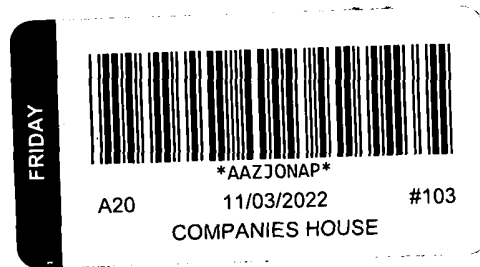


Registration number: 10131931

Wesco Aircraft EMEA Limited

Annual Report and Financial Statements

for the Period from 1 October 2019 to 31 December 2020



Wesco Aircraft EMEA Limited

Contents

	Page
Company Information	1
Strategic Report	2 to 5
Directors' Report	6 to 11
Statement of Directors' Responsibilities in respect of the financial statements	12
Independent Auditors' Report	13 to 15
Statement of Comprehensive Income	16
Balance Sheet	17
Statement of Changes in Equity	18
Notes to the Financial Statements	19 to 37

Wesco Aircraft EMEA Limited

Company Information

Directors	N Austerberry W R Hollinshead D R Landry M Whatling
Registered office	50 Longbridge Lane Allenton Derby Derbyshire DE24 8UJ
Independent auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds LS1 4DL

Wesco Aircraft EMEA Limited

Strategic Report for the Period from 1 October 2019 to 31 December 2020

The Directors present their strategic report for the period from 1 October 2019 to 31 December 2020.

Principal activities

The principal activity of the Company is the supply of fasteners, lubricants, chemicals, composite materials, adhesives, sealants and coatings primarily to the aerospace industry.

The Directors do not recommend the payment of a final dividend (2019 - £Nil).

Coronavirus - summary of impact assessment

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic, and it continues to spread across the world. The COVID-19 health crisis poses significant and widespread risks to our business as well as to the business environment and the markets in which we operate. To limit or slow the spread of COVID-19, governments have taken various actions, including the issuance of stay-at-home orders and social distancing guidelines.

We have already experienced significant disruption to our business as a result of the significant reduction in commercial aircraft travel which has reduced commercial aircraft production rates and MRO activities. Even after restrictions are modified or lifted, changes in consumer behaviour and health concerns may continue to impact commercial aircraft travel which would impact the overall demand for commercial aircrafts. We expect the COVID-19 pandemic to have a material impact on our operations, our cash flows from operations and our financial condition, in fiscal year 2022. However, the impacts of COVID-19 on our future performance cannot be reasonably estimated at this time.

The Incora Group has performed a detailed liquidity forecast which is inclusive of the anticipated ongoing impact of COVID-19 on Incora's operations and financing instruments currently available to demonstrate that the Group and subsidiaries will be able to operate for at least twelve months from the approval date of these Financial Statements. Further details of the directors' consideration of going concern are given in the Directors' report.

Funding arrangements

The Incora Group is funded by the Incora Group ABL facility. In order to right size the business post COVID-19 pandemic, the Incora Group has taken actions to mitigate the impact of the pandemic. This includes but is not limited to the following in respect of the impact on the expected cash flow: consolidation of certain physical facilities; reductions in the workforce; furloughs and salary reductions; and reduced capital expenditure.

The ultimate parent company Wesco Aircraft Holdings, Inc. has reported financial statements for the period ended 31 December 2020 disclosing the impact of COVID-19 on the global business. These financial statements lay out the impact on the global business of COVID-19 in detail along with the actions to mitigate the impact and funding arrangements in place to support the use of Going concern. Further details are given in the Directors' report.

Fair review of the business

The company generated turnover of \$235.2m (2019 - \$223.5m) and loss before tax of \$28.1m (2019 - loss of \$5.4m) in the year. Net assets at 31 December 2020 were \$71.4m (2019 - \$100.3m) The Company focuses on the C-class segment of the aerospace market, specialising in parts for civil and defence aircraft engines, and other aircraft mechanical systems (e.g., landing gears). Our service offering includes sourcing, procurement, warehousing, product movement and other bespoke services based on customer-specific requirements.

Wesco Aircraft EMEA Limited

Strategic Report for the Period from 1 October 2019 to 31 December 2020 (continued)

We source and procure parts ranging from fasteners (nuts and bolts, often made to an industry standard) to highly bespoke fabrications (c.g., certain springs, seals, bearings). We use our expertise to reduce the 'long tail' of suppliers inevitably created during the production process, as well as offering our customers the ability to source and procure more effectively than they can on their own. Working with many customers gives us significant purchasing power with which to negotiate prices with suppliers. The company continues to take more advantage of this, and our professional and strategic buying team, looking at the whole supply chain over the short, medium and long term, consistently strive to create significant value for us and our customers.

During the prior year, the Incora Group (The consolidating parent Wesco Aircraft Holdings Inc. and subsidiaries) undertook a legal entity and intercompany loan rationalisation project aimed at reducing the number of entities in the wider Incora Group and simplifying the number of intercompany balances within the Group.

Key performance indicators

The directors consider the following KPIs to be the principle measures of performance in relation to the Company. These KPIs are reviewed on an ongoing basis by the directors.

		15 months ended	Year ended
		31 December 2020	30 September 2019
Turnover	As per statement of comprehensive income	\$235.2million	\$223.5 million
Gross margin %	Gross profit divided by turnover	8.56%	14.78%
Operating profit/(Loss) %	Operating profit divided by turnover	(10.69)%	(1.84)%

Principal risks and uncertainties

Below we have covered the general risks Incora face within our day to day business. These together cover liquidity, credit, interest and foreign risk which are further discussed in the directors report.

Commercial Aerospace Market

The financial reporting period covered by this report was an unprecedented period in commercial aerospace and has shifted expected industry trends into new territory. Aerospace primes, whilst only closing for the initial lockdown period caused by the global Covid-19 pandemic, have returned to manufacture but at lower rates due to workforce restrictions and reduced demand.

Air carriers around the world are facing extreme financial pressures and cut capacity at unparalleled rates in the absence of meaningful passenger demand. The lack of airline passenger freight has impacted aircraft orders and backlog, dropping to a significant low resulting in a large commercial jet backlog at the lowest level since July 2015; an 8.5% drop in the last 12 months, impacting hardware sales especially and three key chemical customers in the EMEA MRO market. This backlog dropped for much of 2019 and only started to go up in October of that year, the pandemic has since reduced the backlog further. Compared to the position at the end of January 2019 there are now 892 fewer single-aisles and 449 fewer widebodies on backlog as at 31 December 2020. The total comes to 1,341 fewer aircraft on backlog than two years ago.

Wesco Aircraft EMEA Limited

Strategic Report for the Period from 1 October 2019 to 31 December 2020 (continued)

Military Aerospace Market

In terms of the Defense market, the impact is much less severe. Government spending has remained high and protected. The initial lockdowns of countries in EMEA delayed programs but overall production has continued at a lower rate with companies now meeting previously overdue rate ramp up expectations on platforms such as F35.

Impacts to Military Air have included sustaining production in a constrained environment that requires social distancing, loss of skilled employees due to reductions in workforce both on furlough and through layoffs, and primarily the impact to the supply chain which will continue over the coming year.

Brexit has posed restrictions on shipping goods which has impacted supply chains primarily but overall, Defense spending is increasing in the UK and is at an all-time high in the EU.

Overall

The \$12.9M decline in gross profit was driven by lower volume on ad hoc hardware, contract & chemical sales volume. It was seen more prevalent in civil customers than military customers. Gross margin decline on hardware Contract sales, chemical sales and ad hoc hardware sales compared with the same period in the prior year were also seen. Average gross margins declined 6.2 percentage points primarily reflecting more aggressive pricing for hardware products including for certain Contract renewals, an increase on supplier costs from key chemical supplies, higher logistics costs due to Brexit and complexities around Covid-19.

Other costs

The \$7.6 million increase in SG&A expenses were primarily driven by investments to execute Wesco 2020 initiatives. Wesco 2020 related costs totalled \$2.3 million in the period ended December 2020. Most of the increase is the result of execution steps that have a defined end point. Key examples include professional fees for consulting support, dilapidations and payroll related costs, namely provision for redundancy & retention.

The Directors' duties

Directors of the Company, as those of all UK Companies, must act in accordance with a set of general duties. These duties are detailed in section 172(1) of the UK Companies Act 2006 which is summarised as follows: 'a director of a company must act in a what they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long term;
- the interest of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.'

It is important to recognise that in large organisation such as ours, the Directors fulfil their duties partly through a governance framework that delegates day to day decision making to employees of the Company. The following paragraph summarises how the Directors fulfil their duties:

Our strategy and consideration of consequences of decisions for long term

As directors of the Company, we provide overall risk oversight, with a focus on the most significant risks facing our Company. In addition, we are responsible for ensuring overall crisis management and business continuity plans are in place. Together with senior management, we frequently discuss the Company's business strategy, operations, policies, controls and current and potential risks. These discussions include approach for assessing, monitoring and controlling risk exposure.

Wesco Aircraft EMEA Limited

Strategic Report for the Period from 1 October 2019 to 31 December 2020 (continued)

Our values and cultures

The Incora Group is dedicated to conducting its business consistent with the highest standards of business ethics. We have an obligation to our employees, shareholders, customers, suppliers, community representatives and other business contacts to be honest, fair and forthright in all of our business activities

Our Code of Business Conduct and Ethics is a comprehensive blueprint of Incora's business standards and applies to call our directors, officers and employees. It underpins our commitment to do business the right way and covers anti-corruption, antitrust and fair competition, data protection, employment practices and trade compliance. We have a dedicated Ethics Helpline that is available to employees at all times.

Our employees

We recognise the importance of good communications and relations with employees. We continue to encourage and increase employee participation and involvement in matters which affect their interests. We provide updates to employees on development within the Company on a regular basis.

Business relationships

Our diverse, global customer base and supplier base includes some of the largest blue-chip multinationals in the aerospace sector. We value our customers and suppliers and have long term standing relationships with both our customers and our suppliers. We have dedicated customer and supplier account managers who manages and safeguards the interests of ourselves, our customers and our suppliers.

Community and environment

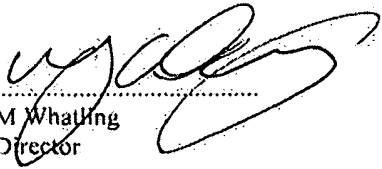
We are committed to the protection of the environment. We use our Environmental Management System to not only ensure compliance with environmental legislation and regulations, but also to achieve our objectives and goals with continual improvements in environmental performance and reduced environmental waste through recycling and reusing by-products and waste.

Other information

On 9 January 2020, Wesco Aircraft Holdings Inc., the ultimate holding company of the Company was acquired by Wolverine Top Holding Corporation, an affiliate of Platinum Equity Advisors, LLC. Wolverine Top Holding Corporation replaces Wesco Aircraft Holdings Inc., as the ultimate holding company and the latter becomes the Company's intermediate company. Wolverine Top Holding Corporation is incorporated in the United States of America.

In September 2020 the inventory holding from the chemical site in Clayton West (Colliers Way) was transferred to the new warehouse in Mirfield.

Approved by the Board on 10/3/2022 and signed on its behalf by:


M. Whaling
Director

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020

The Directors present their report and the audited financial statements of the company for the period from 1 October 2019 to 31 December 2020.

Directors of the Company

The Directors who held office during the period and at the date of signing the financial statements were as follows:

N Austerberry (appointed 15 May 2020)

W R Hollinshead (appointed 1 December 2020)

D R Landry (appointed 1 December 2020)

M Whatling (appointed 1 December 2020)

A Phennah (resigned 9 December 2019)

A Murray (resigned 31 January 2020)

J A Dobrucki (resigned 15 May 2020)

T Renchan (resigned 23 November 2020)

J Holland (resigned 15 April 2020)

Dividends

The Directors do not recommend the payment of a final dividend.

Financial instruments

Objectives and policies

The Company's operations expose it to a variety of financial risks that include the effects of changes in interest rate, liquidity risk, credit risk and foreign exchange risk. The Company seeks to limit the effects of such risks through the continuing support of its ultimate parent company. Cash forecasts are established in order to analyse more quickly these financial risks.

Liquidity risk

The Company manages liquidity risk by ensuring sufficient funds are available for at least the next 12 months.

Credit risk

Credit risk arises from cash and cash equivalents, and deposits with bank and financial instruments. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The Company has implemented policies that require appropriate credit checks on customers before sales are made and the amount of exposure to any individual customer is subject to a limit, which is assessed regularly by management. However, to date, the nature of the principal customers has meant that the company is not exposed to significant credit risk and foresees no default of third parties which could have a significant impact on the financial statements.

Interest rate risk

Interest risk rate arises as a consequence of borrowings from banks, the borrowings from which are at variable rates of interest. The Company does not use derivative financial instruments to manage interest rate costs and as such no hedge accounting is applied.

Foreign currency risk

The Company is exposed to movements in foreign exchange rates as a result of making sales and purchases in foreign currencies. The Company has mitigated risk by maintaining foreign currency bank accounts.

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020 (continued)

Employee involvement

The Company is an equal opportunity employer and fully committed to treating all its employees and job applicants fairly and equally, regardless of whether or not they have a disability. The Company abides by current legislation in its recruitment and employment practices and where required makes necessary reasonable adjustments.

The Company takes all reasonable steps through its resourcing, recruitment and employment practices and trains and promotes employees on the basis of their experience, abilities and qualifications without regard to disability. The Company also takes all reasonable steps to provide an accessible work environment where all employees are treated with respect and dignity and one that is free of harassment of any kind. The Company does not condone any form of harassment on the grounds of disability, whether engaged in by employees or by outside third parties who do business with the Company, such as contractors, suppliers, clients or customers.

The company provides employees systematically with info on matters of concern to them as employees by:

- consulting employees on a regular basis so their views are taken in to account in making decisions;
- encouraging involvement of employees; and
- achieving common awareness of all employees in relation to financial and economic factors that affect the performance of the company.

Branches outside the United Kingdom

The Company operates four branches in France, Italy, Germany and India.

Directors' liabilities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity is in force at the date of signing the financial statements and has been in force throughout the current reporting period. The Company also purchased and maintained throughout the last financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Strategic report

In accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Company has prepared a Strategic Report, which includes information that would have previously been included in the Directors' Report.

Streamlined Energy and Carbon Reporting

In line with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 our energy use and greenhouse gas (GHG) emissions are set out below. The data relates to UK emissions for the period from 1 October 2019 to 31 December 2020. This period is in line with the Strategic Report and Financial Statements.

Energy Use and Associated Greenhouse Gas Emissions

Total energy consumption	4,025,335 kWh
Emissions from combustion of gas	448 tCO ₂ e
Emissions from purchased electricity	371 tCO ₂ e
Total Gross Emissions	818 tCO₂e

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020 (continued)

Quantification and Reporting Methodology:

We report our emissions with reference to the latest Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol). The 2019 UK Government GHG Conversion Factors for Company Reporting published by the UK Department for Environment Food & Rural Affairs (DEFRA) are used to convert energy use in our operations to emissions of CO₂e. Carbon emission factors for purchased electricity calculated according to the location-based grid average' method. This reflects the average emission of the grid where the energy consumption occurs. Data sources include billing, invoices and the Company's internal systems. For transport data actual usage data (e.g. liters) was utilised.

Energy Efficiency Action:

Incora Group are committed to ensuring a safe and healthy workplace for our employees and one that minimises our impact and protects the environment. We will demonstrate this commitment through:

- Minimising the environmental impact of our activities by maintaining an environmental management system;
- Meeting or exceeding our compliance obligations as applicable to our environmental aspects;
- Identifying and preventing or minimising pollution within our scope of activity;
- Supporting initiatives and programmes aimed at improving awareness of sustainability;
- Continuing to work in partnership with the community and other stakeholders to improve the local environment and ensure that our operations do not have a detrimental effect on that community, and
- Continually seeking ways to improve our environmental performance.

Coronavirus pandemic

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The COVID-19 health crisis poses significant and widespread risks to our business as well as to the markets in which we operate. To limit the spread of COVID-19, governments have taken various actions to slow and otherwise control the spread of COVID-19, including the issuance of stay-at-home orders, social distancing guidelines and the distribution of vaccines.

We have experienced significant disruption to our business as a result of COVID-19 and the resulting reduction in aircraft production rates and significant reduction in commercial aircraft travel. Even as international and local restrictions are modified or lifted and vaccinations are more widely distributed, changes in consumer behavior and health concerns could continue to adversely impact commercial aircraft travel which could reduce the overall demand. The COVID-19 pandemic and its impact on our customers and the industry has had and could continue to have a material impact on our consolidated results, cash flows and financial condition.

The disruption to the commercial aerospace industry as a result of COVID-19 has adversely impacted our global sales, profitability and cash flows. In addition to integration plans and cost savings actions already implemented, we have developed, have executed, and are continuing to execute plans to further reduce costs and will maintain such cost control as long as circumstances require. These plans include headcount reductions, delay or elimination of some non-essential or discretionary spending, reduced inventory purchases and the delay of certain discretionary capital outlays.

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020 (continued)

Liquidity and capital resources

All UK companies, including Wesco Aircraft EMEA Limited and its subsidiaries are directly and indirectly funded by a US parent company, Wesco Aircraft Holdings, Inc. ("Incora") through intercompany arrangements which are repayable on demand. No significant cash or external borrowings are held in the UK. Due to this, the company is reliant on support and has received a letter of support from Wesco Aircraft Holdings, Inc. indicating that it will continue to make funds available to the company and will not seek repayment of any amounts owed where such repayment could impair the liquidity of the company. This will enable the company to continue in operational existence for the foreseeable future. The letter covers a period of at least 12 months from the date of signing these financial statements. The directors have assessed the ability of the US parent to provide support and in doing so reviewed the going concern assessment of the group.

Incora's primary sources of liquidity are cash and cash equivalents, and available borrowings under a \$475 million ABL Revolving Facility ("ABL"). Incora had total available cash and cash equivalents of \$117 million as of September 30, 2021, all of which was non-restricted and all foreign cash and cash equivalents were readily convertible into U.S. dollars or other foreign currencies.

Incora's total debt as of September 30, 2021 was \$2.48 billion:

	Principal \$'000
8.5% senior secured notes due 2024	\$643,500
9.0% senior secured notes due 2026	\$891,000
13.125% senior notes due 2027	\$525,000
Senior secured ABL revolving facility	\$419,881
	\$2,479,381
Current portion	\$15,500
Non-current portion	\$2,463,881
for which the maturity profile was as follows:	
October 1, 2021 – December 31, 2021	\$15,500
January 1, 2022 – December 31, 2022	\$23,250
January 1, 2023 – December 31, 2023	\$31,000
January 1, 2024 – December 31, 2024	\$1,052,131
January 1, 2025 – December 31, 2025	\$18,000
Thereafter	\$1,339,500
	\$2,479,381

Due to fluctuations in Incora's cash flows it is necessary from time to time to borrow under the ABL. Provided borrowing are within defined borrowing base limits, Incora can borrow up to \$475 million on the ABL facility, of which \$55 million was available as of September 30, 2021.

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020 (continued)

As of February 28, 2022, the ABL agreement contained two borrowing base limits which are measured weekly: (1) outstanding borrowings may not exceed the total of eligible accounts receivable plus eligible inventory and (2) outstanding borrowings plus \$47.5 million may not exceed eligible cash plus eligible accounts receivable plus eligible inventory. These limitations are not considered covenant defaults and must be cured in the following week if either one of them is breached. Incora is in compliance with these limitations.

Going Concern

Incora's directors performed a liquidity forecast for the period from approval of these financial statements to June 30, 2023, the 'base case', which is inclusive of the expected further impact of COVID-19 on operations, semi-annual debt interest payments, and financing instruments currently available.

As a part of the base case forecast to June 30, 2023, Incora's directors produced a severe but plausible downside analysis which assumed a delay in industry recovery of two quarters.

Incora realized a gross margin of 24.0% and 15.9% in FY 2019 and 2020, respectively. Incora's Q2-21 and Q3-21 actual gross margins were 17.4% and 21.0% respectively, which was lower than forecasts of 21.4% in Q2 and higher than forecast of 19.4% in Q3. The decrease primarily reflected a change in sales mix, including a higher concentration of electronic products within ad hoc sales, a greater mix of chemicals sales and a gross margin decline resulted primarily from a higher volume of pass-through revenues. This compares to forecasted margins for 2022 of 20.5%. In shifting the recovery by two quarters, Incora projected a reduction in gross margin of approximately 0.5% from the base case.

Incora's SG&A expense was 14.0% and 15.2% of revenue in FY 2019 and 2020, respectively. Incora's Q2-21 and Q3-21 SG&A costs of 18.4% and 23.1% respectively, were higher than forecasts of 15.8% and 16.1%. The increase was primarily reflecting the non-recurring merger, reorganization and integration costs. The merger, reorganization, and integration costs primarily relate to supply chain and inventory management consulting services related to the integration of Pattonair. Incora anticipates efficiencies combining the legacy Pattonair and Wesco entities, coupled with cost saving efforts that are currently underway, will result in significant cost savings in future quarters. As a part of the base case forecast to June 30, 2023, Incora's directors produced a severe but plausible downside case with SG&A expenses at 15% of revenue.

Incora achieved an EBITDA profit margin (before one-time and other costs) of 24.1% and 20.1% in FY 2019 and 2020, respectively. Incora achieved a profit margin of 20.4% in Q1-21, 17.4% in Q2-21 and 21.0% in Q3-21. As a part of the base case forecast to June 30, 2023, Incora's directors produced a severe but plausible downside case using an average EBITDA profit margin (before one-time and other costs) of 7.1%.

Conclusions

We anticipate that cash and cash equivalents and borrowing capacity will continue to be made available to us under Incora's ABL Facility will be sufficient to meet our liquidity requirements for the next twelve months. Incora would have \$6 million of available resources at the low point of May 31, 2023 in the base case and would require an incremental paydown on its ABL of \$35 million at the low point at June 30, 2023 in the downside case as well as an absence of any borrowing base limitation breaches (after the assumed ABL payment was made), with the value dependent upon the Group's success in achieving its mitigating actions to preserve cash, over a twelve-month horizon from the date of signing these accounts.

However, since we cannot fully exclude that in the worst possible cases the effects of COVID-19 on Incora's recovery could be significantly more prolonged and pronounced than modelled, neither can we fully exclude all uncertainty over additional measures management might undertake in response to COVID-19, the company's ability to rely on its letter of support from its U.S. parent company, and the possibility that additional liquidity may need to be obtained to maintain the business as a going concern.

Wesco Aircraft EMEA Limited

Directors' Report for the Period from 1 October 2019 to 31 December 2020 (continued)

The uncertainty of Incora's recovery and therefore the ability to provide funding that the company may require and fulfill the obligations set out in its letter of support in the downside scenario noted above would indicate the existence of a material uncertainty which may cast significant doubt about the company's Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Approved by the Board on 10/3/2022 and signed on its behalf by:


M Whaling
Director

Wesco Aircraft EMEA Limited

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Wesco Aircraft EMEA Limited

Independent Auditors' Report to the Members of Wesco Aircraft EMEA Limited

Report on the audit of the financial statements

Opinion

In our opinion, Wesco Aircraft EMEA Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the 15 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Statement of Comprehensive Income and the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with those requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in notes 2 and 24 to the financial statements concerning the company's ability to continue as a going concern. The company is dependent on a letter of support from a US parent company, Wesco Aircraft Holding Inc.

The future cash flows of the Incora group, headed by Wesco Aircraft Holding Inc., are dependent on the group's rate of recovery from the impact of Covid-19, which has had a significant impact on the global commercial aerospace sector. At the date of approval of these financial statements, Covid-19 continues to cause significant global disruption and uncertainty. As a result, the group's recovery could be significantly more prolonged and pronounced than modelled, which may impact the group's ability to generate the cash flows required to fulfil the letter of support.

These conditions, along with the other matters explained in note 24 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Wesco Aircraft EMEA Limited

Independent Auditors' Report to the Members of Wesco Aircraft EMEA Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on it, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Wesco Aircraft EMEA Limited

Independent Auditors' Report to the Members of Wesco Aircraft EMEA Limited (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

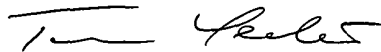
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



.....
Tom Yeates (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Leeds

Date: 10 March 2022

Wesco Aircraft EMEA Limited

Statement of Comprehensive Income for the Period from 1 October 2019 to 31 December 2020

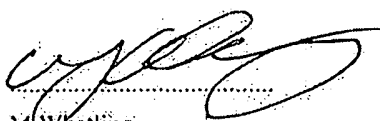
	Note	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Turnover	3	235,230	223,500
Cost of sales		<u>(215,096)</u>	<u>(190,474)</u>
Gross profit		20,134	33,026
Administrative expenses		(45,818)	(37,134)
Other operating income	4	<u>528</u>	<u>-</u>
Operating loss	5	(25,156)	(4,108)
Interest receivable and similar income	6	231	117
Interest payable and similar expenses	7	<u>(3,205)</u>	<u>(1,405)</u>
Loss before tax		(28,130)	(5,396)
Taxation	11	<u>(796)</u>	<u>647</u>
Loss for the financial period		<u>(28,926)</u>	<u>(4,749)</u>

The above results were derived from continuing operations.

Wesco Aircraft EMEA Limited
(Registration number: 10131931)
Balance Sheet as at 31 December 2020

	Note	31 December 2020 \$ 000	30 September 2019 \$ 000
Fixed assets			
Intangible assets	12	7,425	8,486
Tangible assets	13	<u>6,295</u>	<u>1,653</u>
		<u>13,720</u>	<u>10,139</u>
Current assets			
Stocks	14	116,181	104,205
Debtors	15	90,784	114,226
Cash at bank and in hand	16	<u>15,143</u>	<u>429</u>
		222,108	218,860
Creditors: Amounts falling due within one year	17	<u>(164,448)</u>	<u>(128,693)</u>
Net current assets		<u>57,660</u>	<u>90,167</u>
Net assets		<u>71,380</u>	<u>100,306</u>
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account	20	<u>71,380</u>	<u>100,306</u>
Total equity		<u>71,380</u>	<u>100,306</u>

The financial statements on pages 16 to 37 were approved and authorised by the Board on 10/3/2022 and signed on its behalf by:


M. Whatling
Director

Wesco Aircraft EMEA Limited

Statement of Changes in Equity for the Period from 1 October 2019 to 31 December 2020

	Called up share capital \$ 000	Profit and loss account \$ 000	Total equity \$ 000
At 1 October 2019	-	100,306	100,306
Total comprehensive expense for the financial year	<u>-</u>	<u>(28,926)</u>	<u>(28,926)</u>
At 31 December 2020	<u>-</u>	<u>71,380</u>	<u>71,380</u>
	Share capital \$ 000	Profit and loss account \$ 000	Total equity \$ 000
At 1 October 2018	-	104,521	104,521
Total comprehensive expense for the financial year	-	(4,749)	(4,749)
Adjustment in respect of employee share scheme	<u>-</u>	<u>534</u>	<u>534</u>
At 30 September 2019	<u>-</u>	<u>100,306</u>	<u>100,306</u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020

1 General information

The Company is a private company limited by share capital and incorporated in the United Kingdom. Company information details are shown on page 1.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

Basis of preparation

These financial statements have been prepared on a going concern basis, using the historical cost convention and in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

Summary of disclosure exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following available exemptions:

- the requirement to prepare a statement of cash flows;
- financial instruments disclosures, including categories of financial instruments; and
- the disclosure of key management personnel remuneration in total; and
- the disclosure of share based payment arrangements.

Going concern

The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. The Covid-19 pandemic has had a significant impact on the Company, the director's full evaluation of this is described in note 24.

The uncertainty of Incora's recovery and therefore the ability to provide funding that the Company may require and fulfill the obligations set out in its letter of support in the downside scenario noted above would indicate the existence of a material uncertainty which may cast significant doubt about the Company's and Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Company was unable to continue as a going concern. The directors' full evaluation of this is described in note 24.

On the basis of their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and have obtained a letter of support from Wesco Aircraft Holding Inc. Thus they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

2 Accounting policies (continued)

Revenue recognition

Turnover represents amounts receivable for goods and services net of value added tax and trade discounts. The Company recognises revenue when it has transferred all rights and obligations to customers with no outstanding liabilities remaining. This is done by reference to contracted Incoterms that are quoted on shipping documentation and recorded in the Company's systems.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

The financial statements are presented in US Dollars, which is also the Company's functional currency.

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current income tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Full provision is made for deferred tax arising from timing differences existing at the balance sheet date where there exists an obligation to pay more, or a right to pay less tax.

Deferred tax is recognised only to the extent that the Directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax balances are calculated at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Long leasehold land and buildings	Over the life of the lease
Other tangible assets	3-5 years straight line
Fixtures and fittings	3-5 years straight line
Dilapidations asset	Not depreciated

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

2 Accounting policies (continued)

Business combinations

The purchase method of accounting is used to account for transactions that result in the acquisition of a business. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date. Goodwill is amortised over its useful life, which shall not exceed sixteen years if a reliable estimate of the useful life cannot be made.

Computer software

Software separately acquired for internal use is capitalised at cost. Computer software is amortised on a straight-line basis over its estimated useful life of five years.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	Straight line over 16 years
Computer software	Straight line over 5 years

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

2 Accounting policies (continued)

Stocks

Hardware stock is valued at the lower of average weighted cost and estimated selling price less costs to complete and sell. Wesco values hardware stock using moving average weighted cost calculated by dividing the total cost of goods available for sale by the total number available for sale. Chemical stocks are valued at actual purchase cost on a first-in first-out basis.

Provision against obsolescence is calculated for hardware stocks by analysing how stock is consumed and extrapolating a curve to forecast usage of older inventory. From this expected sell through, Wesco has determined an appropriate annual percentage write down from the date goods were brought into the Company. Provision against obsolescence of chemical stocks is calculated with reference to the product's shelf life.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Leases and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to profit and loss so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Dividends

Dividend distribution to the Company's shareholders is recognised in the financial statements in the reporting period in which the dividends are paid.

Defined contribution pension obligation

The Company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to profit and loss in the year they are payable.

Share based payments

The ultimate parent company operates a number of equity-settled, share based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The Company recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

2 Accounting policies (continued)

Financial instruments

The Company applies FRS 102 chapters 11 and 12 in respect of financial instruments. Financial instruments are classified and accounted for as financial assets, financial liabilities or equity instruments, according to the substance of the contractual arrangement. Equity instruments are those that entitle the holder to a residual interest in the Company's assets after deducting all of its liabilities.

Basic financial instruments are recognised at amortised cost, except for investments in non-convertible preference and non-puttable ordinary and preference shares, which are measured at fair value provided that this can be measured reliably. Derivative financial instruments are initially recorded at cost and thereafter at fair value with changes recognised in profit or loss.

Judgements

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under "Key sources of estimation uncertainty" below.

Key sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Stock obsolescence

The key area of estimation uncertainty is the provision for stock obsolescence. Because of the nature of the Company's products and their significant shelf lives, significant estimation is involved in assessing the recoverable amount. The Directors' basis for determining the provision is in the policy set out above. The net carrying amount of stocks at the balance sheet date is shown in Note 14.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

3 Turnover

The analysis of the company's turnover for the period by class of business is as follows:

	Period from 1 October 2019 to 31 December 2020	Year to 30 September 2019
	\$ 000	\$ 000
Sales of goods	235,087	222,931
Service income	143	569
	235,230	223,500

The analysis of the company's turnover for the period by market is as follows:

	Period from 1 October 2019 to 31 December 2020	Year to 30 September 2019
	\$ 000	\$ 000
UK	115,363	71,044
Europe	107,621	119,193
Rest of world	10,001	13,231
North America	2,245	20,032
	235,230	223,500

4 Other operating income

The analysis of the Company's other operating income for the period is as follows:

	Period from 1 October 2019 to 31 December 2020	Year to 30 September 2019
	\$ 000	\$ 000
Government grants	528	
	528	

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

5 Operating loss

Arrived at after charging / (crediting):

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Depreciation expense	1,275	1,180
Amortisation expense	1,061	849
Foreign exchange losses/(gains)	1,280	(97)
Operating lease expense - plant and machinery	102	201
Operating lease expense - other	2,043	1,137
Stock recognised as an expense	208,211	186,531
Impairment of stocks	6,885	3,943
Impairment of trade debtors	455	25
	<u>455</u>	<u>25</u>

6 Interest receivable and similar income

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Other finance income	231	117
	<u>231</u>	<u>117</u>

7 Interest payable and similar expenses

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Interest on bank overdrafts and borrowings	3,205	1,405
	<u>3,205</u>	<u>1,405</u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Wages and salaries	22,767	19,979
Social security costs	2,155	1,889
Other pension costs	1,378	1,094
	<u>26,300</u>	<u>22,962</u>

The monthly average number of persons employed by the company (including directors) during the period, analysed by category was as follows:

	Period from 1 October 2019 to 31 December 2020 No.	Year to 30 September 2019 No.
Administration	121	146
Sales	131	133
Warehouse	123	140
	<u>375</u>	<u>419</u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

9 Directors' remuneration

The Directors' remuneration for the period was as follows:

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Aggregate emoluments	980	883
Contributions paid to money purchase schemes	15	30
	<u>995</u>	<u>913</u>

In respect of the highest paid director:

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Remuneration	557	513
Company contributions to money purchase pension schemes	9	17
	<u>566</u>	<u>530</u>

10 Auditors' remuneration

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Audit of the financial statements	318	157

There were no non-audit services provided by the auditors in the financial period (2019 - none).

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

11 Tax on loss

Tax charged/(credited) in the income statement

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Current taxation		
UK corporation tax	-	(166)
UK corporation tax adjustment in respect of prior periods	<u>(245)</u>	<u>290</u>
	<u>(245)</u>	<u>124</u>
Deferred taxation		
Arising from origination and reversal of timing differences	290	(871)
Arising from changes in tax rates and laws	(57)	100
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>808</u>	<u>-</u>
Total deferred taxation	<u>1,041</u>	<u>(771)</u>
Tax charge/(credit) in the income statement	<u><u>796</u></u>	<u><u>(647)</u></u>

The tax on loss before tax for the period is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	Period from 1 October 2019 to 31 December 2020 \$ 000	Year to 30 September 2019 \$ 000
Loss before tax	<u>(28,130)</u>	<u>(5,396)</u>
Corporation tax at standard rate	(5,345)	(1,025)
Effect of expense not deductible in determining taxable profit (tax loss)	448	(12)
Adjustments in respect of prior periods (current and deferred tax)	563	290
Deferred tax (credit)/expense relating to changes in tax rates or laws	(57)	100
Unrecognised deferred tax on losses	<u>5,187</u>	<u>-</u>
Total tax charge/(credit)	<u><u>796</u></u>	<u><u>(647)</u></u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

11 Tax on loss (continued)

On 11 March 2021, it was announced that the main rate for corporation tax would increase to 25% from 1 April 2023 under the Finance Bill 2021. The Finance Bill 2021 was not substantively enacted until after the reporting date and so the impact of this change in legislation has not been reflected in these financial statements. The impact of the changes in legislation are not expected to be material to the financial statements.

Deferred tax

Deferred tax assets and liabilities

As at 31 December 2020	Asset \$ 000
Fixed asset timing differences	177
Short term timing differences - trading	-
Losses	-
	177

As at 30 September 2019	Asset \$ 000
Fixed asset timing differences	356
Short term timing differences - trading	167
Losses	695
	1,218

Movement in deferred taxation

	Asset \$ 000
At 1 October 2019	1,218
Adjustments in respect of prior periods	(808)
Origination and reversal of timing differences	(290)
Effect of changes in tax rates	57
At 31 December 2020	177

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

12 Intangible assets

	Goodwill	Computer	Total
	\$ 000	software	\$ 000
	\$ 000	\$ 000	\$ 000
Cost			
At 1 October 2019	<u>9,422</u>	<u>1,197</u>	<u>10,619</u>
At 31 December 2020	<u>9,422</u>	<u>1,197</u>	<u>10,619</u>
Accumulated Amortisation			
At 1 October 2019	1,528	605	2,133
Amortisation charge	<u>764</u>	<u>297</u>	<u>1,061</u>
At 31 December 2020	<u>2,292</u>	<u>902</u>	<u>3,194</u>
Carrying amount			
At 31 December 2020	<u>7,130</u>	<u>295</u>	<u>7,425</u>
At 30 September 2019	<u>7,894</u>	<u>592</u>	<u>8,486</u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

13 Tangible assets

	Long leasehold land and buildings \$ 000	Properties under construction \$ 000	Fixtures and fittings \$ 000	Dilapidations Asset \$ 000	Other tangible assets \$ 000	Total \$ 000
Cost or valuation						
At 1 October 2019	2,787	-	756	-	231	3,774
Additions	4,089	22	805	941	1,087	6,944
Disposals	(1)	-	(192)	(914)	(201)	(1,308)
At 31 December 2020	<u>6,875</u>	<u>22</u>	<u>1,369</u>	<u>27</u>	<u>1,117</u>	<u>9,410</u>
Depreciation						
At 1 October 2019	1,525	-	485	-	111	2,121
Charge for the period	764	-	252	-	259	1,275
Eliminated on disposal	(1)	-	(192)	-	(88)	(281)
At 31 December 2020	<u>2,288</u>	<u>-</u>	<u>545</u>	<u>-</u>	<u>282</u>	<u>3,115</u>
Carrying amount						
At 31 December 2020	<u>4,587</u>	<u>22</u>	<u>824</u>	<u>27</u>	<u>835</u>	<u>6,295</u>
At 30 September 2019	<u>1,262</u>	<u>-</u>	<u>271</u>	<u>-</u>	<u>120</u>	<u>1,653</u>

Included within the net book value of land and buildings above is \$4,587,343 (2019 - \$1,262,093) in respect of long leasehold lands and buildings.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

14 Stocks

	31 December 2020 \$ 000	30 September 2019 \$ 000
Finished goods and goods for resale	<u>116,181</u>	<u>104,205</u>

The replacement cost of stocks may vary from that included in the financial statements on a weighted average cost basis. However, owing to the nature of the items in question, the Directors do not consider that it would be possible to disclose a materially reliable replacement cost valuation for the Company's entire stockholding.

The cost of stock recognised as an expense in the period amounted to \$208,212,000 (2019 - \$186,531,000).

Stocks are stated after provision for impairment of £30,020,895 (2019 - \$32,857,366).

15 Debtors

	31 December 2020 \$ 000	30 September 2019 \$ 000
Trade debtors	48,185	57,818
Amounts owed by group undertakings	41,654	52,307
Other debtors	238	2,166
Deferred tax assets	177	1,218
Prepayments and accrued income	<u>530</u>	<u>717</u>
	<u>90,784</u>	<u>114,226</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade debtors are stated after provision for impairment of \$1,146,632 (2019 - \$691,793).

16 Cash at bank and in hand

	31 December 2020 \$ 000	30 September 2019 \$ 000
Cash at bank	<u>15,143</u>	<u>429</u>

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

17 Creditors: Amounts falling due within one year

	31 December 2020 \$ 000	30 September 2019 \$ 000
Trade creditors	3,191	22,918
Amounts owed to group undertakings	156,602	101,649
Other taxation and social security	128	-
Other creditors	-	133
Income tax liability	-	179
Accruals and deferred income	4,527	3,814
	164,448	128,693

Amounts owed to group undertakings are unsecured and repayable on demand.

18 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to \$1,378,206 (2019 - \$1,094,103).

19 Called up share capital

Allotted, called up and fully paid shares

	31 December 2020		30 September 2019	
	No.	\$	No.	\$
Ordinary shares of \$1 each	100	100	100	100

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

20 Reserves

Share capital represents the number of shares issued at nominal price.

The profit and loss account represents accumulated comprehensive income for the period, after deduction of dividends paid.

The capital contribution reserve arose on the transfer in of businesses in a prior year.

On 28th February 2018 the company capitalised its capital contribution reserve by way of a bonus issue of one ordinary share with a nominal value of \$1 to the sole shareholder of the Company for a premium equal to the amount of the capital contribution reserve, \$169,930,000, less the nominal value of the bonus share. Subsequently the bonus share and the share premium account were cancelled via a capital reduction thereby crediting distributable reserves.

21 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	31 December 2020 \$ 000	30 September 2019 \$ 000
Not later than one year	1,517	1,136
Later than one year and not later than five years	3,962	2,393
Later than five years	5,517	959
	<u>10,996</u>	<u>4,488</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was \$1,630,575 (2019 - \$1,701,765).

22 Related party transactions

The Company has taken the exemption set out in FRS 102 from disclosing transactions with other wholly owned members of the group.

During the period the Company entered into transactions with related parties as stated below:

Snyder Family Living Trust

The Company operates from premises which are owned by the Trust in which R Snyder, Chairman of the Board of Directors of Wesco Aircraft Holdings Inc., has an interest. Rent payable to the Trust for the period amounted to \$42,138 (2019 - \$198,094).

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

23 Parent and ultimate parent undertaking

The company's immediate parent is Wesco Aircraft International Holdings Limited, incorporated in England and Wales.

On 9 January 2020, Wesco Aircraft Holdings Inc., the ultimate holding company of the Company was acquired by Wolverine Top Holding Corporation, an affiliate of Platinum Equity Advisors, LLC.

Wolverine Top Holding Corporation replaces Wesco Aircraft Holdings Inc., as the ultimate holding company and the latter becomes the Company's intermediate parent company.

Wolverine Top Holding Corporation is incorporated in the United States of America, and prepares consolidated financial statements which are the smallest and largest to include the Company. These financial statements are available upon request from 2601 Meacham Blvd, Fort Worth, Texas, 76137, USA.

24 Going concern

Coronavirus pandemic

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The COVID-19 health crisis poses significant and widespread risks to our business as well as to the markets in which we operate. To limit the spread of COVID-19, governments have taken various actions to slow and otherwise control the spread of COVID-19, including the issuance of stay-at-home orders, social distancing guidelines and the distribution of vaccines.

We have experienced significant disruption to our business as a result of COVID-19 and the resulting reduction in aircraft production rates and significant reduction in commercial aircraft travel. Even as international and local restrictions are modified or lifted and vaccinations are more widely distributed, changes in consumer behavior and health concerns could continue to adversely impact commercial aircraft travel which could reduce the overall demand. The COVID-19 pandemic and its impact on our customers and the industry has had and could continue to have a material impact on our consolidated results, cash flows and financial condition.

The disruption to the commercial aerospace industry as a result of COVID-19 has adversely impacted our global sales, profitability and cash flows. In addition to integration plans and cost savings actions already implemented, we have developed, have executed, and are continuing to execute plans to further reduce costs and will maintain such cost control as long as circumstances require. These plans include headcount reductions, delay or elimination of some non-essential or discretionary spending, reduced inventory purchases and the delay of certain discretionary capital outlays.

Liquidity and capital resources

All UK companies, including Wesco Aircraft EMEA Limited and its subsidiaries are directly and indirectly funded by a US parent company, Wesco Aircraft Holdings, Inc. ("Incora") through intercompany arrangements which are repayable on demand. No significant cash or external borrowings are held in the UK. Due to this, the company is reliant on support and has received a letter of support from Wesco Aircraft Holdings, Inc. indicating that it will continue to make funds available to the company and will not seek repayment of any amounts owed where such repayment could impair the liquidity of the company. This will enable the company to continue in operational existence for the foreseeable future. The letter covers a period of at least 12 months from the date of signing these financial statements. The directors have assessed the ability of the US parent to provide support and in doing so reviewed the going concern assessment of the group.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

24 Going concern (continued)

Incora's primary sources of liquidity are cash and cash equivalents, and available borrowings under a \$475 million ABL Revolving Facility ("ABL").

Due to fluctuations in Incora's cash flows it is necessary from time to time to borrow under the ABL. Provided borrowings are within defined borrowing base limits, Incora can borrow up to \$475 million on the ABL facility.

As of February 28, 2022, the ABL agreement contained two borrowing base limits which are measured weekly:

(1) outstanding borrowings may not exceed the total of eligible accounts receivable plus eligible inventory and (2) outstanding borrowings plus \$47.5 million may not exceed eligible cash plus eligible accounts receivable plus eligible inventory. These limitations are not considered covenant defaults and must be cured in the following week if either one of them is breached. Incora is in compliance with these limitations.

Going Concern

Incora's directors performed a liquidity forecast for the period from approval of these financial statements to June 30, 2023, the 'base case', which is inclusive of the expected further impact of COVID-19 on operations, semi-annual debt interest payments, and financing instruments currently available.

As a part of the base case forecast to June 30, 2023, Incora's directors produced a severe but plausible downside analysis which assumed a delay in industry recovery of two quarters.

Wesco Aircraft EMEA Limited

Notes to the Financial Statements for the Period from 1 October 2019 to 31 December 2020 (continued)

24 Going concern (continued)

We anticipate that cash and cash equivalents and borrowing capacity will continue to be made available to us under Incora's ABL Facility will be sufficient to meet our liquidity requirements for the next twelve months. Incora would have \$6 million of available resources at the low point of May 31, 2023 in the base case and would require an incremental paydown on its ABL of \$35 million at the low point at June 30, 2023 in the downside case as well as an absence of any borrowing base limitation breaches (after the assumed ABL payment was made), with the value dependent upon the Group's success in achieving its mitigating actions to preserve cash, over a twelve-month horizon from the date of signing these accounts.

However, since we cannot fully exclude that in the worst possible cases the effects of COVID-19 on Incora's recovery could be significantly more prolonged and pronounced than modelled, neither can we fully exclude all uncertainty over additional measures management might undertake in response to COVID-19, the company's ability to rely on its letter of support from its U.S. parent company, and the possibility that additional liquidity may need to be obtained to maintain the business as a going concern.

The uncertainty of Incora's recovery and therefore the ability to provide funding that the company may require and fulfill the obligations set out in its letter of support in the downside scenario noted above would indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the company was unable to continue as a going concern.

WESCO AIRCRAFT HOLDINGS, INC. (dba INCORA)

Consolidated Financial Statements

For The Period from January 9, 2020 to December 31, 2020

Table of Contents

INDEX

	<u>Page</u>
<u>Financial Statements:</u>	
<u>Report of Independent Auditors</u>	<u>3</u>
<u>Consolidated Balance Sheet</u>	<u>4</u>
<u>Consolidated Statement of Earnings and Comprehensive Loss</u>	<u>5</u>
<u>Consolidated Statement of Stockholders' Equity</u>	<u>6</u>
<u>Consolidated Statement of Cash Flows</u>	<u>7</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>9</u>



Report of Independent Auditors

To the Management of Wesco Aircraft Holdings, Inc.

We have audited the accompanying consolidated financial statements of Wesco Aircraft Holdings, Inc. and its subsidiaries (dba Incora), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statement of earnings and comprehensive loss, of stockholders' equity and of cash flows for the period from January 9, 2020 to December 31, 2020.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wesco Aircraft Holdings, Inc. and its subsidiaries (dba Incora) as of December 31, 2020, and the results of their operations and their cash flows for the period from January 9, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the COVID-19 pandemic has had an adverse effect on the aerospace industry and the Company's business. As a result, the Company has experienced and continues to expect an unfavorable impact on its sales, results of operations and cash flows in fiscal 2021. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 2.

PricewaterhouseCoopers LLP

Los Angeles, California
May 10, 2021

Table of Contents

Wesco Aircraft Holdings, Inc. and Subsidiaries (dba Incora)
Consolidated Balance Sheet
(In thousands, except share data)

	<u>December 31, 2020</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 152,504
Accounts receivable, net of allowance for doubtful accounts	377,624
Inventories	1,259,758
Prepaid expenses and other current assets	26,363
Income taxes receivable	13,867
Total current assets	<u>1,830,116</u>
Property and equipment, net	69,118
Deferred debt issuance costs, net	8,247
Goodwill	352,674
Intangible assets, net	503,407
Deferred tax assets	9,621
Operating lease assets	81,160
Other assets	14,897
Total assets	<u>\$ 2,869,240</u>
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable	\$ 245,911
Accrued expenses and other current liabilities	96,128
Income taxes payable	3,860
Operating lease obligations, current portion	11,594
Current portion of long-term debt	15,500
Total current liabilities	<u>372,993</u>
Operating lease obligations, less current portion	75,514
Long-term debt, less current portion	2,389,415
Related party promissory note	25,000
Deferred tax liabilities	66,421
Other liabilities	5,674
Total liabilities	<u>\$ 2,935,017</u>
Commitments and contingencies (Note 5)	
Stockholders' equity	
Common stock, \$0.01 par value per share, 1,000 shares authorized, 100 shares issued and outstanding at December 31, 2020	—
Additional paid-in capital	517,733
Accumulated other comprehensive income	9,234
Accumulated deficit	<u>(592,744)</u>
Total stockholders' deficit	<u>(65,777)</u>
Total liabilities and stockholders' equity	<u>\$ 2,869,240</u>

See the accompanying notes to the consolidated financial statements.

Table of Contents

Wesco Aircraft Holdings, Inc. and Subsidiaries (dba Incora)
Consolidated Statement of Earnings and Comprehensive Loss
(In thousands)

	January 9 to December 31, 2020
Net sales	\$ 1,886,953
Cost of sales	1,497,210
Gross profit	389,743
Selling, general and administrative expenses	424,487
Goodwill impairment	218,013
Merger and reorganization costs	70,218
Loss from operations	(322,975)
Interest expense, net	(229,935)
Other income, net	3,560
Loss before income taxes	(549,350)
Provision from income taxes	(7,021)
Net loss	(556,371)
Other comprehensive income, net of income taxes	9,234
Comprehensive loss	\$ (547,137)

See the accompanying notes to the consolidated financial statements.

Wesco Aircraft Holdings, Inc. and Subsidiaries (dba Incora)
Consolidated Statement of Stockholders' Equity
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity/(Deficit)
	Shares	Amount				
Parent company equity contribution upon acquisition (see Note 4)	100	\$ —	\$ 337,000	\$ —	\$ —	\$ 337,000
Parent company contribution of Pattonair business (see Note 4)	—	—	155,733	—	(36,373)	119,360
Beginning Balance at January 9, 2020	100	—	492,733	—	(36,373)	456,360
Net loss	—	—	—	—	(556,371)	(556,371)
Other comprehensive income	—	—	—	9,234	—	9,234
Parent company equity contribution (see Note 13)	—	—	25,000	—	—	25,000
Balance at December 31, 2020	100	\$ —	\$ 517,733	\$ 9,234	\$ (592,744)	\$ (65,777)

See the accompanying notes to the consolidated financial statements.

Table of Contents

Wesco Aircraft Holdings, Inc. and Subsidiaries (dba Incora)
Consolidated Statement of Cash Flows
(In thousands)

	<u>January 9, 2020 to December 31, 2020</u>
Cash flows from operating activities	
Net loss	\$ (556,371)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Goodwill impairment	218,013
Depreciation and amortization	94,160
Non-cash lease expense	11,646
Amortization of deferred debt issuance costs	20,035
Loss from early extinguishment of debt	2,807
Loss from disposal of property and equipment	2,471
Bad debt and sales return reserve	3,331
Net inventory provision	12,208
Deferred income taxes	39,351
Other non-cash items	(3,560)
Subtotal	<u>(155,909)</u>
Changes in assets and liabilities:	
Accounts receivable	67,401
Income taxes receivable	(10,582)
Inventories	(131,534)
Prepaid expenses and other assets	3,677
Accounts payable	(68,334)
Accrued expenses and other liabilities	(51,656)
Operating lease liabilities	(10,475)
Income taxes payable	(1,889)
Net cash used in operating activities	<u>(359,301)</u>
Cash flows from investing activities	
Purchase of property and equipment	(26,969)
Proceeds from sale of property	8,690
Acquisition of business, net of cash acquired	(1,020,509)
Net cash used in investing activities	<u>(1,038,788)</u>
Cash flows from financing activities	
Proceeds from revolver borrowings	422,697
Repayment of revolver borrowings and related costs	(178,193)
Payment of issuance costs related to revolving credit facility	(10,083)
Proceeds from issuance of long-term debt, net of issuance costs including original issuance discount	1,962,954
Proceeds from issuance of related party promissory note	25,000
Parent company equity contribution	25,000
Repayment of long-term debt and related costs	(1,073,913)
Repayments of finance lease obligations	(1,184)
Parent company equity contribution at acquisition	362,718
Net cash provided by financing activities	<u>\$ 1,534,996</u>
Effect of foreign currency exchange rate changes on cash and cash equivalents	<u>(2,990)</u>

Table of Contents

Net increase in cash and cash equivalents	133,917
Cash and cash equivalents, beginning of period	18,587
Cash and cash equivalents, end of period	<u>\$ 152,504</u>

Supplemental disclosures of cash flow information

Cash paid for interest	\$ 204,956
Cash received for income tax refunds, net of payments	\$ 10,215

See the accompanying notes to the consolidated financial statements.

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

Note 1. Organization and Business

On January 9, 2020, pursuant to the terms of the Agreement and Plan of Merger, dated as of August 8, 2019 (the "Merger Agreement"), by and among Wesco Aircraft Holdings, Inc. ("Wesco"), a Delaware corporation, Wolverine Intermediate Holding II Corporation, a Delaware corporation ("Parent") and Wolverine Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), Parent completed its acquisition of Wesco through the merger of Merger Sub with and into Wesco (the "Merger"), with Wesco continuing as the surviving corporation and as a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of Platinum Equity Advisors, LLC ("Platinum"), a U.S.-based private equity firm. Prior to and in connection with the consummation of the Merger, a Reorganization (as defined below) occurred pursuant to which Wesco ultimately became an affiliate of Pioneer Holdings, LLC ("Pioneer" and together with its subsidiaries, the "Pattonair Group"), a then current portfolio company of private equity funds advised by Platinum. As used herein, "Reorganization" refers to a multi-step internal legal reorganization effectuated to ultimately combine and reorganize the Pattonair Group and Wolverine Top Holding Corporation, an indirect parent of Wesco ("WTHC" and together with its subsidiaries, the "Wolverine Group"). The Reorganization included (but was not limited to) the following steps (i) the contribution, in one or a series of transactions of certain members or affiliates of the Pattonair Group to the Wolverine Group, (ii) certain Pattonair Group entities liquidating and dissolving or otherwise not becoming direct or indirect subsidiaries of WTHC, (iii) settlement of outstanding intercompany balances and (iv) Wesco ultimately becoming an indirect but wholly owned subsidiary of Wolverine Top Holding Corporation pursuant to the Merger.

At the closing of the Merger, the operations of Wesco and Pattonair Holding, LLC ("Pattonair"), a Parent owned portfolio company, were combined and in March 2020 announced they would operate under the brand name Incora. The companies have complementary commercial strengths and significant overlap in selling, general and administrative ("SG&A") expenses as well as procurement to create a highly diversified, comprehensive supply chain management solutions provider to the global Aerospace and Defense ("A&D") industry. Incora's combined product portfolio consists of C-class hardware, chemicals, electronic components, bearings and machined parts. Incora manages a comprehensive list of active SKUs that are used in nearly all aircraft systems including engines, hydraulic units, actuation systems, wheels and brakes, landing gear, aircraft airframe, and aircraft exterior.

Incora is headquartered in Fort Worth, Texas. Incora has many administrative, sales and/or stocking facilities worldwide with concentrations in North America and Europe and serves a diversified base of customers, including A&D Original Equipment Manufacturers ("OEMs"), their Tier 1, Tier 2 and Tier 3 suppliers, airlines and maintenance, repair and overhaul ("MRO") providers focusing on both civil and military segments; and supports a full spectrum of the industry's most recognizable platforms, including the F-35, B-21, B737, B787, A220, A320, A350, G500 / 600 / 650 and Global 7500 aircrafts.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The terms "us," "we," "our," "Incora," "our company," and "the Company" as used in these consolidated financial statements refer to Wesco Aircraft Holdings, Inc. and its subsidiaries subsequent to the Merger on January 9, 2020. The accompanying consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries of the Company. All intercompany accounts, transactions and profits have been eliminated. When we do not have a controlling interest in an entity, but exert significant influence over the entity, we apply the equity method of accounting. Our financial statements have been prepared under the assumption that our company will continue as a going concern.

Coronavirus Pandemic

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The COVID-19 health crisis poses significant and widespread risks to our business as well as to the business environment and the markets in which we operate. To limit the spread of COVID-19, governments have taken various actions to slow and otherwise control the spread of COVID-19, including the issuance of stay-at-home orders and social distancing guidelines. We have experienced significant disruption to our business as a result of COVID-19 and the corresponding reduction in sales associated with aircraft production delays, reductions in aircraft production rates as well as the significant reduction in commercial aircraft travel. Even as international, federal, state, and local restrictions and shelter-in-place orders are modified or lifted and vaccinations are more widely distributed, changes in consumer behavior and health concerns may continue to adversely impact commercial aircraft travel which would reduce the overall demand for commercial aircraft. The COVID-19 pandemic and its

Table of Contents

impact on both our customers and the aerospace industry has had and may continue to have a material impact on our consolidated results of operations and cash flows as well as our financial condition, potentially including but not limited to goodwill and other long-lived asset valuation.

COVID-19 has adversely impacted our sales, results of operations, and cash flows. In addition to integration plans and cost savings actions already implemented as part of the Merger and Reorganization, we have developed and are executing plans to further reduce costs given the impact of the COVID-19 health crisis and will maintain such cost structure in the event the pandemic continues unabated in 2021 or beyond. These plans include, among other things, headcount reductions, delay or elimination of some non-essential or discretionary spending, reduced inventory purchases and the delay of certain discretionary capital outlays. We are continuing to monitor global developments and are prepared to implement additional actions should we consider it necessary.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, variable consideration in contract revenue recognition, receivable valuations and allowance for sales returns, inventory valuation including excess and obsolete ("E&O") inventories, the useful lives of long-lived assets including property, equipment and intangible assets, annual goodwill and indefinite-lived asset impairment assessments, income taxes and contingencies. The full extent to which COVID-19 will directly or indirectly impact our business, results of operations and financial condition, including our accounting estimates and assumptions, will depend on developments that are highly uncertain, including information that may emerge concerning COVID-19 and the actions taken to contain it or treat it, as well as the economic impact on customers, suppliers and markets. We have made estimates within our financial statements and there may be changes to those estimates in the near to mid-term as new information becomes available. Actual results may differ from these estimates.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities from date of purchase of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts owed to us by customers. We perform periodic credit evaluations of the financial condition of our customers, monitor collections and payments from customers, and generally do not require collateral. Accounts receivable are generally due within 30 to 90 days. We provide for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. We estimate our allowance for doubtful accounts based on historical experience, aging of accounts receivable and information regarding the creditworthiness of our customers. To date, losses have been within the range of management's expectations. If the estimated allowance for doubtful accounts subsequently proves to be insufficient, additional allowances may be required. Our allowance for doubtful accounts was \$6.5 million as of December 31, 2020.

Inventories

The Company's inventory is comprised solely of finished goods. Inventories are stated at the lower of cost or net realizable value. Incora principally uses the weighted average cost or first in, first out methods to remove costs from inventory and charge them to cost of sales. In-bound freight-related costs are included as part of the cost of inventory held for resale.

The components of our inventory are subject to different risks of E&O, and we record E&O provisions, as appropriate, to reduce inventory to estimated net realizable value. Our hardware inventory, a substantial majority of which does not decay or have a predetermined shelf life, bears a higher risk of having excess quantities than becoming obsolete. In conducting our quarterly E&O reserve analysis, we consider a variety of factors, including the aging of our on-hand inventory quantities and the expected future sales activity based on the historical rates at which inventory of different aging categories has sold through to customers. In evaluating the adequacy of these reserves, we also consider contract terminations involving inventory with no alternative use, shelf-life expirations, expected scrapping activity, and other factors which may indicate future sales activity for certain inventory categories will be significantly different from our historical experience. Our chemical inventory, which has a predetermined shelf life, bears a higher risk of deteriorating and becoming obsolete. We continually assess and refine our methodology for evaluating E&O inventory based on current facts and circumstances.

Table of Contents

For both hardware and chemical inventory, we record provisions for shrinkage to reduce the inventory value for lost items. We perform physical inventory counts and cycle counts throughout the year and adjust the E&O and shrink provisions accordingly.

Property and Equipment

Property and equipment are stated at cost, less accumulated amortization and depreciation, generally computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful life of the assets. Expenditures for repair and maintenance costs are expensed as incurred, and expenditures for major renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any gain or loss is reflected in the consolidated statements of earnings and comprehensive loss. The useful lives for depreciable assets are as follows:

Buildings and leasehold improvements	2 - 50 years
Machinery and equipment	4 - 10 years
Furniture and fixtures	3 - 10 years
Vehicles	5 years
Computer hardware and software	3 - 7 years

Impairment of Long-Lived Assets

We assess potential impairments of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors we consider include, but are not limited to, significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. Recoverability is assessed by comparing the carrying value of the asset group to the undiscounted cash flows expected to be generated by these assets, which is a Level 3 fair value measurement (see fair value hierarchy discussion under *Fair Value of Financial Instruments* below). Impairment losses are measured as the amount by which the carrying values of the primary assets exceed their fair values.

Deferred Debt Issuance Costs

Deferred debt issuance costs include original issuance discounts and are amortized using the effective interest method over the term of the related credit arrangement; such amortization is included in interest expense in the consolidated statement of earnings and comprehensive loss. For the period from January 9, 2020 to December 31, 2020, amortization of deferred debt issuance costs was \$20.0 million. As of December 31, 2020, the remaining unamortized deferred debt issuance costs were \$102.1 million, of which \$93.8 million was offset against the long-term debt. The remaining unamortized deferred debt issuance costs of \$8.3 million related to the revolving credit facility was presented on our balance sheet as deferred debt issuance costs, net.

Business Combination

The determination of fair values of assets acquired and liabilities assumed requires management to make estimates and use valuation techniques when a market value is not readily available. Any excess of purchase price over the fair value of tangible and intangible assets acquired and obligations assumed is allocated to goodwill. Transaction costs associated with business combinations are expensed as incurred. Incora may adjust the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as Incora obtains more information as to facts and circumstances existing at the acquisition date.

Table of Contents

Goodwill

Goodwill, which represents the excess of the consideration paid over the fair value of the net assets acquired in a business combination is not amortized, but is tested for impairment at least annually or more frequently when events occur or circumstances change such that it is more likely than not that the carrying amount may be impaired. Such events or circumstances may result from significant changes in business climate, economic and industry trends, legal factors, negative operating performance, significant competition or changes in strategy. Goodwill and indefinite-lived intangibles asset impairment testing is performed at the reporting unit level in the fourth quarter of each year. The Company has determined that its business consists of a single reporting unit.

We test goodwill for impairment by performing a qualitative assessment process or using a quantitative assessment process. If we choose to perform a qualitative assessment process and determine it is more likely than not (that is, a likelihood of more than 50 percent) that the carrying value of the net assets is more than the fair value of the reporting unit, the quantitative assessment process is then performed; otherwise, no further testing is required. In certain circumstances, we may elect not to perform the qualitative assessment process and, instead, proceed directly to the quantitative assessment process.

The quantitative assessment identifies potential impairment by comparing the fair value of a reporting unit with the carrying amount, including goodwill. The fair value of a reporting unit is determined using a combination of a discounted cash flow analysis (the "income approach") and market earnings multiples (the "market approach"). These fair value approaches require significant management judgment and estimate. The determination of fair value using a discounted cash flow analysis requires the use of key judgments, estimates and assumptions including revenue growth rates, projected operating margins, changes in working capital, terminal values, and discount rates. We develop these key estimates and assumptions by considering our recent financial performance and trends, industry growth projections, and current sales pipeline based on existing customer contracts and the timing and amount of future contract renewals. The determination of fair value using market earnings multiples also requires the use of key judgments, estimates and assumptions related to projected earnings and applying those amounts to earnings multiples using appropriate peer companies. We develop our projected earnings using the same judgments, estimates, and assumptions used in the discounted cash flow analysis. If the fair value exceeds the carrying value of the reporting unit, goodwill is not considered impaired. If the carrying amount of goodwill exceeds the fair value of the reporting unit, the difference will be recognized as an impairment loss.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, we primarily utilize reported market transactions and discounted cash flow analysis. We use a three-tier fair value hierarchy that considers the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs. The three broad categories are:

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

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

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Table of Contents

Where available, we utilize quoted market prices or observable inputs rather than unobservable inputs to determine fair value.

Comprehensive Loss

Comprehensive loss generally represents all changes in stockholders' equity, except those resulting from investments by or distributions to stockholders. Our comprehensive loss consists of net loss and foreign currency translation gains and losses.

Revenue from Contracts with Customers

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

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

Each of our contracts for hardware and chemical product sales typically have a single performance obligation. Revenues from these contract sales are recognized when we have completed our performance obligation, which occurs at a point in time, typically upon transfer of control of the products to the customer in accordance with the terms of the sales contract. Services under our hardware just-in-time ("JIT") arrangements are provided by us contemporaneously with the delivery of these products and are not distinct from the products, and as such, once the products are delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and revenue is recognized upon delivery of the products. Payment is generally due within 30 to 90 days of delivery; therefore, our contracts do not contain significant financing components. Warranties are limited to replacement of goods that are defective upon delivery. Incora does not provide service-type warranties.

Our product management services ("PMS") contracts, which consist of both chemical management services ("CMS") contracts and hardware management services contracts, include the sale of products as well as the provision of services such as product procurement, receiving and quality inspection, warehouse and inventory management, and waste disposal. Each PMS contract represents an end-to-end integrated product management solution. While each of the products and various services benefits the customer, we determined that they are a single output in the context of the PMS contract due to the significant commercial integration of these products and services. Therefore, products and services provided under a PMS contract represent a single performance obligation and revenue is recognized over time for these contracts using product deliveries as our output measure of progress under the PMS contract to depict the transfer of control to the customer.

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

We apply judgment in estimating the impact of variable consideration to determine the amount of revenue to recognize. Sales rebates and profit-sharing arrangements are accounted for as reductions to gross sales and recorded based upon

Table of Contents

estimates at the time products are sold. These estimates are based upon historical experience for similar programs and products. We review such rebates and profit-sharing arrangements on an ongoing basis and, if necessary, accruals are adjusted as additional information becomes available. We provide allowances for credits and returns based on historical experience and adjust such allowances as considered necessary. To date, such provisions have been within the range of our expectations and the allowances established. Returns and refunds are allowed only for materials that are defective or not compliant with the customer's order. Sales tax collected from customers is excluded from net sales in the consolidated statements of earnings and comprehensive loss.

We have determined that sales backlog is not a relevant measure of our business. Our contracts generally do not include minimum purchase requirements, annually or over the term of the agreement, and contain termination for convenience provisions that generally allow for our customers to terminate their contracts on short notice without meaningful penalties. As a result, we have no material sales backlog.

In connection with our JIT supply chain management programs, at times, we manage customer inventory on a consignment basis. This consigned inventory is located on the customer's property but is managed and distributed by us. We earn a fixed fee per unit on each shipment of the consigned inventory; such amounts represent less than 1% of consolidated net sales.

Product and Service Information

Net sales by product categories for the period from January 9, 2020 to December 31, 2020 were as follows (dollars in thousands):

	January 9, 2020 to December 31, 2020	
	Sales	% of Total
Hardware	\$1,042,437	55.2 %
Chemicals (including CMS)	700,738	37.2 %
Electronic components and other	143,778	7.6 %
Total	<u>\$1,886,953</u>	<u>100.0 %</u>

Equity Method Investment

We apply the equity method of accounting for investments in which we have significant influence but not a controlling interest. We have an equity investment in a joint venture in China, which had a carrying value of \$7.8 million as of December 31, 2020 and was included in "Other assets" in the consolidated balance sheet. As of December 31, 2020, we did not identify any events or circumstances which would indicate a decline in the fair value of our equity method investment that is other than temporary.

Shipping and Handling Costs

We record revenue for shipping and handling costs billed to our customers. Shipping and handling revenues were \$4.2 million for the period from January 9, 2020 to December 31, 2020.

Shipping and handling costs are primarily included in cost of sales. Total shipping and handling costs were \$41.9 million for the period from January 9, 2020 to December 31, 2020.

Table of Contents

Income Taxes

We recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is established, when necessary, to reduce net deferred tax assets to the amount expected to be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which temporary differences become deductible or includible in taxable income. We consider projected future taxable income and tax planning strategies in our assessment. Our foreign subsidiaries are taxed in local jurisdictions at local statutory rates.

The Company recognizes the effect of income tax positions only if sustaining those positions is considered more likely than not. Changes in recognition or measurement of uncertain tax positions are reflected in the period in which a change in judgment occurs. The Company includes interest and penalties related to income taxes, including unrecognized tax benefits, within income tax expense.

Concentration of Credit Risk and Significant Vendors and Customers

We maintain our cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe we are exposed to any significant credit risk from cash and cash equivalents.

We purchase our products on credit terms from vendors located throughout North America and Europe. For the period from January 9, 2020 to December 31, 2020, we made 36% of our purchases from our ten largest vendors. The majority of the products we sell are available through multiple channels which reduces the risk related to any individual vendor relationship.

For the period from January 9, 2020 to December 31, 2020, we derived approximately 15% and 11% of our total net sales from Rolls Royce and Lockheed Martin, respectively. Our government sales were derived from various military parts procurement agencies such as the U.S. Defense Logistics Agency, or from defense contractors buying on their behalf. For the period from January 9, 2020 to December 31, 2020, our government sales comprised 14% of our total net sales.

Foreign Currency Translation and Transactions

The financial statements of subsidiaries and affiliates whose functional currency is not the U.S. dollar are translated into U.S. dollars using exchange rates in effect at each period-end for assets and liabilities and average exchange rates during the period for results of operations. The adjustment resulting from translating the financial statements of such subsidiaries is reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of earnings and comprehensive loss.

Note 3. Recent Accounting Pronouncements

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

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

Table of Contents

New Accounting Standards Updates Adopted

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the current requirements for testing goodwill for impairment by eliminating the second step of the two-step impairment test to measure the amount of an impairment loss. Rather, an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The Company adopted the provisions of ASU 2017-04 in the current year and this guidance was utilized in calculating the goodwill impairment amount recorded in our consolidated financial statements.

New Accounting Standards Updates To Be Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Credit Losses - Measurement of Credit Losses on Financial Instruments (Topic 326)*, which codifies ASC 326, which changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today's "incurred loss" approach with an "expected loss" model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The provisions of ASC 326 are effective for Incora in fiscal year 2023, including interim reporting periods within that reporting period, and all annual and interim reporting periods thereafter. Early adoption is permitted. The adoption of ASC 326 is not expected to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12: *Simplifying the Accounting for Income Taxes (Topic 740)*, which removes certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The provisions of ASU 2019-12 are effective for Incora beginning January 1, 2022. The Company is currently evaluating the impact of ASU 2019-12 on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides optional practical expedients for contract modifications with the transition from reference rates, such as LIBOR, that are expected to be discontinued. The amendments are effective for modifications made between March 12, 2020 and December 31, 2022. This guidance is applicable for the Company's ABL revolving credit facility which uses LIBOR as a reference rate. In addition, the facility provides for an alternative rate of interest if LIBOR is discontinued. The Company will continue to evaluate ASU 2020-04 to determine the timing and extent to which we will apply the provided accounting relief.

Note 4. Platinum Merger Transaction

As discussed in Note 1, on January 9, 2020, pursuant to the terms of the Agreement and Plan of Merger, dated as of August 8, 2019 (the "Merger Agreement"), by and among Wesco, Wolverine Intermediate Holding II Corporation, a Delaware corporation ("Parent") and Wolverine Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), Parent completed its acquisition of Wesco through the merger of Merger Sub with and into Wesco, with Wesco continuing as the surviving corporation and as a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of Platinum Equity Advisors, LLC ("Platinum"), a U.S.-based private equity firm.

At the closing of the Merger, and subject to the terms and conditions set forth in the Merger Agreement, each share of common stock, par value \$0.001 per share, of Wesco and its then-subsiaries (the Predecessor) (each a "Share" and collectively, the "Shares"), then issued and outstanding, other than Shares cancelled pursuant to the terms of the Merger Agreement or Dissenting Shares (as defined in the Merger Agreement), was automatically converted into the right to receive \$11.05 in cash, without interest, subject to any withholding of taxes required by applicable law. The Shares were delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934.

In connection with the Merger, we commenced tender offers and consent solicitations in relation to approximately \$864.3 million principal amount of our secured debt and revolver borrowings plus the related settlement charges. Pursuant to the terms of the tender offers and consent solicitations, we repaid \$864.3 million of debt securities and the related settlement charges concurrent with the completion of the Merger. In addition, we repaid \$392.6 million of the debt borrowings which Pattonair owed prior to the Merger on January 9, 2020. In the aggregate, we repaid approximately \$1.3 billion of indebtedness (see Note 10. Long-Term Debt for further information).

Table of Contents

In order to finance the Merger, debt repayment and other transaction expenses, we incurred new indebtedness totaling approximately \$2.2 billion (see Note 10. Long-Term Debt for further information). This new debt, together with approximately \$337.0 million of equity invested by affiliates of Platinum, was used to fund the acquisition of our previously outstanding common stock, pay transaction costs, establish certain cash reserves and finance the retirement of debt.

The aggregate cash consideration for the Merger was as follows (in millions):

Purchase of common shares	\$ 1,109.3
Repayment of debt and settlement charges	864.3
	<u>\$ 1,973.6</u>

Allocation of Purchase Price

ASC 805, *Business Combinations*, requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to, quoted market prices, expected future cash flows, current replacement costs, market rate assumptions and appropriate discount and growth rates.

Under the purchase method of accounting, the assets and liabilities of our Predecessor were recorded at their respective fair values as of the date of the acquisition. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as of the acquisition date (in millions), including a measurement period adjustment described in the section Goodwill and Intangible Assets Acquired.

Current assets, including \$88.8 million in cash and cash equivalents	\$ 1,295.5
Property and equipment	45.9
Goodwill	542.6
Intangible assets, net	387.7
Deferred tax assets	12.6
Operating lease assets	69.8
Other assets	12.4
Current liabilities, including \$20.6 million of contingent advisory fees payable	(321.0)
Operating lease obligations, less current portion	(66.8)
Deferred tax liabilities and long term payables	(5.1)
	<u>\$ 1,973.6</u>

We paid \$20.6 million of "contingent advisory fees" to certain of our investment advisors upon closing of the Merger transaction. These costs were not expensed in either periods prior to January 9, 2020 or the period from January 9, 2020 to December 31, 2020 as they did not become payable until the closing of the Merger transaction.

For the period from January 9, 2020 to December 31, 2020, we incurred \$31.0 million of transaction fees associated with the Merger and \$7.7 million of share-based compensation expense associated with the acceleration of vesting of certain Wesco share-based compensation awards upon the completion of the Merger. These amounts were expensed in those periods as they were determined to be for the benefit of the acquired entity. These amounts are included in "Merger and reorganization costs" in the consolidated statements of earnings and comprehensive loss.

Goodwill and Intangible Assets Acquired

Goodwill resulting from the Merger transaction preliminarily totaled approximately \$537.7 million. A measurement period adjustment was identified subsequent to the acquisition and increased the provisionally recognized goodwill by \$4.9 million related to an adjustment to tax-related liabilities as a result of additional information obtained subsequent to the close of the transaction. We do not expect to claim any tax deductions with respect to goodwill. Goodwill is considered to have an indefinite life and is not amortized, but rather is reviewed annually for impairment or more frequently if indicators of impairment exist (see Note 8. Goodwill and Intangible Assets, net for more information).

Table of Contents

Intangible assets with definite lives subject to amortization acquired in the Merger are as follows (in thousands):

	<u>Fair Value</u>	<u>Weighted Average Amortization Period</u>
Customer relationships	\$ 349,925	15 Years
Technology	26,075	10 Years
Trademarks	11,750	1 Year
Total intangible assets	<u>\$ 387,750</u>	14 Years

Concurrent Offering

Concurrent with the Merger, Platinum acquired 100 shares of Wesco's common stock for cash consideration totaling \$362.7 million through Wolverine Top Holding Corporation. The proceeds from this concurrent offering were used to fund the refinancing and pay transaction expenses. Wesco assumed approximately \$25.7 million of accrued interest and financing fee obligations from Platinum associated with the acquisition, which represents a partial return of investment. The net investment by Platinum totals approximately \$337.0 million, which is presented as parent company equity contribution upon acquisition in the consolidated statements of stockholders' equity.

Pattonair Common Control Transaction

In connection with the Merger, Platinum contributed the assets and liabilities of Pattonair through a common control transaction at the historical bases for these assets and liabilities. The contributed amounts were as follows (in thousands):

Current assets, including \$18.6 million in cash and cash equivalents	\$ 420,286
Property and equipment	24,893
Goodwill	27,004
Intangible assets, net	187,403
Deferred tax assets	18
Operating lease assets	6,500
Current liabilities	(138,597)
Operating lease obligations, less current portion	(4,761)
Deferred income taxes	(28,193)
Long-term debt, gross	(375,193)
Equity	<u>\$ 119,360</u>

Note 5. Commitments and Contingencies

Indemnifications

In the normal course of business, we provide indemnifications to our customers with regard to certain products and enter into contracts and agreements that may contain representations and warranties and provide for general indemnifications. Our maximum exposure under many of these agreements is not quantifiable as we have a limited history of prior indemnification claims and payments. Payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows, or financial position. However, we could incur costs in the future as a result of indemnification obligations.

Litigation

Since the announcement of the Merger, five putative class action complaints were filed by and purportedly on behalf of alleged Company stockholders: *Gray v. Wesco Aircraft Holdings, Inc., et al.*, No. 1:19-cv-08528 filed September 13, 2019 in the United States District Court for the Southern District of New York, *Stein v. Wesco Aircraft Holdings, Inc., et al.*, No. 2:19-cv-08053 filed September 17, 2019 in the United States District Court for the Central District of California, *Kent v. Wesco Aircraft Holdings, Inc., et al.*, No. 1:19-cv-01750 filed September 17, 2019 in the United States District Court for the District of Delaware, *Sweeney v. Wesco Aircraft Holdings, Inc., et al.*, No. 19STCV33392 filed September 19, 2019 in the Superior Court of the State of California County of Los Angeles, and *Bushansky v. Wesco Aircraft Holdings, Inc., et al.*, No. 2:19-cv-08274 filed September 24, 2019 in the United States District Court for the Central District of California (together, (the Actions).

Table of Contents

The Actions named as defendants Wesco and the former members of Wesco's Board of Directors. The Actions allege, among other things, that the definitive proxy statement on Schedule 14A filed by Wesco on September 13, 2019 omitted certain information regarding the confidentiality agreements between Wesco and the potentially interested parties, Wesco's updated projections, the analysis performed by the financial advisors, and services the financial advisors previously provided to certain parties. The Actions sought, among other things, damages, attorneys' fees and injunctive relief to prevent the Merger from closing. The Stein, Kent, Sweeney and Bushansky actions were voluntarily dismissed. A fee agreement was signed November 30, 2020 and payment has been made. On April 7, 2020, the judge in the Gray action granted Wesco's motion to dismiss in its entirety. Gray filed a notice of appeal with the United States Court of Appeals for the Second Circuit on May 6, 2020. The matter was fully briefed, and oral arguments were held on February 23, 2021. On February 26, 2021, the Court issued a Summary Order affirming the district court judgment.

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

Note 6. Inventory

During the period from January 9, 2020 to December 31, 2020, net adjustments to cost of sales related to E&O inventory related activities were \$12.2 million. We believe that our inventory as of December 31, 2020 reflected its net realizable value.

Note 7. Property and Equipment, Net

Property and equipment, net, consists of the following (in thousands):

Property and Equipment	December 31, 2020		
	Gross	Accumulated Depreciation	Net
Land, buildings and improvements	\$ 21,521	\$ (4,669)	\$ 16,852
Machinery and equipment	17,328	(6,474)	10,854
Furniture and fixtures	11,350	(6,126)	5,224
Computer hardware	15,941	(11,005)	4,936
Computer software	32,669	(18,832)	13,837
Construction in progress	17,415	—	17,415
Total	<u>\$ 116,224</u>	<u>\$ (47,106)</u>	<u>\$ 69,118</u>

Property and equipment included assets acquired under finance leases. See Note 12.

Depreciation and amortization expense for property and equipment was \$17.9 million during the period from January 9, 2020 to December 31, 2020 (including amortization expense of \$1.2 million on assets acquired under finance leases).

Note 8. Goodwill and Intangible Assets, net

As of December 31, 2020, goodwill consists of the following (in thousands):

Goodwill acquired on January 9, 2020	\$ 542,611
Legacy Pattonair goodwill contributed on January 9, 2020	27,004
Goodwill as of January 9, 2020, gross	<u>569,615</u>
Goodwill impairment charge recognized in 2020	(218,013)
Foreign currency translation	1,072
Goodwill as of December 31, 2020	<u>\$ 352,674</u>

The gross amount of acquired goodwill was identified and estimated through the purchase price allocation on January 9, 2020 when the Merger was completed (see Note 4. Platinum Merger Transaction for further discussion). The Company has determined that there is a single reporting unit for purposes of testing goodwill for impairment.

Table of Contents

During 2020, the Company determined that the carrying value of its reporting unit exceeded its fair value by \$218.0 million. The impact of market pressures due to the impact of COVID-19 that drive demand for the Company's products and services led to decreased revenue and underperformance relative to forecast, adversely impacting the fair value of the reporting unit. As a result, the Company recorded a non-cash impairment charge of \$218.0 million in the third quarter of 2020.

As of December 31, 2020, the gross amounts and accumulated amortization of intangible assets is as follows (in thousands):

	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Customer relationships (10 -15 years)	\$ 582,266	\$ (108,194)	\$ 474,072
Technology (1 - 10 years)	26,075	(2,607)	23,468
Trademarks (1 - 10 years)	20,760	(14,893)	5,867
Total intangible assets	<u>\$ 629,101</u>	<u>\$ (125,694)</u>	<u>\$ 503,407</u>

The gross amounts of acquired intangible assets were identified and estimated through the purchase price allocation on January 9, 2020 when the Merger was completed (see Note 4. Platinum Merger Transaction for further discussion). The historical Pattonair intangible asset gross amounts and accumulated amortization have also been included in the table above. For the period from January 9, 2020 to December 31, 2020, intangible amortization expense included in the consolidated statements of earnings and comprehensive loss was \$76.2 million.

Estimated future intangible amortization expense as of December 31, 2020 is as follows (in thousands):

January 1, 2021 - December 31, 2021	\$ 78,188
January 1, 2022 - December 31, 2022	71,194
January 1, 2023 - December 31, 2023	60,829
January 1, 2024 - December 31, 2024	54,323
January 1, 2025 - December 31, 2025	49,084
Thereafter	189,789
	<u>\$ 503,407</u>

Note 9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	<u>December 31, 2020</u>
Accrued interest	\$ 27,344
Accrued compensation and related expenses	19,430
Accrued customer rebates and claims	13,826
Accrued taxes (property, sales and use)	8,306
Accrued professional fees	1,476
Other accruals	25,746
Accrued expenses and other current liabilities	<u>\$ 96,128</u>

Table of Contents

Note 10. Long-Term Debt

Long-term debt as of December 31, 2020 consists of the following (in thousands):

	Principal Amount	Unamortized Deferred Debt Issuance Costs (1)	Carrying Amount
8.5% senior secured notes due 2024	\$ 650,000	(19,835)	\$ 630,165
9.0% senior secured notes due 2026	900,000	(39,815)	860,185
13.125% senior notes due 2027	525,000	(34,197)	490,803
Senior secured ABL revolving facility	423,762	—	423,762
	<u>2,498,762</u>	<u>(93,847)</u>	<u>2,404,915</u>
Less: current portion	15,500	—	15,500
Non-current portion	<u>\$ 2,483,262</u>	<u>\$ (93,847)</u>	<u>\$ 2,389,415</u>

(1) Unamortized deferred debt issuance costs include \$31.3 million of original issuance discount.

Aggregate maturities of long-term debt as of December 31, 2020 are as follows (in thousands):

January 1, 2021 - December 31, 2021	\$ 15,500
January 1, 2022 - December 31, 2022	23,250
January 1, 2023 - December 31, 2023	31,000
January 1, 2024 - December 31, 2024	1,056,012
January 1, 2025 - December 31, 2025	18,000
Thereafter	<u>1,339,500</u>
	<u>2,483,262</u>

2024 Notes, 2026 Notes, 2027 Notes, and the ABL Facility

On November 27, 2019, we issued notes into escrow which were released on January 9, 2020, providing for \$650.0 million senior secured notes due 2024 (the "2024 notes"), \$900.0 million senior secured notes due 2026 (the "2026 notes" and together with the 2024 notes, the "Secured Notes") and \$525.0 million senior notes due 2027 (the "2027 notes" and together with the Secured Notes, the "Holdings Notes").

On January 9, 2020, we entered into an asset-based senior secured revolving credit facility providing up to \$375.0 million of commitments (the "ABL facility" and together with the Holdings Notes, the "Credit Facilities"). The ABL facility initially had a U.S. sub-facility of \$300.0 million and a UK sub-facility of \$75.0 million, which were increased on February 20, 2020, to \$380.0 million and \$95.0 million, respectively, totaling \$475.0 million. Borrowings under the ABL facility are subject to borrowing base capacity, with the borrowing base being defined principally as unreserved accounts receivable and inventory in material locations. On December 31, 2020, total borrowing under the ABL facility was \$423.8 million. As of December 31, 2020, \$1.1 million in letters of credit were outstanding and \$51.2 million was available for borrowing under the ABL facility.

The interest rate for the ABL facility is based on our average usage of the ABL facility with the respective margins ranging from 0.25% to 0.75% for U.S. base rate loans and from 1.25% to 1.75% for LIBOR loans and European base rate loans. Additionally, we are required to pay an unused line fee ranging from 0.25% to 0.375% on the amount of unused commitments. The ABL facility expires on January 9, 2025 unless the 2024 notes remain outstanding in August 2024, in which case the maturity date is accelerated to August 2024. As of December 31, 2020, the weighted-average interest rate for borrowings under the ABL facility was 1.89%.

The Credit Facilities are guaranteed by us and all of our direct and indirect, wholly-owned, domestic restricted subsidiaries and certain entities formed under the laws of England and Wales (subject to certain exceptions) and the Secured Notes and the ABL facility are each secured by substantially all of our assets and the assets of our guarantor subsidiaries, including capital stock of the subsidiaries (in each case, subject to certain exceptions), with the Secured Notes having a first priority security interest on the fixed assets of the pledgors (and second lien on the current assets) and the ABL credit facility having a first priority security interest on the current assets of the pledgors (and a second lien on the fixed assets).

Table of Contents

The Credit Facilities contain customary negative covenants, including, but not limited to, restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of certain junior indebtedness or enter into transactions with affiliates.

The Secured Notes each have amortization offer requirements (the "Amortization Offer"). The amount is 1% of the original principal amount of the respective Secured Notes for the first two offers, 1.50% for the third offer and 2.00% thereafter. The first Amortization Offer was required to be made at the end of the fiscal year ending December 31, 2020, with the remaining Amortization Offers required to be made each subsequent year thereafter, in each case, between 30 and 60 days prior to year-end. Our amortization offer on December 31, 2020 was accepted and paid in January 2021 and have therefore classified the amortization offer amount as a current liability.

The ABL facility contains a financial covenant, which is a springing 1.0x consolidated fixed charge coverage ratio only required to be maintained when availability under the ABL facility is less than the greater of 10.0% of the Line Cap (as defined in the ABL revolving facility) and \$35.5 million (the "Financial Covenant Threshold"). As of December 31, 2020, the Financial Covenant Threshold was \$47.5 million which is 10.0% of the Aggregate Commitments (on such date our aggregate Borrowing Base exceeded the Aggregate Commitments) and on such date we had Aggregate Availability of \$51.2 million, which exceeded the Financial Covenant Threshold.

The following table summarizes the total deferred debt issuance costs for our Credit Facilities as of December 31, 2020 (in thousands). The remaining deferred debt issuance costs as of December 31, 2020 will be amortized over their remaining terms.

Deferred Debt Issuance Costs (1)

	Gross Balance	Amortization	Balance on December 31, 2020
8.5% senior secured notes due 2024	\$ 25,349	\$ (5,514)	\$ 19,835
9.0% senior secured notes due 2026	47,098	\$ (7,283)	39,815
13.125% senior notes due 2027	39,599	(5,402)	34,197
	112,046	(18,199)	93,847
Senior secured ABL revolving facility	10,083	(1,836)	8,247
	<u>\$ 122,129</u>	<u>\$ (20,035)</u>	<u>\$ 102,094</u>

(1) Deferred debt issuance costs include \$31.3 million of original issuance discount.

APAC Line of Credit

Our Singaporean subsidiary, Pattonair Asia Pte Limited, has a \$3.5 million line of credit (the "APAC line of credit") that renews annually on January 1. The APAC line of credit bears interest based on the 3-month LIBOR plus an applicable margin of 2.75%. As of December 31, 2020, \$3.5 million was available for borrowing under the APAC line of credit.

Note 11. Fair Value Measurement

There were no transfers between the assets and liabilities under Level 1 and Level 2 during the period from January 9, 2020 to December 31, 2020.

Non-Recurring Fair Value Measurements

During the period from January 9, 2020 to December 31, 2020, the Company recognized a goodwill impairment of \$218.0 million, which was included in operating expenses in the consolidated statements of income. The fair value was based on a combination of a discounted cash flow analysis and a market earnings multiples. The assumptions used in the analyses are primarily Level 3 inputs, including revenue growth rates, projected operating margins, changes in working capital, terminal values, discount rates, projected earnings, valuation multiples and the selection of appropriate peer companies.

Table of Contents

Note 12. Leases

Our company primarily leases office space and distribution centers, including leases for certain third-party operated distribution center locations, as well as vehicles and equipment. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease assets, current portion of operating lease liabilities and non-current portion of operating lease liabilities in Incora's consolidated balance sheet. Finance leases are included in property and equipment, net, accrued expenses and other current liabilities and other liabilities in our consolidated balance sheet. Operating lease payments are charged on a straight-line basis to rent expense, a component of selling, general and administrative expenses, over the lease term and finance lease payments are charged to interest expense and depreciation and amortization expense using a debt model over the lease term.

Our lease assets represent a right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the leases. Lease assets and liabilities and the related rent expense are recognized at the lease commencement date (date on which Incora gains access to the property) based on the estimated present value of lease payments over the lease term, net of landlord allowances to be received. We account for the lease and non-lease components as a single lease component for all current classes of leases.

Most of our lease agreements include variable payments related to pass-through costs for maintenance, taxes, and insurance. These variable payments are not included in the measurement of the lease liability or asset and are expensed as incurred.

As most of our lease agreements do not provide an implicit rate, we use an estimated incremental borrowing rate, which is derived from third-party information available at the lease commencement date, in determining the present value of lease payments. The rate used is for a secured borrowing of a similar term as the lease.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of lease renewal options is at our sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that we will exercise that option. Leases with a term of 12 months or less ("short-term leases") are not recorded on the balance sheet. We do not currently have any material short-term leases. Additionally, our lease agreements do not contain material residual value guarantees or material restrictive covenants.

We sublease certain real estate to third parties, which have all been classified as operating leases. We recognize sublease income on a straight-line basis.

Lease cost includes both the fixed and variable expenses recorded for leases. The components of lease cost for the period from January 9, 2020 to December 31, 2020 was as follows (in thousands):

	<u>Income Statement Location</u>	<u>January 9 to December 31, 2020</u>
Operating lease cost	Selling, general and administrative expenses	\$ 17,309
Finance lease cost:		
Amortization of property and equipment	Selling, general and administrative expenses	1,169
Interest on finance lease liabilities	Interest expense	58
Variable and short-term lease cost	Selling, general and administrative expenses	2,065
Sublease income	Selling, general and administrative expenses	(1,112)
Total net lease cost		<u>\$ 19,489</u>

Table of Contents

Supplemental balance sheet information related to leases was as follows (in thousands):

	<u>Balance Sheet Location</u>	<u>As of December 31, 2020</u>
Assets		
Operating	Operating lease assets	\$ 81,160
Finance	Property and equipment, net	836
Total lease assets		<u>\$ 81,996</u>
Liabilities		
<i>Current liabilities</i>		
Operating	Operating lease obligations, current portion	\$ 11,594
Finance	Accrued expenses and other current liabilities	505
<i>Noncurrent liabilities</i>		
Operating	Operating lease obligations, less current portion	75,514
Finance	Other liabilities	351
Total lease liabilities		<u>\$ 87,964</u>

	<u>As of December 31, 2020</u>
Weighted average remaining lease term (years)	
Operating leases	11.5
Finance leases	1.9
Weighted average discount rate	
Operating leases	7.3 %
Finance leases	4.8 %

Supplemental cash flow and other information related to leases was as follows (in thousands):

	<u>January 9 to December 31, 2020</u>
Cash paid to reduce lease liabilities:	
Operating cash flows for operating leases	\$ 10,475
Financing cash flows for finance leases	1,184
Lease assets obtained in exchange for lease liabilities:	
Operating leases	16,315

Table of Contents

Maturities of lease liabilities as of (in thousands):

	<u>Operating Leases (1)</u>	<u>Finance Leases</u>	<u>Total</u>
2021	\$ 17,345	\$ 529	\$ 17,874
2022	16,079	311	16,390
2023	13,549	49	13,598
2024	10,194	—	10,194
2025	8,738	—	8,738
Thereafter	71,383	—	71,383
Total lease payments	137,288	889	138,177
Less: Imputed interest	(50,180)	(33)	(50,213)
Total lease liabilities	87,108	856	87,964
Less: Current portion	(11,594)	(505)	(12,099)
Long-term lease liabilities	<u>\$ 75,514</u>	<u>\$ 351</u>	<u>\$ 75,865</u>

- (1) Operating lease payments include \$29.7 million related to options to extend lease terms that are reasonably certain of being exercised.

Note 13. Related Party Transactions

Wolverine Top Holding Corporation entered into a Corporate Advisory Services Agreement with Platinum Equity Advisors, LLC ("Platinum Advisors") to receive certain financial, strategic advisory and consultancy services. Under this management agreement, we are obligated to pay Platinum Advisors, or a designee thereof, an annual consulting fee as agreed from time to time, currently \$7.0 million (paid quarterly) plus fees and expenses. We paid and recorded an expense of \$7.0 million for the period from January 9, 2020 to December 31, 2020 related to this agreement.

In April and May 2020, certain affiliates of Platinum, related parties of Incora, purchased a portion of the 2027 Notes which still remain outstanding and payable. See Note 10 for more information on the 2027 Notes.

In November 2020, WTHC contributed \$25.0 million in common equity capital through Wesco's parents to Wesco. Additionally, Wesco issued an Unsecured Promissory Note in favor of WTHC, in the principal amount of \$25.0 million. Under the terms of the note, the loan will accrue interest on the unpaid principal amount at a rate of 13.125% until the Loan is paid in full or until the occurrence of an event of default is triggered, including failure to make payment when due, failure to observe any covenant and other typical contractual defaults, whereby interest will accrue at an additional 2% per annum. The Company's obligations under the note are unsecured and interest shall be paid in cash on May 15 and November 15 of each fiscal year, commencing on May 15, 2021. The loan will mature on November 10, 2023.

Note 14. Comprehensive Loss

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

	<u>January 9 to December 31, 2020</u>
Net loss	\$ (556,371)
Foreign currency translation gain	9,234
Total comprehensive loss	<u>\$ (547,137)</u>

Table of Contents

Note 15. Income Taxes

The components of our income tax provision (benefit) for the period from January 9, 2020 to December 31, 2020 was as follows:

<i>(Dollars in thousands)</i>	<u>January 9 to December 31, 2020</u>
Current benefit	
Federal	\$ 23,736
State and local	—
Foreign	2,697
Subtotal	<u>26,433</u>
Deferred (provision) benefit	
Federal	(31,757)
State and local	(9,637)
Foreign	7,940
Subtotal	<u>(33,454)</u>
Provision for income taxes	<u>\$ (7,021)</u>

A reconciliation of our provision for income taxes to the U.S. federal statutory rate is as follows for the period from January 9, 2020 to December 31, 2020:

	<u>January 9 to December 31, 2020</u>
Benefit for income taxes at statutory rate	21.0 %
Valuation allowance	(15.1)%
Nondeductible items	(6.9)%
State taxes, net of tax benefit	(1.4)%
Impact of foreign operations	(1.0)%
Tax contingencies	(0.4)%
Impact of Tax Act	2.4 %
Other	0.1 %
Actual provision rate for income taxes	<u>(1.3)%</u>

The Company has determined it is likely that we would, in the future, repatriate all of our unremitted foreign earnings. Following the enactment of the Tax Cuts and Jobs Act (the "Tax Act"), no federal taxes would be imposed upon the repatriation of these foreign earnings. An immaterial amount of the state, local and foreign withholding taxes associated with the repatriation of such earnings has been provided in our December 31, 2020 deferred tax balance.

Table of Contents

As of December 31, 2020, the components of deferred income tax assets (liabilities) were as follows (in thousands):

	<u>December 31, 2020</u>
Deferred tax assets	
Inventories	\$ 65,036
Reserves and other accruals	7,495
Compensation accruals	2,592
Net operating losses and tax credits	38,726
Lease liability	21,365
163(j) interest expense limitation	40,038
Other	22,995
Total deferred tax assets	<u>198,247</u>
Deferred tax liabilities	
Property and equipment	(367)
Unremitted earnings of foreign subsidiaries	(1,664)
Goodwill and intangible assets	(104,068)
Right of use assets	(20,058)
Other	(4,576)
Total deferred tax liabilities	<u>(130,733)</u>
Valuation allowance	(124,314)
Net deferred tax liabilities	<u>\$ (56,800)</u>

As of December 31, 2020, we had federal and state net operating loss carryforwards of \$37.1 million and \$72.2 million. The federal net operating loss carryforward has an indefinite life and state net operating losses will begin to expire in 2022. In addition, we had foreign net operating loss carryforwards of \$44.8 million which will begin to expire in 2021. As of December 31, 2020, we had U.S. foreign tax credit carryforwards of \$10.7 million which will begin to expire in 2021.

We are subject to U.S. federal income tax as well as income taxes in various state and foreign jurisdictions. The earliest tax year still subject to examination by a significant taxing jurisdiction is September 30, 2013.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (The CARES Act) was signed into law. Under the CARES Act, NOLs arising in tax years beginning after December 31, 2017, and before January 1, 2021 may be carried back to each of the five tax years preceding. The Company benefited under this provision and was able to carry back its applicable NOLs to the relevant tax years that resulted in a total refund of \$23.4 million, which had a significant impact on the effective tax rate and the income tax receivable of the Company.

The CARES Act further modifies IRC Section 163(j), adjusting the taxable income limitation from 30% to 50%, for tax years that begin in 2019 or 2020. The Company benefitted from this provision for an additional of interest expense deduction of \$15.7 million which increased its NOL carryover.

We determine whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We classify gross interest and penalties and unrecognized tax benefits as non-current liabilities in the consolidated balance sheets. In the next twelve months, the Company anticipates a tax payment of \$1.9 million related to certain unrecognized tax benefits, including interest and penalties, which has been classified as current liabilities in the consolidated balance sheets. As of December 31, 2020, the total amount of gross unrecognized tax benefits was \$13.1 million. Interest and penalties on unrecognized tax benefits were not material as of December 31, 2020. Of this amount, \$6.5 million, if recognized, would have an impact on our effective tax rate.

The unrecognized tax benefits, which exclude interest and penalties, for the period from January 9, 2020 to December 31, 2020 were as follows:

Table of Contents

(Dollars in thousands)	January 9 to December 31, 2020
Beginning balance	\$ 11,237
Increases related to tax positions taken during a prior year	1,896
Increases related to tax positions taken during the current year	67
Decreases related to expiration of statute of limitations	(145)
Ending balance	<u>13,055</u>

We determine whether it is more likely than not that some or all of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which temporary differences become deductible or includible in taxable income. We consider projected future taxable income and tax planning strategies in our assessment. Based upon the level of historical income and projections for future taxable income, we believe it is more likely than not that we will not realize the benefits of certain deferred tax assets. The increase in valuation allowance is primarily due to a full valuation allowance against the Company's net deferred tax assets in certain material jurisdictions. A rollforward of the valuation allowance for deferred tax assets for the period from January 9, 2020 to December 31, 2020 was as follows:

(Dollars in thousands)	January 9 to December 31, 2020
Beginning balance	\$ 19,068
Valuation allowance recorded during the period	105,246
Ending balance	<u>\$ 124,314</u>

Note 16. Restructuring Activities

In January 2020, we supplemented previously initiated merger plan with further restructuring initiatives, involving: (1) the elimination of certain positions, (2) the migration of certain services to Mexico and Poland; and (3) the closure and consolidation of certain inventory management facilities. The intent of these initiatives is to realign our workforce to the growth areas of our business, to increase efficiency and to reduce costs. We anticipate that actions under this plan will continue through March 2021.

We expect to incur approximately \$24.0 million in nonrecurring restructuring costs, primarily related to severance payments associated with employee terminations, over the entirety of the plan. We recorded total expenses of \$22.8 million during the period from January 9, 2020 to December 31, 2020, primarily consisting of employee severance and related costs. Such expenses were included in merger and reorganization costs in the consolidated statements of earnings and comprehensive loss. The remaining liability associated with these costs as of December 31, 2020 was not material.

Note 17. Subsequent Events

Our amortization offer on December 31, 2020 for the Secured Notes of \$15.5 million was accepted and paid in January 2021. We are required to make an amortization offer at the end of the fiscal year ending December 31, 2021 at 1% of the original principal amount of the Secured Notes and expect that our amortization offer will be accepted and paid in the first quarter of 2022 and will therefore classify that amortization offer amount as a current liability in 2021.

The ABL facility's U.S. sub-facility and UK sub-facility sublimits of \$380.0 million and \$95.0 million were reallocated in March 2021 to be \$325.0 million and \$150.0 million.

The Company entered into an operating lease for its corporate headquarters in Ft. Worth, Texas that commenced in the first quarter of 2021 and terminates in 2031. The Company will recognize an operating lease right-of-use asset and operating lease liability of approximately \$9.1 million relating to this lease.

In the second quarter of 2021, the Company transferred certain groups of receivables to third-party financing entities for approximately \$59.7 million. The transfers were accounted for as sales with derecognition of the associated receivables. Gains and losses stemming from such transfers are immaterial.

Table of Contents

The Company's Credit Facilities include financial reporting covenants that require audited annual financial statements be provided to the lenders by certain dates, which for fiscal year 2020 was April 30, 2021. The Company did not provide such financial statements to the lenders by April 30, 2021. Additionally, the Credit Facilities include cure periods applicable to the financial reporting covenants that allow for the Company to cure the covenant violation by providing audited annual financial statements to the lenders within the time period specified in the Credit Facilities. The Company has provided these audited annual financial statements to its lenders within the applicable cure periods.

Subsequent events were evaluated through May 10, 2021, which is the date these consolidated financial statements were available to be issued.