29, 2017, and the third quarter of fiscal year 2016 ended on September 30, 2016.

Recently issued and adopted accounting pronouncements: In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which changes how companies account for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled, allows an employer to repurchase more of an employee's shares than previously allowed for tax withholding purposes without triggering liability accounting, allows a company to make a policy election to account for forfeitures as they occur, and eliminates the requirement that excess tax benefits be realized before companies can recognize them. The new guidance also requires excess tax benefits and tax shortfalls to be presented on the cash flow statement as an operating activity rather than as a financing activity, and clarifies that cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation are to be presented as a financing activity. The standard is effective for the Company's financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this guidance in the first quarter of fiscal year 2017. On a prospective basis, excess tax benefits recognized on stock-based compensation expense were reflected as a component of the provision for income taxes. As allowed by the new guidance, the Company has elected to account for forfeitures as they occur. Anixter has also elected to present the cash flow statement on a retrospective transition method and prior periods have been adjusted to present the excess tax benefits as part of cash flows from operating activities. The result of this adoption did not have a material impact on Anixter's Condensed Consolidated Financial Statements.



## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Recently issued accounting pronouncements not yet adopted: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively. The core principle of this new revenue recognition guidance is that a company will recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance defines a five-step process to achieve this core principle, and in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. The new guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance provides for two transition methods: a full retrospective approach and a modified retrospective approach. Anixter will adopt the new revenue recognition guidance in the first quarter of fiscal year 2018 utilizing the modified retrospective method of adoption. The Company has developed a multi-phase plan to assess the impact of adoption on its material revenue streams, evaluate the new disclosure requirements, and identify and implement appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new guidance. The Company continues to evaluate the impact of this guidance on its consolidated results of operations and financial condition, focusing primarily on multi-element arrangements, consignment agreements and gross versus net revenue recognition treatment. The Company is currently updating existing accounting policies, implementing new controls and evaluating the expanded disclosure requirements.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The guidance modifies the classification criteria and the accounting for sales-type and direct financing leases for lessors. The standard is effective for Anixter's financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this ASU on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which requires the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The standard is effective for Anixter's financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of adoption of this ASU on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for Anixter's financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of adoption of this ASU on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which removes step two from the goodwill impairment test. Step two measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The standard is effective for Anixter's financial statements issued for

fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will consider the impact of adoption of this ASU on its methodology for evaluating goodwill for impairment subsequent to adoption of this standard.

## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. The new guidance requires entities to report the service cost component in the same line item as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component outside of income from operations. The standard is effective for Anixter's financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Upon adoption, ASU 2017-07 requires changes to the presentation of the income statement to be applied retrospectively. The Company is currently evaluating the impact of adoption of this ASU on its Consolidated Statements of Comprehensive Income.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The standard is effective for Anixter's financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this ASU on its Consolidated Financial Statements.

The Company does not believe that any other recently issued, but not yet effective, accounting pronouncements, if adopted, would have a material impact on its Consolidated Financial Statements.

Other, net: The following represents the components of "Other, net" as reflected in the Condensed Consolidated Statements of Comprehensive Income:

(In millions)	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Other, net:				
Foreign exchange	\$(1.1)	\$ (3.5 )	\$(3.1)	\$ (8.0 )
Cash surrender value of life insurance policies	0.9	0.5	2.0	1.7
Other	0.5	0.9	0.2	0.6
Total other, net	\$0.3	\$ (2.1 )	\$(0.9)	\$ (5.7 )

Due to fluctuations in the U.S. dollar ("USD") against certain foreign currencies, primarily in Europe, Canada and Latin America, the Company recorded foreign exchange losses of \$1.1 million and \$3.5 million in the third quarter of 2017 and 2016, respectively. Foreign exchange losses were \$3.1 million and \$8.0 million in the nine months ended September 29, 2017 and September 30, 2016, respectively.

Several of Anixter's subsidiaries conduct business in a currency other than the legal entity's functional currency. Transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. A change in exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. The increase or decrease in expected functional currency cash flows results in a foreign currency transaction gain or loss that is included in "Other, net" in the Condensed Consolidated Statements of Comprehensive Income.

The Company purchases foreign currency forward contracts to minimize the effect of fluctuating foreign currency-denominated accounts on reported income. The foreign currency forward contracts are not designated as hedges for accounting purposes. The Company's strategy is to negotiate terms for its derivatives and other financial instruments to be highly effective, such that the change in the value of the derivative perfectly offsets the impact of the

underlying hedged item (e.g., various foreign currency-denominated accounts). Its counterparties to foreign currency forward contracts have investment-grade credit ratings. Anixter expects the creditworthiness of its counterparties to remain intact through the term of the transactions. The Company regularly monitors the creditworthiness of its counterparties to ensure no issues exist which could affect the value of the derivatives.

## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company does not hedge 100% of its foreign currency-denominated accounts. In addition, the results of hedging can vary significantly based on various factors, such as the timing of executing the foreign currency forward contracts versus the movement of the currencies as well as the fluctuations in the account balances throughout each reporting period. The fair value of the foreign currency forward contracts is based on the difference between the contract rate and the current exchange rate. The fair value of the foreign currency forward contracts is measured using observable market information. These inputs would be considered Level 2 in the fair value hierarchy. At September 29, 2017 and December 30, 2016, foreign currency forward contracts were revalued at then-current foreign exchange rates with the changes in valuation reflected directly in "Other, net" in the Condensed Consolidated Statements of Comprehensive Income offsetting the transaction gain/loss recorded on the foreign currency-denominated accounts. At September 29, 2017 and December 30, 2016, the gross notional amount of the foreign currency forward contracts outstanding was approximately \$189.1 million and \$114.8 million, respectively. At September 29, 2017 and December 30, 2016, the net notional amount of the foreign currency forward contracts outstanding was approximately \$98.7 million and \$90.9 million, respectively. While all of the Company's foreign currency forward contracts are subject to master netting arrangements with its counterparties, assets and liabilities related to derivative instruments are presented on a gross basis within the Condensed Consolidated Balance Sheets. The gross fair value of derivative assets and liabilities are immaterial.

The combined effect of changes in both the equity and bond markets resulted in changes in the cash surrender value of company-owned life insurance policies associated with the company-sponsored deferred compensation program.

Accumulated other comprehensive loss: Unrealized gains and losses are accumulated in "Accumulated other comprehensive loss" ("AOCI"). These changes are also reported in "Other comprehensive income (loss)" on the Condensed Consolidated Statements of Comprehensive Income. These include unrealized gains and losses related to the Company's defined benefit obligations and foreign currency translation. See Note 5. "Pension Plans" for pension related amounts reclassified into net income.

Investments in several subsidiaries are recorded in currencies other than the USD. As these foreign currency denominated investments are translated at the end of each period during consolidation using period-end exchange rates, fluctuations of exchange rates between the foreign currency and the USD increase or decrease the value of those investments. These fluctuations and the results of operations for foreign subsidiaries, where the functional currency is not the USD, are translated into USD using the average exchange rates during the periods reported, while the assets and liabilities are translated using period-end exchange rates. The assets and liabilities-related translation adjustments are recorded as a separate component of AOCI, "Foreign currency translation." In addition, as Anixter's subsidiaries maintain investments denominated in currencies other than local currencies, exchange rate fluctuations will occur.

Borrowings are raised in certain foreign currencies to minimize the exchange rate translation adjustment risk.

Goodwill: The Company evaluates goodwill for impairment annually at the beginning of the third quarter and when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. The Company assesses goodwill for impairment by first performing a qualitative assessment, which considers specific factors, based on the weight of evidence, and the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount using the qualitative assessment, Anixter performs the two-step impairment test. From time to time, the Company may also bypass the qualitative assessment and proceed directly to the two-step impairment test. The first step of the impairment test is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount. The estimates of fair value of a reporting unit are determined using the income approach and/or the market approach as described below. If step one of the test indicates a carrying value above the estimated fair value, the second step of the goodwill impairment test is performed by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied residual value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

In connection with the annual assessment of goodwill at the beginning of the third quarter of 2017, the Company bypassed the qualitative assessment and performed a quantitative test for all reporting units and utilized a combination of the income and market approaches, both of which are broadly defined below. As a result of this assessment, the Company concluded that no impairment existed and the carrying amount of goodwill to be fully recoverable.

The income approach is a quantitative evaluation to determine the fair value of the reporting unit. Under the income approach fair value is determined based on estimated future cash flows discounted by an estimated weighted-average cost of capital plus a forecast risk, which reflects the overall level of inherent risk of the reporting unit and the rate of return a market participant would expect to earn. The inputs used for the income approach were significant unobservable inputs, or Level 3 inputs, as described in the accounting fair value hierarchy. Estimated future cash flows were based on internal projection models, industry projections and other assumptions deemed reasonable by management.

## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The market approach measures the fair value of a reporting unit through the analysis of recent sales, offerings, and financial multiples (sales or earnings before interest, tax, depreciation and amortization ("EBITDA")) of comparable businesses. Consideration is given to the financial conditions and operating performance of the reporting unit being valued relative to those publicly-traded companies operating in the same or similar lines of business.

Although all of the Company's reporting units have fair values that currently exceed the underlying carrying values, the margin of fair value over carrying value of the Network & Security Solutions ("NSS") and Utility Power Solutions ("UPS") reporting units were greater than 10%, while the fair value of the Electrical and Electronic Solutions ("EES") reporting unit was less than 10% over its carrying value due to the effects of the recovering industrial economy. As a result, the EES reporting unit is more susceptible to impairment risk from adverse macroeconomic conditions. Any such adverse changes in the future could reduce the underlying cash flows used to estimate fair values, and could result in a decline in fair value that could trigger future impairment charges relating to the EES reporting unit.

## NOTE 2. DEBT

Debt is summarized below:

(In millions)	September 29, 2017	December 30, 2016
Long-term debt:		
5.50% Senior notes due 2023	\$ 346.7	\$ 346.3
5.125% Senior notes due 2021	396.3	395.7
5.625% Senior notes due 2019	348.4	347.7
Canadian term loan	29.7	95.4
Revolving lines of credit	152.5	197.1
Other	1.8	3.5
Unamortized deferred financing costs	(5.3	) (6.9
Total long-term debt	\$ 1,270.1	\$ 1,378.8

## Fair Value of Debt

The fair value of Anixter's debt instruments is measured using observable market information which would be considered Level 2 in the fair value hierarchy described in accounting guidance on fair value measurements. The Company's fixed-rate debt consists of Senior notes due 2023, Senior notes due 2021 and Senior notes due 2019.

At September 29, 2017, the Company's total carrying value and estimated fair value of debt outstanding was \$1,270.1 million and \$1,359.3 million, respectively. This compares to a carrying value and estimated fair value of debt outstanding at December 30, 2016 of \$1,378.8 million and \$1,435.6 million, respectively. The decrease in the carrying value and estimated fair value is primarily due to lower outstanding borrowings under Anixter's revolving lines of credit and partial repayment of the Canadian term loan.

## NOTE 3. LEGAL CONTINGENCIES

From time to time, Anixter is party to legal proceedings and matters that arise in the ordinary course of business. As of September 29, 2017, the Company does not believe there is a reasonable possibility that any material loss exceeding the amounts already recognized for these proceedings and matters has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, the Company's financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.





## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 4. INCOME TAXES

The Company's effective tax rate from continuing operations for the third quarter of 2017 was 39.7% compared to 38.4% in the prior year period. The prior year period included a \$2.1 million net tax benefit related to previous year tax positions. The Company's effective tax rate from continuing operations for the nine months ended September 29, 2017 was 38.3% compared to 39.3% in the prior year period. The year over year change was due primarily to the change in the country mix of earnings, partially offset by the \$2.1 million tax benefit recorded in the prior year period. Anixter considers the undistributed earnings of its foreign subsidiaries, along with future earnings, to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state incomes taxes or any withholding taxes has been recorded.

## NOTE 5. PENSION PLANS

The Company's defined benefit pension plans are the plans in the U.S., which consist of the Anixter Inc. Pension Plan, the Executive Benefit Plan and the Supplemental Executive Retirement Plan ("SERP") (together the "Domestic Plans") and various defined benefit pension plans covering employees of foreign subsidiaries in Canada and Europe (together the "Foreign Plans"). The majority of these defined benefit pension plans are non-contributory and cover substantially all full-time domestic employees and certain employees in other countries. Retirement benefits are provided based on compensation as defined in both the Domestic Plans and the Foreign Plans. The Company's policy is to fund all Domestic Plans as required by the Employee Retirement Income Security Act of 1974 ("ERISA") and the IRS and all Foreign Plans as required by applicable foreign laws. The Executive Benefit Plan and SERP are the only two plans that are unfunded. Assets in the various plans consist primarily of equity securities and fixed income investments.

Components of net periodic pension cost are as follows:

(In millions)	Three Months Ended					
	Domestic		Foreign		Total	
	September 2017	September 2016	September 2017	September 2016	September 2017	September 2016
Service cost	\$1.4	\$ 1.5	\$1.6	\$ 1.4	\$3.0	\$ 2.9
Interest cost	3.2	3.5	1.7	1.8	4.9	5.3
Expected return on plan assets	(4.2)	(4.4)	(2.3)	(2.2)	(6.5)	(6.6)
Net amortization <sup>(a)</sup>	0.5	0.7	0.9	0.6	1.4	1.3
Net periodic pension cost	\$0.9	\$ 1.3	\$1.9	\$ 1.6	\$2.8	\$ 2.9

(a) Reclassified into operating expenses from AOCI.

(In millions)	Nine Months Ended					
	Domestic		Foreign		Total	
	September 2017	September 2016	September 2017	September 2016	September 2017	September 2016
Service cost	\$3.8	\$ 3.9	\$4.5	\$ 4.4	\$8.3	\$ 8.3
Interest cost	8.7	9.2	5.1	6.2	13.8	15.4
Expected return on plan assets	(11.7)	(11.5)	(6.6)	(7.3)	(18.3)	(18.8)
Net amortization <sup>(a)</sup>	1.7	1.7	2.4	1.9	4.1	3.6
Settlement Charge	—	—	—	9.6	—	9.6
Net periodic pension cost	\$2.5	\$ 3.3	\$5.4	\$ 14.8	\$7.9	\$ 18.1

(a) Reclassified into operating expenses from AOCI.

In the fourth quarter of 2015, the Company commenced settlement of the liabilities of one of its Europe pension plans. At that time, Anixter entered into a buy-in policy with an insurance carrier for that plan. In the second quarter of 2016, the Company terminated the buy-in policy, and entered into an agreement for issuance of a buy-out policy and settled the pension obligation. Accumulated other comprehensive losses of approximately \$9.6 million (£6.9 million) were realized as a result of the settlement, and are reflected in the Condensed Consolidated Statement of Comprehensive Income.

ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 6. STOCKHOLDERS' EQUITY

During the second quarter of 2017, the Company's shareholders approved the 2017 Stock Incentive Plan consisting of 2.0 million shares of the Company's common stock. Prior approved stock incentive plans have been closed and will not be allowed to issue future stock grants. At the end of the third quarter of 2017, there were 2.0 million shares reserved for issuance under the 2017 Stock Incentive Plan. Under such plan, the Company pays non-employee directors annual retainer fees and, at their election, meeting fees in the form of stock units. Employee and director stock units are included in common stock outstanding on the date of vesting, and stock options are included in common stock outstanding upon exercise by the participant. The fair value of employee stock options and units is amortized over the respective vesting period representing the requisite service period, generally three, four or six years for stock units and four years for stock options. Director stock units are expensed in the period in which they are granted, as these vest immediately.

During the first quarter of 2016, Anixter initiated a performance-based restricted stock unit ("performance units") program that will be earned in one-third tranches to be evaluated on the anniversary of the first, second and third performance cycles. Each evaluation period will be based on the achievement of the Company's total shareholder return ("TSR") relative to the TSR of the S&P Mid Cap 400 index. The earned shares are issued on the third anniversary of the grant date. The granted units will be adjusted based on the specific payout percentage of the grant agreement. The fair value of each tranche related to the performance units were estimated at the grant date using the Monte Carlo Simulation pricing model.

During the three and nine months ended September 29, 2017, the Company granted 11,446 and 184,633 stock units, respectively, to employees, with a weighted-average grant-date fair value of \$0.8 million and \$15.7 million, respectively. During the three and nine months ended September 29, 2017, the Company granted 3,798 and 37,754 performance units, respectively, to employees, with a weighted-average grant-date fair value of \$0.3 million and \$3.3 million, respectively. During the three and nine months ended September 29, 2017, the Company granted directors 8,087 and 23,861 stock units, respectively, with a weighted-average grant-date fair value of \$0.6 million and \$1.9 million, respectively. Antidilutive stock options and units are excluded from the calculation of weighted-average shares for diluted earnings per share. For the third quarter of 2017 and 2016, the antidilutive stock options and units were immaterial.

NOTE 7. BUSINESS SEGMENTS

Anixter is a leading distributor of enterprise cabling and security solutions, electrical and electronic wire and cable solutions and utility power solutions. The Company has identified Network & Security Solutions ("NSS"), Electrical and Electronic Solutions ("EES") and Utility Power Solutions ("UPS") as reportable segments.

Corporate expenses are incurred to obtain and coordinate financing, tax, information technology, legal and other related services, certain of which were rebilled to subsidiaries. The Company also has various corporate assets which are reported in corporate. Segment assets may not include jointly used assets, but segment results include depreciation expense or other allocations related to those assets as such allocation is made for internal reporting. Interest expense and other non-operating items are not allocated to the segments or reviewed on a segment basis.

The categorization of net sales by end market is determined using a variety of data points including the technical characteristic of the product, the "sold to" customer information, the "ship to" customer information and the end customer product or application into which product will be incorporated. Anixter also has largely specialized its sales organization by segment. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, the Company reclassifies net sales by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.



## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Segment Financial Information

Segment information for the three and nine months ended September 29, 2017 and September 30, 2016 are as follows:  
(In millions)

Third Quarter of 2017	NSS	EES	UPS	Corporate	Total
Net Sales	\$1,049.2	\$555.0	\$412.2	\$ —	\$2,016.4
Operating income	67.5	26.8	19.8	(33.1 )	81.0
Third Quarter of 2016	NSS	EES	UPS	Corporate	Total
Net Sales	\$1,049.9	\$535.1	\$371.3	\$ —	\$1,956.3
Operating income	74.9	28.7	15.8	(32.1 )	87.3
Nine Months of 2017	NSS	EES	UPS	Corporate	Total
Net Sales	\$3,063.5	\$1,643.9	\$1,206.2	\$ —	\$5,913.6
Operating income	194.2	84.3	57.3	(103.1)	232.7
Nine Months of 2016	NSS	EES	UPS	Corporate	Total
Net Sales	\$3,043.7	\$1,596.2	\$1,088.3	\$ —	\$5,728.2
Operating income	198.6	75.1	42.1	(111.5)	204.3

## Goodwill Assigned to Segments

The following table presents the changes in goodwill allocated to the Company's reporting units during the nine months ended September 29, 2017:

(In millions)	NSS	EES	UPS	Total
Balance as of December 30, 2016	\$405.0	\$181.0	\$178.6	\$764.6
Foreign currency translation	4.3	0.7	9.7	14.7
Balance as of September 29, 2017	\$409.3	\$181.7	\$188.3	\$779.3

## ANIXTER INTERNATIONAL INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 8. SUMMARIZED FINANCIAL INFORMATION OF ANIXTER INC.

Anixter International Inc. guarantees, fully and unconditionally, substantially all of the debt of its subsidiaries, which include Anixter Inc., its 100% owned primary operating subsidiary. Anixter International Inc. has no independent assets or operations, and all subsidiaries other than Anixter Inc. are minor. The following summarizes the financial information for Anixter Inc.:

## ANIXTER INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	September 29, 2017	December 30, 2016
Assets:		
Current assets	\$ 2,836.7	\$ 2,688.3
Property, equipment and capital leases, net	158.2	148.4
Goodwill	779.3	764.6
Intangible assets, net	394.4	415.4
Other assets	90.4	84.8
	\$ 4,259.0	\$ 4,101.5
Liabilities and Stockholder's Equity:		
Current liabilities	\$ 1,372.8	\$ 1,264.9
Subordinated notes payable to parent	—	0.7
Long-term debt	1,280.3	1,390.1
Other liabilities	152.6	156.8
Stockholder's equity	1,453.3	1,289.0
	\$ 4,259.0	\$ 4,101.5

## ANIXTER INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In millions)	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Net sales	\$2,016.4	\$ 1,956.3	\$5,913.6	\$ 5,728.2
Operating income	\$82.6	\$ 88.9	\$237.8	\$ 209.0
Income from continuing operations before income taxes	\$63.9	\$ 66.6	\$180.6	\$ 142.7
Net income (loss) from discontinued operations	\$—	\$ 0.1	\$—	\$ (0.6 )
Net income	\$38.5	\$ 41.2	\$111.4	\$ 86.0
Comprehensive income	\$57.2	\$ 32.8	\$154.9	\$ 98.7

## ANIXTER INTERNATIONAL INC.

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

The following is a discussion of our financial condition and results of operations for the three and nine months ended September 30, 2017 as compared to the corresponding period in the prior year. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements, including the related notes, set forth in this report under "Condensed Consolidated Financial Statements" and our Annual Report on Form 10-K for the year ended December 30, 2016.

## Third Quarter and Year-to-Date 2017 and 2016 Consolidated Results of Operations

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net sales	\$2,016.4	\$ 1,956.3	\$5,913.6	\$ 5,728.2
Gross profit	397.2	396.7	1,172.6	1,160.9
Operating expenses	316.2	309.4	939.9	956.6
Operating income	81.0	87.3	232.7	204.3
Other expense:				
Interest expense	(18.9 )	(19.8 )	(55.7 )	(59.7 )
Other, net	0.3	(2.1 )	(0.9 )	(5.7 )
Income from continuing operations before income taxes	62.4	65.4	176.1	138.9
Income tax expense from continuing operations	24.8	25.1	67.5	54.6
Net income from continuing operations	37.6	40.3	108.6	84.3
Net income (loss) from discontinued operations	—	0.1	—	(0.6 )
Net income	\$37.6	\$ 40.4	\$108.6	\$ 83.7
Diluted income per share:				
Continuing operations	\$1.11	\$ 1.20	\$3.20	\$ 2.52
Discontinued operations	—	0.01	—	(0.02 )
Net income	\$1.11	\$ 1.21	\$3.20	\$ 2.50

## Executive Overview

## Third Quarter Highlights

We delivered overall organic sales growth of 1.5%, reflecting continued strong organic growth in our Utility Power Solutions ("UPS") segment. Sales performance in our Network and Security Solutions ("NSS") and Electrical and Electronic Solutions ("EES") segments was impacted by a reduction in capital project spend in North America and disruption caused by hurricanes and earthquakes.

Additional highlights of the quarter included:

Record third quarter sales of \$2,016.4 million, up 3.1%;

Strong growth in our UPS segment, up 11.0%, 10.5% on an organic basis;

## Strategy Update and Business Outlook

As we enter the final quarter of 2017, our focus remains on our growth initiatives which include global accounts, synergistic sales and new product initiatives. While industry growth in our end markets remains slow, especially in the United States, we have experienced solid performance in our day-to-day business, in small and mid-sized projects, and in our international business. Although the recovery in large capital project activity in North America has been slower than we expected, based on our improving backlog trends and pipeline activity, we are cautiously optimistic that project activity will accelerate over the next several quarters.





## ANIXTER INTERNATIONAL INC.

## Items Impacting Comparability of Results

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") above, this report includes certain non-GAAP financial measures as defined by the Securities and Exchange Commission. Specifically, net sales comparisons to the prior corresponding period, both worldwide and in relevant segments, are discussed in this report both on a U.S. GAAP and non-GAAP basis. We believe that by providing non-GAAP organic growth, which adjusts for the impact of acquisitions (when applicable), foreign exchange fluctuations, copper prices and the number of billing days, both management and investors are provided with meaningful supplemental sales information to understand and analyze our underlying trends and other aspects of our financial performance. Historically, and from time to time, we may also exclude other items from reported financial results (e.g., impairment charges, inventory adjustments, restructuring charges, tax items, currency devaluations, pension settlements, etc.) in presenting adjusted operating expense, adjusted operating income, adjusted income tax expense and adjusted net income so that both management and financial statement users can use these non-GAAP financial measures to further understand and evaluate our performance period over period and to analyze the underlying trends of our business. As a result of the recent acquisitions, we have also excluded amortization of intangible assets associated with purchase accounting from acquisitions from the adjusted amounts for comparison of the non-GAAP financial measures period over period.

EBITDA is defined as net income from continuing operations before interest, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before foreign exchange and other non-operating expense and non-cash stock-based compensation, excluding the other items from reported financial results, as defined above. We believe that adjusted operating income, EBITDA and Adjusted EBITDA provide relevant and useful information, which is widely used by analysts, investors and competitors in our industry as well as by our management in assessing both consolidated and business segment performance. Adjusted operating income provides an understanding of the results from the primary operations of our business by excluding the effects of certain items that do not reflect the ordinary earnings of our operations. We use adjusted operating income to evaluate our period over period operating performance because we believe this provides a more comparable measure of our continuing business excluding certain items that are not reflective of expected ongoing operations. This measure may be useful to an investor in evaluating the underlying performance of our business. EBITDA provides us with an understanding of earnings before the impact of investing and financing charges and income taxes. Adjusted EBITDA further excludes the effects of foreign exchange and other non-cash stock-based compensation, and certain items that do not reflect the ordinary earnings of our operations and that are also excluded for purposes of calculating adjusted net income, adjusted earnings per share and adjusted operating income. EBITDA and Adjusted EBITDA are used by our management for various purposes including as measures of performance of our operating entities and as a basis for strategic planning and forecasting. Adjusted EBITDA may be useful to an investor because this measure is widely used to evaluate a company's operating performance without regard to items excluded from the calculation of such measure, which can vary substantially from company to company depending on the accounting methods, book value of assets, capital structure and the method by which the assets were acquired, among other factors. They are not, however, intended as an alternative measure of operating results or cash flow from operations as determined in accordance with U.S. GAAP.

Non-GAAP financial measures provide insight into selected financial information and should be evaluated in the context in which they are presented. These non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP, and non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies. The non-GAAP financial measures should be considered in conjunction with the Condensed Consolidated Financial Statements, including the related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report. Management does not use these non-GAAP financial measures for any purpose other than the reasons stated above.

Our operating results can be affected by changes in prices of commodities, primarily copper, which are components in some of the electrical wire and cable products sold. Generally, as the costs of inventory purchases increase due to

higher commodity prices, our mark-up percentage to customers remains relatively constant, resulting in higher sales revenue and gross profit. In addition, existing inventory purchased at previously lower prices and sold as prices increase may result in a higher gross profit margin. Conversely, a decrease in commodity prices in a short period of time would have the opposite effect, negatively affecting financial results. The degree to which spot market copper prices change affects product prices and the amount of gross profit earned will be affected by end market demand and overall economic conditions. Importantly, however, there is no exact measure of the impact of changes in copper prices, as there are thousands of transactions in any given year, each of which has various factors involved in the individual pricing decisions. Therefore, all references to the effect of copper prices are estimates.

## ANIXTER INTERNATIONAL INC.

The following summarizes the various items that favorably/(unfavorably) impact the comparability of the results for the three and nine months ended September 29, 2017 and September 30, 2016.

## Items Impacting Comparability of Results from Continuing Operations:

(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Items impacting operating expense and operating income:	Favorable / (Unfavorable)			
Amortization of intangible assets	\$(9.1 )	\$( 9.4 )	\$(27.1 )	\$( 28.6 )
UK pension settlement	—	—	—	(9.6 )
Restructuring charge	—	0.2	—	(5.4 )
Acquisition and integration costs	(0.8 )	(0.7 )	(0.8 )	(4.3 )
Latin America bad debt provision	—	—	—	(7.6 )
Total of items impacting operating expense and operating income	\$(9.9 )	\$( 9.9 )	\$(27.9 )	\$( 55.5 )
Items impacting income taxes:				
Tax impact of items impacting pre-tax income above	3.3	1.8	9.1	16.6
Tax benefits related to prior year tax positions	—	2.1	—	2.1
Total of items impacting income taxes	\$3.3	\$ 3.9	\$9.1	\$ 18.7
Net income impact of these items	\$(6.6 )	\$( 6.0 )	\$(18.8 )	\$( 36.8 )
Diluted EPS impact of these items	\$(0.19)	\$( 0.18 )	\$(0.55)	\$( 1.10 )

The items impacting operating expense and operating income by segment are reflected in the tables below.

## Items Impacting Comparability of Operating Expense and Operating Income by Segment:

(In millions)	Three Months Ended September 29, 2017				
	NSS	EES	UPS	Corporate	Total
Amortization of intangible assets	\$(3.6)	\$(2.2)	\$(3.3)	\$ —	\$(9.1)
Acquisition and integration costs	—	—	—	(0.8 )	(0.8 )
Total of items impacting operating expense and operating income	\$(3.6)	\$(2.2)	\$(3.3)	\$( 0.8 )	\$(9.9)
(In millions)	Three Months Ended September 30, 2016				
	NSS	EES	UPS	Corporate	Total
Amortization of intangible assets	\$(3.3)	\$(2.1)	\$(4.0)	\$ —	\$(9.4)
Restructuring charge	0.1	0.1	—	—	0.2
Acquisition and integration costs	—	—	—	(0.7 )	(0.7 )
Total of items impacting operating expense and operating income	\$(3.2)	\$(2.0)	\$(4.0)	\$( 0.7 )	\$(9.9)
(In millions)	Nine Months Ended September 29, 2017				
	NSS	EES	UPS	Corporate	Total
Amortization of intangible assets	\$(10.8)	\$(6.4)	\$(9.9 )	\$ —	\$(27.1)
Restructuring charge	—	0.5	(0.1 )	(0.4 )	—
Acquisition and integration costs	—	—	—	(0.8 )	(0.8 )
Total of items impacting operating expense and operating income	\$(10.8)	\$(5.9)	\$(10.0)	\$( 1.2 )	\$(27.9)

ANIXTER INTERNATIONAL INC.

(In millions)	Nine Months Ended September 30, 2016				
	NSS	EES	UPS	Corporate	Total
Amortization of intangible assets	\$(10.5)	\$(6.3)	\$(11.8)	\$—	\$(28.6)
UK pension settlement	—	—	—	(9.6)	(9.6)
Restructuring charge	(1.8)	(1.3)	(2.2)	(0.1)	(5.4)
Acquisition and integration costs	—	—	(0.3)	(4.0)	(4.3)
Latin America bad debt provision	(3.9)	(3.7)	—	—	(7.6)
Total of items impacting operating expense and operating income	\$(16.2)	\$(11.3)	\$(14.3)	\$(13.7)	\$(55.5)

U.S. GAAP to Non-GAAP Net Income and EPS Reconciliation:

(In millions, except per share amounts)

Reconciliation to most directly comparable U.S. GAAP financial measure:	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income from continuing operations - U.S. GAAP	\$ 37.6	\$ 40.3	\$ 108.6	\$ 84.3
Items impacting net income from continuing operations	6.6	6.0	18.8	36.8
Net income from continuing operations - Non-GAAP	\$ 44.2	\$ 46.3	\$ 127.4	\$ 121.1
Diluted EPS from continuing operations – U.S. GAAP	\$ 1.11	\$ 1.20	\$ 3.20	\$ 2.52
Diluted EPS impact of these items from continuing operations	0.19	0.18	0.55	1.10
Diluted EPS from continuing operations – Non-GAAP	\$ 1.30	\$ 1.38	\$ 3.75	\$ 3.62

## ANIXTER INTERNATIONAL INC.

## Net Sales

## Sales Growth Trends

(\$ millions)	Three Months Ended September 29, 2017			Three Months Ended September 30, 2016		
	As Reported	Foreign Exchange Impact	Copper Impact	As Adjusted	As Reported	Organic Growth / (Decline)
<b>Network &amp; Security Solutions (NSS)</b>						
North America	\$818.5	\$ (2.8 )	\$—	\$815.7	\$ 845.3	(3.5 )%
EMEA	88.9	(1.9 )	—	87.0	82.8	5.1 %
Emerging Markets	141.8	(1.5 )	—	140.3	121.8	15.2 %
NSS	\$1,049.2	\$ (6.2 )	\$—	\$1,043.0	\$ 1,049.9	(0.7 )%
<b>Electrical &amp; Electronic Solutions (EES)</b>						
North America	\$433.8	\$ (2.5 )	\$(15.7)	\$415.6	\$ 432.8	(4.0 )%
EMEA	67.1	(0.3 )	(2.8 )	64.0	59.3	8.1 %
Emerging Markets	54.1	(0.5 )	(1.1 )	52.5	43.0	21.8 %
EES	\$555.0	\$ (3.3 )	\$(19.6)	\$532.1	\$ 535.1	(0.6 )%
<b>Utility Power Solutions (UPS)</b>						
North America	\$412.2	\$ (1.6 )	\$(0.3 )	\$410.3	\$ 371.3	10.5 %
UPS	\$412.2	\$ (1.6 )	\$(0.3 )	\$410.3	\$ 371.3	10.5 %
<b>Total</b>	<b>\$2,016.4</b>	<b>\$ (11.1 )</b>	<b>\$(19.9)</b>	<b>\$1,985.4</b>	<b>\$ 1,956.3</b>	<b>1.5 %</b>
<b>Geographic Sales</b>						
North America	\$1,664.5	\$ (6.9 )	\$(16.0)	\$1,641.6	\$ 1,649.4	(0.5 )%
EMEA	156.0	(2.2 )	(2.8 )	151.0	142.1	6.3 %
Emerging Markets	195.9	(2.0 )	(1.1 )	192.8	164.8	17.0 %
<b>Total</b>	<b>\$2,016.4</b>	<b>\$ (11.1 )</b>	<b>\$(19.9)</b>	<b>\$1,985.4</b>	<b>\$ 1,956.3</b>	<b>1.5 %</b>

NSS – Sales of \$1,049.2 million decreased 0.1% from \$1,049.9 million in the prior year period. Adjusting for the favorable impact from foreign exchange, NSS organic sales decreased 0.7%, reflecting a reduction in large project activity and the estimated impact of hurricanes and earthquakes, combined with strong project billings in the prior year quarter. NSS security sales in the third quarter of 2017 of \$437.5 million, which represents 41.7% of total segment sales, increased 4.0% from the prior year period. Adjusted for the \$3.3 million positive currency impact, organic security sales growth was 3.3% compared to the third quarter of 2016.

EES – Sales of \$555.0 million increased 3.7% from \$535.1 million in the prior year period. However, EES organic sales decreased by 0.6%, adjusting for the favorable impacts from foreign exchange and copper. Continued weakness in large industrial project activity and the estimated impact of hurricanes offset ongoing growth with OEM customers and synergistic growth from sales of low voltage products to legacy Anixter customers.

UPS – Sales of \$412.2 million increased 11.0% from \$371.3 million in the prior year period, driven by synergistic sales to support a new investor-owned utility ("IOU") customer and strong growth with existing IOU and public power customers. UPS organic sales increased 10.5%, adjusting for the favorable impacts from foreign exchange and copper.



## ANIXTER INTERNATIONAL INC.

## Sales Growth Trends

(\$ millions)	Nine Months Ended September 29, 2017				Nine Months Ended September 30, 2016		Organic Growth / (Decline)
	As Reported	Foreign Exchange Impact	Copper Impact	As Adjusted	As Reported		
<b>Network &amp; Security Solutions (NSS)</b>							
North America	\$2,403.6	\$ (1.6 )	\$—	\$2,402.0	\$ 2,432.0	(1.2 )	%
EMEA	268.3	5.1	—	273.4	250.0	9.4	%
Emerging Markets	391.6	1.6	—	393.2	361.7	8.7	%
NSS	\$3,063.5	\$ 5.1	\$—	\$3,068.6	\$ 3,043.7	0.8	%
<b>Electrical &amp; Electronic Solutions (EES)</b>							
North America	\$1,291.6	\$ (1.3 )	\$(37.4)	\$1,252.9	\$ 1,292.3	(3.1 )	%
EMEA	193.4	11.6	(8.0 )	197.0	176.2	11.8	%
Emerging Markets	158.9	1.1	(2.5 )	157.5	127.7	23.3	%
EES	\$1,643.9	\$ 11.4	\$(47.9)	\$1,607.4	\$ 1,596.2	0.7	%
<b>Utility Power Solutions (UPS)</b>							
North America	\$1,206.2	\$ (1.1 )	\$(0.7 )	\$1,204.4	\$ 1,088.3	10.7	%
UPS	\$1,206.2	\$ (1.1 )	\$(0.7 )	\$1,204.4	\$ 1,088.3	10.7	%
<b>Total</b>	<b>\$5,913.6</b>	<b>\$ 15.4</b>	<b>\$(48.6)</b>	<b>\$5,880.4</b>	<b>\$ 5,728.2</b>	<b>2.7</b>	<b>%</b>
<b>Geographic Sales</b>							
North America	\$4,901.4	\$ (4.0 )	\$(38.1)	\$4,859.3	\$ 4,812.6	1.0	%
EMEA	461.7	16.7	(8.0 )	470.4	426.2	10.4	%
Emerging Markets	550.5	2.7	(2.5 )	550.7	489.4	12.5	%
<b>Total</b>	<b>\$5,913.6</b>	<b>\$ 15.4</b>	<b>\$(48.6)</b>	<b>\$5,880.4</b>	<b>\$ 5,728.2</b>	<b>2.7</b>	<b>%</b>

NSS – Sales of \$3,063.5 million increased 0.7% from \$3,043.7 million in the prior year period. NSS organic sales increased 0.8%, adjusting for the unfavorable impact from foreign exchange, driven by growth across our EMEA and Emerging Markets geographies. NSS security sales in the nine months ended September 29, 2017 of \$1,257.8 million, which represents 41.1% of total segment sales, increased 2.6% from the prior year period. Adjusted for the \$4.8 million negative currency impact, organic security sales growth was 3.0% compared to the nine months ended September 30, 2016.

EES – Sales of \$1,643.9 million increased 3.0% from \$1,596.2 million in the prior year period, strengthened by the favorable impact from copper but partially offset by the unfavorable impact from foreign exchange. EES organic sales increased by 0.7%, driven by growth across our EMEA and Emerging Markets geographies and growth with OEM customers.

UPS – Sales of \$1,206.2 million increased 10.8% from \$1,088.3 million in the prior year period, driven by synergistic sales to support a new IOU customer and strong growth with existing IOU and Public Power customers. UPS organic sales increased 10.7%, adjusting for the favorable impacts from foreign exchange and copper.

Gross Margin

Gross margin of 19.7% in the third quarter of 2017 compares to 20.3% in the third quarter of 2016. Gross margin of 19.8% in the nine months ended September 29, 2017 compares to 20.3% in the nine months ended September 30, 2016. The lower gross margin was due to customer, product and segment mix.



ANIXTER INTERNATIONAL INC.

Operating Expenses

Operating expenses were \$316.2 million and \$309.4 million in the third quarter of 2017 and 2016, respectively. The third quarter of 2017 includes \$9.1 million of intangible asset amortization and \$0.8 million of acquisition and integration costs. The third quarter of 2016 includes \$9.4 million of intangible asset amortization, \$0.7 million of acquisition and integration costs and a restructuring charge reversal of \$0.2 million. Excluding these items, adjusted operating expenses in the third quarter of 2017 of \$306.3 million, or 15.2% of sales, compares to prior year adjusted operating expense of \$299.5 million, or 15.3% of sales. Further adjusting operating expenses for an unfavorable \$1.4 million impact of foreign currency in the third quarter of 2017, adjusted operating expenses would have increased by 1.8%.

Operating expenses were \$939.9 million and \$956.6 million in the nine months ended September 29, 2017 and September 30, 2016, respectively. The nine months ended September 29, 2017 includes \$27.1 million of intangible asset amortization and \$0.8 million of acquisition and integration costs. The nine months ended September 30, 2016 includes \$28.6 million of intangible asset amortization, \$9.6 million related to the UK pension settlement, \$5.4 million of restructuring costs, \$4.3 million of acquisition and integration costs and \$7.6 million related to the Latin America bad debt provision. Excluding these items, adjusted operating expenses in the nine months ended September 29, 2017 of \$912.0 million or 15.4% of sales, compares to prior year adjusted operating expenses of \$901.1 million, or 15.7% of sales. Further adjusting operating expenses for a favorable \$3.8 million impact of foreign currency in the nine months ended September 29, 2017, adjusted operating expenses would have increased by 1.6%.

ANIXTER INTERNATIONAL INC.

Operating Income

(In millions)	Three Months Ended				
	NSS	EES	UPS	Corporate	Total
Operating income, 2017	\$67.5	\$26.8	\$19.8	\$(33.1)	\$81.0
Operating income, 2016	74.9	28.7	15.8	(32.1)	87.3
\$ Change	\$(7.4)	\$(1.9)	\$4.0	\$(1.0)	\$(6.3)
% Change	(10.0)%	(6.4)%	25.4%	(3.1)%	(7.2)%

Items impacting operating income in 2017 \$3.6