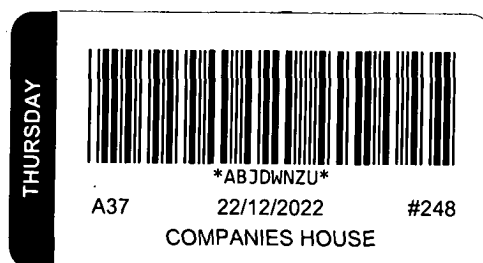


**Pattonair Holdings Limited**

**Annual report and financial statements  
for the year ended 31 December 2021**

Registered number: 07525433



# **Pattonair Holdings Limited**

## **Annual report and financial statements for the year ended 31 December 2021**

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# **Pattonair Holdings Limited**

## **Directors and advisors**

### **Directors**

DR Landry  
M Whatling  
WR Hollinshead

### **Registered office**

Ascot Business Park  
50 Longbridge Lane  
Derby  
DE24 8UJ  
England

### **Lawyers**

Baker McKenzie LLP  
100 New Bridge Street  
London  
EC4V 6JA

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
One Chamberlain Square  
Birmingham  
B3 3AX

# Pattonair Holdings Limited

## Strategic report for the year ended 31 December 2021

The directors present their Strategic report for the year ended 31 December 2021.

### **Principal activity, business review and future developments**

The principal activity of the Company is an intermediate holding company and this is expected to continue for the foreseeable future.

The statement of comprehensive income and the financial position of the Company is set out on pages 9 and 10 respectively.

The Company holds a number of investments in UK and overseas companies of the Pattonair Group.

During the prior year, the Pattonair Group undertook a legal entity and intercompany loan rationalisation project aimed at reducing the number of entities in the wider Group and simplifying the number of intercompany balances through a capital reduction. As part of the legal entity rationalisation project, the Company reduced the number of shares.

The directors remain confident that the future prospects of the Company remain strong. No change in the Company's activity is planned.

### **Key performance indicators**

It is the directors' opinion that as this is not a trading entity, there are no key performance indicators that are used or relevant to the Company.

### **Financial risk management**

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Group's finance department and are managed for this Company within the wider Group policy.

There are no other additional risks in the Company than those disclosed in its intermediate parent, Wesco Aircraft Holdings Inc.

### **Principal risks and uncertainties**

As the Company acts as an intermediate holding company, the performance of investments is considered a principal risk. The directors regularly review the performance of subsidiary companies and receive detailed performance information that enable them to identify risks of potential impairment.

On behalf of the Board



M Whatling

Director

5 December 2022

# **Pattonair Holdings Limited**

## **Directors' report for the year ended 31 December 2021**

The directors present their report and the audited financial statements for the year ended 31 December 2021.

### **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 behaviour 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 results, cash flows and financial condition.

The disruption to the commercial aerospace industry as a result of COVID-19 and the timing of the anticipated recovery have 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 Wesco Aircraft Holdings Inc. UK companies, including Pattonair Holdings 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") in addition to \$2.2 billion of non-current borrowings, a \$250 million increase generated in March 2022. 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.

Incora's directors performed a liquidity forecast for the period from approval of these financial statements to 31 December 2023, the 'base case', which is inclusive of the expected recovery from COVID-19 and current uncertainty in the global economy on operations, semi-annual debt interest payments, and financing instruments currently available.

# **Pattonair Holdings Limited**

## **Directors' report for the year ended 31 December 2021 (continued)**

### **Liquidity and capital resources (continued)**

As a part of the base case forecast to 31 December 2023, Incora's directors produced a severe but plausible downside analysis which assumed a delay in industry recovery of two quarters which showed significant liquidity headroom in both scenarios. We anticipate that funding will continue to be made available to us under Incora's ABL Facility which will be sufficient to meet our liquidity requirements for the next twelve months. As a result, the directors have prepared the financial statement on a going concern basis.

### **Dividends**

The directors do recommend a dividend in respect of the year ended 31 December 2021 (31 December 2020: £256,111,826).

### **Future developments**

These are discussed as part of the Strategic report on page 2.

### **Financial risk management**

Commentary on financial risk management of the business is included as part of the Strategic report.

### **Directors**

The directors who held office during the year ended 31 December 2021 and up to the date of signing the financial statements are given below:

DR Landry

M Whatling

WR Hollinshead

TJ Gallagher (resigned 17 September 2021)

# Pattonair Holdings Limited

## Directors' report for the year ended 31 December 2021 (continued)

### Statement of directors' responsibilities

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 the 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 year. 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 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 also 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.

### Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

On behalf of the Board



M Whatling

Director

5 December 2022

# Independent auditors' report to the members of Pattonair Holdings Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Pattonair Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year 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, which comprise: the Statement of financial position as at 31 December 2021; the Statement of comprehensive income and the Statement of changes in equity for the year 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 these requirements.

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.



## **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 or, 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 year ended 31 December 2021 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, 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.

### **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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of unusual journal entries or manipulating accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

- Reviewing minutes of meetings of those charged with governance;
- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations; and
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness and testing accounting estimates (because of the risk of management bias).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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](http://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 obtained 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.



Richard Kay (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
5 December 2022

## Pattonair Holdings Limited

### Statement of comprehensive income for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest receivable and similar income	7	16	-
Interest payable and similar charges	8	-	(146)
<b>Profit/(loss) before taxation</b>		<b>16</b>	<b>(146)</b>
Tax on profit/(loss)	9	11	619
<b>Profit for the financial year</b>		<b>27</b>	<b>473</b>

All results relate to continuing operations in both the current year and prior year.

# Pattonair Holdings Limited

## Statement of financial position as at 31 December 2021

	Note	31 December 2021 £'000	31 December 2020 £'000
<b>Fixed assets</b>			
Investments	10	2,041	2,041
<b>Current assets</b>			
Debtors	11	29,954	29,847
		29,954	29,847
Creditors: amounts falling due within one year	12	(29,982)	(29,902)
<b>Net current liabilities</b>		(28)	(55)
<b>Total assets less current liabilities</b>		2,013	1,986
<b>Net assets</b>		2,013	1,986
<b>Capital and reserves</b>			
Called up share capital	13	-	-
Share premium account		-	-
Other reserves		1,154	1,154
Profit and loss account		859	832
<b>Total shareholders' funds</b>		2,013	1,986

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The notes to the financial statements on pages 12 to 22 form an integral part of these financial statements.

These financial statements on pages 9 to 22 were approved by the Directors on 5 December 2022.

Signed on behalf of the Board of Directors



M Whatling

Director

Registered number: 07525433

# Pattonair Holdings Limited

## Statement of changes in equity for the year ended 31 December 20201

	Called up share capital	Share premium	Other reserves	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2021	-	-	1,154	832	1,986
<b>Total comprehensive income for the year</b>					
Profit for the financial year	-	-	-	27	27
<b>Balance at 31 December 2021</b>	<b>-</b>	<b>-</b>	<b>1,154</b>	<b>859</b>	<b>2,013</b>

	Called up share capital	Share premium	Other reserves	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2020	96	2,096	1,154	(1,833)	1,513
<b>Total comprehensive income for the year</b>					
Profit for the financial year	-	-	-	473	473
<b>Transactions with owners, recorded directly in equity</b>					
Issue of preference shares	-	256,112	-	-	256,112
Capital reduction	(96)	(258,208)	-	258,304	-
Dividends	-	-	-	(256,112)	(256,112)
<b>Balance at 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>1,154</b>	<b>832</b>	<b>1,986</b>

The capital reduction is described in note 13. Following the capital reduction the company declared a dividend to its parent company of £256,111,926.

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021

### 1 General information

Pattonair Holdings Limited is a private company limited by shares and incorporated in England under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

### 2 Statement of compliance

These financial statements were prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006. All amounts in the financial statements have been rounded to the nearest £1,000.

### 3 Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### Exemptions for qualifying entities under FRS102

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company's ultimate parent undertaking, Wesco Aircraft Holdings Inc, includes the Company in its consolidated financial statements. The consolidated financial statements of Wesco Aircraft Holdings Inc are prepared in accordance with US GAAP and are available to the public and filed with these financial statements. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Wesco Aircraft Holdings Inc include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The financial instrument disclosures required under FRS 102 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv) and 11.48(b) as the information is provided in the consolidated financial statement disclosures.

#### Basis of preparation

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements are prepared on a going concern basis, under the historical cost convention.

The Functional currency of the Company is USD however, the financial statements are presented in GBP.

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 3 Summary of significant accounting policies (continued)

#### Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic report.

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.

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. hence they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

#### Classification of financial instruments issued by the Company

In accordance with FRS 102 section 22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### Basic financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

#### Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting year financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 3 Summary of significant accounting policies (continued)

#### Basic financial instruments (continued)

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at transaction price, unless the arrangements constitute a financial transaction where the debt instrument is measured at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

#### Interest receivable and Interest payable

Interest payable and similar charges include interest payable and net foreign exchange losses on financing activities that are recognised in the statement of comprehensive income (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains on financing activities.

Interest income and interest payable are recognised in the statement of comprehensive income as they accrue, using the effective interest method.



# **Pattonair Holdings Limited**

## **Notes to the financial statements for the year ended 31 December 2021 (continued)**

### **3 Summary of significant accounting policies (continued)**

#### **Dividend income**

Dividend income is recognised in the statement of comprehensive income on the date the Company's right to receive payments is established.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **Distributions to equity holders**

Dividends and other distributions to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

#### **Related party transactions**

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group.

#### **Investments**

Investments in subsidiary undertakings are stated at cost, less any provision for impairment.

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future periods if the revision affects both current and future periods.

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.

#### Investment impairment analysis

The company considers whether investments are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). The investment carrying value is compared to the underlying value of the net assets and adjusted accordingly.

### 5 Employee information

The Company did not have any employees during the year (2020: None).

### 6 Operating result

Audit fees of £4,500 (2020: £4,500) have been borne by a fellow group company, Pattonair (Derby) Limited, and have not been recharged.

### 7 Interest receivable and similar income

	Year ended 31 December 2021	Year ended 31 December 2020
	£'000	£'000
Foreign exchange gains	16	-

### 8 Interest payable and similar charges

	Year ended 31 December 2021	Year ended 31 December 2020
	£'000	£'000
Foreign exchange losses	-	146

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 9 Tax on profit/(loss)

#### (a) Tax credit included in statement of comprehensive income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
<b>Current tax</b>		
UK current tax on profit/(loss) for the year	-	11
Adjustments in respect of prior years	(11)	(630)
<b>Total current tax credit</b>	<b>(11)</b>	<b>(619)</b>

#### (b) Reconciliation of effective tax rate

Tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2021 of 19% (2020: 19%). The differences are explained below:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Profit/(loss) before taxation	16	(146)
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	3	(28)
Effects of:		
Transfer pricing adjustment	98	39
Group relief not paid for	(101)	-
Adjustments in respect of prior years	(11)	(630)
<b>Total tax credit for the year</b>	<b>(11)</b>	<b>(619)</b>

There are no recognised or unrecognised deferred tax balances in the current year or previous year.

The standard rate of tax applied to reported profit/(loss) on ordinary activities is 19% (2020: 19%). The March 2021 Budget announced an increase in corporation tax rate to 25% from 1 April 2023 which was substantively enacted in Finance Act 2021 on 24 May 2021. The Company's deferred tax balances are measured using the corporation tax rates that have been enacted or substantively enacted at the statement of financial position date, based on the periods in which the temporary differences are forecast to reverse (19% for deferred tax expected to reverse before 1 April 2023, and 25% for deferred tax expected to reverse on or after 1 April 2023).

# Pattonair Holdings Limited

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 9 Tax on profit/(loss) (continued)

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority.

### 10 Investments

	Interests in subsidiary undertakings
	£'000
<b>Cost and net book value</b>	
At 1 January 2021 and 31 December 2021	2,041

The Company had shareholdings of 100% of the ordinary share capital of the following companies (except Pattonair Co Brasil Servicos E Logistica Ltda – 99%) at 31 December 2021 and 31 December 2020:

Name of undertaking	Country of incorporation and registered address	Principal activity
<b><u>Direct Shareholding</u></b>		
Quicksilver Midco Limited	UK	Investment holding company
<b><u>Indirect Shareholdings</u></b>		
Pattonair Group Limited	UK	Investment holding company
Pattonair Europe Limited	UK	Intermediate holding company
Pattonair (Derby) Limited	UK	Supply of component parts to the Aerospace Industry
Pattonair Limited	UK	Supply of component parts to the Aerospace Industry
Pattonair Properties Limited	UK	Property company

## Pattonair Holdings Limited

### Notes to the financial statements for the year ended 31 December 2021 (continued)

#### 10 Investments (continued)

Indirect shareholdings as of 31 December 2021 and 31 December continued:

Name of undertaking	Country of incorporation and registered address	Principal activity
Adams Aviation Supply Company Limited	UK	Supply of component parts to the Aerospace Industry
Pattonair SAS	ZAC du Chêne Bocquet Boulevard Henri Navier Taverny, France	Supply of component parts to the Aerospace Industry
Pattonair SRL	19 Via XXII Marzo 21013 Gallarate (VA) Milan, Italy	Supply of component parts to the Aerospace Industry
Incora Asia Pte Ltd (formerly Pattonair Asia Pte Ltd)	3 Changi North Street 2 #03-03B Logistech Singapore	Supply of component parts to the Aerospace Industry
Pattonair Xi'an Trading Limited	No 5 Lantian Road Yanliang Xi'an, Shaanxi 710089 Xi'an, China	Supply of component parts to the Aerospace Industry
Pattonair Poland Sp.zo.o	ul. Bierutowska 65-67 51-317 Wrocław Wrocław, Poland	Supply of component parts to the Aerospace Industry
Ulogistics Canada Inc	1310, 55th Avenue Lachine Quebec H8T 3J8 Canada	Dormant
Pattonair Berlin GmbH	c/o Rolls-Royce Eschenweg 11 P/O 96 15827 Dahlewitz Berlin, Germany	Supply of component parts to the Aerospace Industry
Pattonair Co Brasil Servicos E Logistica Ltda	R. Cap. Guynemer 1626-Xeren D.C Axais-RJ-CEP 25250-130 Brazil	Supply of component parts to the Aerospace Industry
Pioneer Holding, LLC	1209 Orange Street, Corporation Trust Center, Wilmington, Delaware 19801, USA	Investment - holding company

## Pattonair Holdings Limited

### Notes to the financial statements for the year ended 31 December 2021 (continued)

#### 10 Investments (continued)

Indirect shareholdings as of 31 December 2021 and 31 December continued:

Name of undertaking	Country of incorporation and registered address	Principal activity
Pattonair Japan KK	c/o Baker & McKenzie (Gaikokuho Joint Enterprise), Ark Hills Sengokuyamam Mori Tower 28F, 1-9-10 Roppongi, Minato-ku, Tokyo, Japan	Supply of component parts to the Aerospace Industry

The registered address of the UK companies is Ascot Business Park, 50 Longbridge Lane, Derby, DE24 8UJ.

The directors consider the carrying value of the investments to be supported by their underlying net assets.

#### 11 Debtors

	31 December 2021 £'000	31 December 2020 £'000
Amounts owed by group undertakings	29,954	29,847
	29,954	29,847

Of the amounts owed by group undertakings, all are unsecured, non-interest bearing and repayable on demand.

## Pattonair Holdings Limited

### Notes to the financial statements for the year ended 31 December 2021 (continued)

#### 12 Creditors: amounts falling due within one year

	31 December 2021	31 December 2020
	£'000	£'000
Amounts owed to group undertakings	29,982	29,891
Corporation tax	-	11
	29,982	29,902

The amounts owed to group undertakings are unsecured, repayable on demand and are non interest bearing.

#### 13 Called up share capital

	31 December 2021	31 December 2020
	£'000	£'000
<b>Allotted, called up and fully paid</b>		
1,600,000 (31 December 2020: 1,600,000) A Ordinary shares of £0.000000625 each, (31 December 2020: £0.000000625 each)	-	-
399,956 (31 December 2020: 399,956) B1 ordinary shares of £0.0000025 each (31 December 2020: £0.0000025 each)	-	-
44 (31 December 2020: 44) B2 ordinary shares of £0.0227272 each (31 December 2020: £0.0227272)	-	-
	-	-

On 29 December 2020, the Company undertook a reduction of the share capital as follows: -

- cancelling and extinguishing to the extent of £0.009999375 on each issued fully paid up A ordinary share;
- cancelling and extinguishing to the extent of £0.1999975 on each issued fully paid up B1 ordinary share;
- cancelling and extinguishing to the extent of £0.1772728 on each issued fully paid up B2 ordinary share;
- cancelling and extinguishing the entire class of preference shares such that the 100 preference shares are cancelled; and
- reducing the share premium account by £258,207,967 to zero.

## **Pattonair Holdings Limited**

### **Notes to the financial statements for the year ended 31 December 2021 (continued)**

#### **13 Called up share capital (continued)**

##### **Rights**

The A ordinary shares, B1 ordinary shares and B2 ordinary shares rank pari passu as regards dividends and other distributions.

On a sale, listing, liquidation or any other return of capital, the capital and assets of the Company are distributed firstly to the A shareholders up to a sum equal to their issue price, then to each holder of the B1 and B2 ordinary shares (pari passu as if the shares constituted one class of share) up to a sum equal to their issue price. The balance of any assets shall be distributed amongst the holders of the A ordinary and B Ordinary shareholder pari passu as if the shares constituted one class of share.

On a vote at the Annual General Meeting or on a written resolution, the A ordinary shares carry one vote per share, and the B2 ordinary shares carry 10,000 votes per share. The B1 ordinary shares do not have any voting rights.

#### **14 Related party transactions**

As the Company was a wholly owned subsidiary of Wesco Aircraft Holdings Inc. at 31 December 2021, the Company has taken advantage of the exemption contained under FRS102 paragraph 33.11(b) and has therefore not disclosed transactions or balances with entities which are wholly owned subsidiaries of Wesco Aircraft Holdings Inc.

#### **15 Ultimate parent company and immediate parent undertaking**

The immediate parent undertaking is Wolverine UK Holdco Limited a company incorporated in the United Kingdom and registered in England and Wales.

The ultimate controlling party is Platinum Equity Partners International IV (Cayman), L.P., the general partner of Platinum Equity Capital Partners International IV (Cayman), L.P., a fund managed by Platinum Equity Advisers, LLC. The parent undertaking of the largest group to consolidate the financial statements is Wesco Aircraft Holdings Inc.

Wesco Aircraft Holdings Inc is the parent undertaking of both the smallest and largest Group of undertakings to consolidate these financial statements. The consolidated financial statements of Wesco Aircraft Holdings Inc. are appended to these financial statements.



**WESCO AIRCRAFT HOLDINGS, INC. (dba INCORA)**

**Consolidated Financial Statements**

**and**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

**For the Twelve Months Ended December 31, 2021,  
and the Period from January 9, 2020 to December 31, 2020**

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## **Report of Independent Auditors**

To the Management of Wesco Aircraft Holdings, Inc.

### ***Opinion***

We have audited the accompanying consolidated financial statements of Wesco Aircraft Holdings, Inc. and its subsidiaries (dba Incora) (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and December 31, 2020, and the related consolidated statements of earnings and comprehensive loss, of stockholders' equity and of cash flows for the year ended December 31, 2021 and for the period from January 9, 2020 to December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 and for the period from January 9, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Consolidated 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises Management's Discussion and Analysis of Financial Condition and Results of Operations, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP".

April 7, 2022

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

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 126,429	\$ 152,504
Accounts receivable, net of allowance for doubtful accounts of \$6,610 and \$6,547 as of December 31, 2021 and December 31, 2020	304,812	377,624
Inventories	1,147,717	1,259,758
Prepaid expenses and other current assets	25,975	26,363
Income taxes receivable	5,722	13,867
Total current assets	1,610,655	1,830,116
Property, plant and equipment, net	69,529	69,118
Deferred debt issuance costs, net	6,317	8,247
Goodwill	216,076	352,674
Intangible assets, net	412,284	492,828
Deferred tax assets	4,871	9,621
Operating lease assets	85,606	81,160
Other assets	26,843	25,476
Total assets	\$ 2,432,181	\$ 2,869,240
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 249,996	\$ 245,911
Accrued expenses and other current liabilities	94,015	96,128
Income taxes payable	5,158	3,860
Operating lease obligations, current portion	10,881	11,594
Current portion of long-term debt	15,500	15,500
Total current liabilities	375,550	372,993
Operating lease obligations, less current portion	87,659	75,514
Long-term debt, less current portion	2,387,422	2,389,415
Related party promissory note	25,000	25,000
Deferred tax liabilities	49,707	66,421
Other liabilities	16,418	5,674
Total liabilities	\$ 2,941,756	\$ 2,935,017
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, 2021 and December 31, 2020	—	—
Additional paid-in capital	517,733	517,733
Accumulated other comprehensive income	13,259	9,234
Accumulated deficit	(1,040,567)	(592,744)
Total stockholders' deficit	(509,575)	(65,777)
Total liabilities and stockholders' equity	\$ 2,432,181	\$ 2,869,240

See the accompanying notes to the consolidated financial statements.

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

	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
Net sales	\$ 1,834,258	\$ 1,886,953
Cost of sales	1,473,090	1,497,210
Gross profit	361,168	389,743
Selling, general and administrative expenses	407,482	424,487
Goodwill impairment	136,366	218,013
Merger, reorganization, and integration costs	19,053	70,218
Loss from operations	(201,733)	(322,975)
Interest expense, net	(236,131)	(229,935)
Other (expense) income, net	(12,118)	3,560
Loss before income taxes	(449,982)	(549,350)
Benefit (provision) for income taxes	2,159	(7,021)
Net loss	(447,823)	(556,371)
Other comprehensive income, net of income taxes	4,025	9,234
Comprehensive loss	\$ (443,798)	\$ (547,137)

See the accompanying notes to the consolidated financial statements.

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

**Twelve Months Ended December 31, 2021**

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' (Deficit)/Equity</b>
	<b>Shares</b>	<b>Amount</b>				
Balance at December 31, 2020	100	\$ —	\$ 517,733	\$ 9,234	\$ (592,744)	\$ (65,777)
Net loss	—	—	—	—	(447,823)	(447,823)
Foreign currency translation gain, net of tax	—	—	—	4,025	—	4,025
Balance at December 31, 2021	100	\$ —	\$ 517,733	\$ 13,259	\$ (1,040,567)	\$ (509,575)

**January 9 to December 31, 2020**

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity/(Deficit)</b>
	<b>Shares</b>	<b>Amount</b>				
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)
Foreign currency translation gain, net of tax	—	—	—	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.

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

	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
<b>Cash flows from operating activities</b>		
Net loss	\$ (447,823)	\$ (556,371)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Goodwill impairment	136,366	218,013
Depreciation and amortization	97,295	94,160
Noncash lease expense	12,211	11,646
Amortization of deferred debt issuance costs	18,798	20,035
(Gain) loss on disposal of asset	(2,636)	2,471
Loss from early extinguishment of debt	—	2,807
Bad debt and sales return reserve	2,112	3,331
Net inventory provision	(9,404)	12,208
Deferred income taxes	(11,757)	39,351
Other non-cash items	11,978	(3,560)
Subtotal	(192,860)	(155,909)
Changes in assets and liabilities:		
Accounts receivable	68,795	67,401
Income taxes receivable	8,114	(10,582)
Inventories	116,483	(131,534)
Prepaid expenses and other assets	(1,762)	3,677
Accounts payable	4,388	(68,334)
Accrued expenses and other liabilities	12,948	(51,656)
Operating lease liabilities	(11,672)	(10,475)
Income taxes payable	1,120	(1,889)
Net cash provided by (used in) operating activities	5,554	(359,301)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(22,337)	(26,969)
Proceeds from sale of property	8,323	8,690
Acquisition of business, net of cash acquired	—	(1,020,509)
Net cash used in investing activities	(14,014)	(1,038,788)
<b>Cash flows from financing activities</b>		
Proceeds from revolver borrowings	104	422,697
Repayment of revolver borrowings and related costs	(931)	(178,193)
Payment of issuance costs related to revolving credit facility	—	(10,083)
Proceeds from issuance of related party promissory note	—	25,000
Parent company equity contribution	—	25,000
Proceeds from issuance of long-term debt, net of issuance costs including original issuance discount	—	1,962,954
Repayment of finance lease obligations	—	(1,184)
Repayment of long-term debt and related costs	(15,500)	(1,073,913)



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Parent company equity contribution at acquisition	—	362,718
Net cash (used in) provided by financing activities	(16,327)	1,534,996
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,288)	(2,990)
Net (decrease) increase in cash and cash equivalents	(26,075)	133,917
Cash and cash equivalents, beginning of period	152,504	18,587
Cash and cash equivalents, end of period	\$ 126,429	\$ 152,504
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ 213,247	\$ 204,956
Net cash (paid) received for income taxes	\$ (5,409)	\$ 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 is indirectly owned by certain investment vehicles advised by 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 Holding, LLC ("Pioneer") and together with its subsidiaries at the time of the Merger, 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.

The operations of Wesco and the Pattonair Group operate under the brand name Incora. Incora's product portfolio consists of C-class hardware, chemicals, electronic components, bearings and machined parts. Incora manages a comprehensive portfolio 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 provides various supply chain management services to a diversified base of customers, including Aerospace and Defense ("A&D") Original Equipment Manufacturers ("OEMs"), our 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.

On March 28, 2022, we consummated a series of transactions with certain holders of the Holdings Notes as defined in Note 10 (the "Participating Holders") to issue new 2026 notes, amend the terms governing the Holdings Notes, and exchange the Participating Holders' Holdings Notes for new senior secured notes. See Note 16. *Subsequent Events* for further discussion of the transactions.

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

##### Principles of Consolidation and Basis of Presentation

The terms "us," "our," "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. Certain amounts reported in prior periods have been reclassified to conform to the current period presentation.

##### Coronavirus Pandemic

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The COVID-19 health crisis has posed 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, social distancing guidelines and the distribution of vaccinations. We have experienced significant disruption to our business as a result of COVID-19 and the

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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 have been modified or lifted and vaccinations have become more widely distributed, changes in consumer behavior and health concerns could continue to adversely impact commercial aircraft travel which would reduce the overall demand for commercial aircraft. The COVID-19 pandemic and its impact on both our customers and the aerospace industry has had and could 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.

The disruption to the commercial aerospace industry as a result of COVID-19 and the timing of the anticipated recovery have 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 and the cost reductions discussed in Note 15, 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 actions may 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.

The Company has an agreement to nominate, on a revolving basis, certain trade accounts receivable balances for sale to a third-party financial institution, in an uncommitted facility of up to a maximum of \$63 million. Transfers under this agreement are accounted for as sales because the Company has surrendered control over the related assets and they represent a legal true sale. The Company is not subject to any recourse provisions relating to these assets. The Company's continuing involvement in the transfers is limited to servicing the receivables, and the Company receives adequate compensation for servicing the receivables and no servicing asset or liability is recorded. WTHC, an indirect parent of the Company, is subject to limited recourse provisions on these assets for any portion of the receivables not collected by the Company and transferred to the third-party financial institution. Funds received from the transfer are recorded as an increase to cash and decrease to accounts receivable in our consolidated balance sheet. Gains and losses stemming from such transfers are immaterial. As of December 31, 2021, the Company had \$34.6 million of receivables remaining to be serviced.

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### **Inventories**

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 immaterial and 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, which does not decay or have a pre-determined shelf life, bears a higher risk of having excess quantities than becoming obsolete. We continually assess and refine our methodology for evaluating E&O inventory based on current facts and circumstances. Our hardware inventory E&O assessment requires the use of subjective judgments and estimates, including expected demand, the historical sales profiles, and large program purchases quote activity. 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 pre-determined shelf life, bears a higher risk of deteriorating and becoming obsolete. 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 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 statements of earnings and comprehensive loss.

### **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,

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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.

### **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 a 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.

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

## 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 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

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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.

### *Product and Service Information*

Net sales by product categories for the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020 were as follows (dollars in thousands):

	Twelve Months Ended December 31, 2021		January 9, 2020 to December 31, 2020	
	Sales	% of Total	Sales	% of Total
Hardware	\$ 926,454	50.5 %	\$ 1,042,437	55.2 %
Chemicals (including CMS)	790,071	43.1 %	700,738	37.2 %
Other	117,733	6.4 %	143,778	7.6 %
Total	<u>\$ 1,834,258</u>	<u>100.0 %</u>	<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 \$8.0 million and \$7.8 million as of December 31, 2021 and 2020, respectively, and was included in "Other assets" in the consolidated balance sheets. The change in the balance was due to foreign currency translation. As of December 31, 2021, 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.

### **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.

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We purchase our products on credit terms from vendors located throughout North America and Europe. For the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, respectively, we made 32% and 36% of our purchases from our ten largest vendors. The majority of the products we sell are available through multiple supplier channels which reduces the risk related to any individual vendor relationship.

For the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, respectively, we derived approximately 13% and 12% and 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 twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, our government sales comprised 32.6% and 28.7% of our total net sales, respectively.

### **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 Company records other comprehensive income or loss from adjustments resulting from translating the financial statements of such subsidiaries. The accumulated adjustments are reflected as a separate component of stockholders' equity under accumulated other comprehensive income. Foreign currency transaction gains and losses are included in other (expense) income, net in the consolidated statements of earnings and comprehensive loss.

### **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.



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### **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.

#### ***New Accounting Standards Adopted***

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. Incora adopted the provisions of ASU 2019-12 beginning January 1, 2021. The adoption did not have a material impact 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, and typically allows for those modifications to be accounted for as a continuation of the previous contract without additional analysis. The amendments are effective for modifications made between March 12, 2020 and December 31, 2022 should entities choose to apply the guidance. This guidance is applicable for the Company's ABL revolving credit facility which uses LIBOR as a reference rate and for which an amendment was entered into in October 2021 providing for alternative reference rates to replace LIBOR effective in November 2021. The adoption did not have a material impact on our consolidated financial statements.

#### ***New Accounting Standards To Be Adopted***

In June 2016, the FASB issued ASU No. 2016-13, *Credit Losses - Measurement of Credit Losses on Financial Instruments (Topic 326)* as amended by ASU 2019-10, 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. ASU 2016-13 is 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 ASU 2016-13 is not expected to have a material impact on our consolidated financial statements.

### **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 is indirectly owned by certain investment vehicles advised by 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-subsiidiaries (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.

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

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\$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 Wesco Aircraft Holdings, Inc. and its subsidiaries prior to the Merger were recorded at their respective fair values as of the date of the acquisition. The following table summarizes the 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 period prior to or after January 9, 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, reorganization, and integration 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).

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

	Fair Value	Weighted Average Amortization Period
Customer relationships	\$ 349,925	15 Years
Technology	26,075	10 Years
Trademarks	11,750	1 Year
Total intangible assets	\$ 387,750	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 to 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	\$ 119,360

## Note 5. Commitments and Contingencies

### Indemnifications

In the normal course of business, we provide indemnifications to our customers regarding 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

After 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").

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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. Plaintiff's attorney fees claim was settled in the second quarter of 2021 and this matter is now concluded.

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**

The Company's inventory is comprised solely of finished goods. During the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, respectively, net adjustments to cost of sales related to E&O inventory related activities were \$(9.4) million and \$12.2 million. We believe that our inventory as of December 31, 2021 and 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, 2021			December 31, 2020		
	Gross	Accumulated Depreciation	Net	Gross	Accumulated Depreciation	Net
Land, buildings and improvements	\$ 19,263	\$ (7,685)	\$ 11,578	\$ 21,521	\$ (4,669)	\$ 16,852
Machinery and equipment	18,723	(9,336)	9,387	17,328	(6,474)	10,854
Furniture and fixtures	12,881	(7,779)	5,102	11,350	(6,126)	5,224
Computer hardware	19,072	(13,710)	5,362	15,941	(11,005)	4,936
Computer software	45,944	(25,352)	20,592	32,669	(18,832)	13,837
Construction in progress	17,508	—	17,508	17,415	—	17,415
<b>Total</b>	<b>\$ 133,391</b>	<b>\$ (63,862)</b>	<b>\$ 69,529</b>	<b>\$ 116,224</b>	<b>\$ (47,106)</b>	<b>\$ 69,118</b>

Depreciation expense for property and equipment was \$18.0 million and \$17.9 million during the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, respectively.

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### Note 8. Goodwill and Intangible Assets, net

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	569,615
Goodwill impairment charge recognized in 2020	(218,013)
Foreign currency translation impact for the period from January 9, 2020 to December 31, 2020	1,072
Goodwill as of December 31, 2020, net	352,674
Foreign currency translation impact for the twelve months ended December 31, 2021	(232)
Goodwill impairment recognized in 2021	(136,366)
Goodwill as of December 31, 2021, net	\$ 216,076

The carrying amounts of goodwill at December 31, 2021 and December 31, 2020 were net of accumulated impairment losses of \$136.4 million recognized in 2021 and \$218.0 million recognized in fiscal period 2020. During 2021, the Company determined that the carrying value of its reporting unit exceeded its fair value by \$136.4 million. The impact of market pressures due to COVID-19 led to decreased revenue, adversely impacting the fair value of the reporting unit. As a result, the Company recorded a non-cash impairment charge of \$136.4 million in the third quarter of 2021.

As of December 31, 2021, the gross amounts and accumulated amortization of intangible assets is as follows (in thousands):

	Gross Amount	Accumulated Amortization	Net Amount
Customer relationships (10 -15 years)	\$ 568,559	\$ (182,583)	\$ 385,976
Technology (1 - 10 years)	26,075	(5,215)	20,860
Trademarks (1 - 10 years)	21,089	(15,641)	5,448
Total intangible assets	\$ 615,723	\$ (203,439)	\$ 412,284

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

	Gross Amount	Accumulated Amortization	Net Amount
Customer relationships (10 -15 years)	\$ 570,615	\$ (107,698)	\$ 462,917
Technology (1 - 10 years)	26,075	(2,607)	23,468
Trademarks (1 - 10 years)	21,177	(14,734)	6,443
Total intangible assets	\$ 617,867	\$ (125,039)	\$ 492,828

For the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, intangible amortization expense included in the consolidated statements of earnings and comprehensive loss was \$79.3 million and \$76.2 million.

Estimated future intangible amortization expense as of December 31, 2021 is as follows (in thousands):

2022	\$ 72,211
2023	63,675
2024	57,592
2025	52,478
2026	48,180
Thereafter	118,148
	\$ 412,284

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### Note 9. Accrued Expenses and Other Current Liabilities

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

	December 31, 2021	December 31, 2020
Accrued interest	\$ 26,813	\$ 27,344
Accrued compensation and related expenses	17,372	19,430
Accrued customer rebates and claims	13,312	13,826
Accrued taxes (property, sales, and use)	6,115	8,306
Accrued professional fees	3,126	1,476
Other accruals	27,277	25,746
Accrued expenses and other current liabilities	\$ 94,015	\$ 96,128

### Note 10. Long-Term Debt

Long-term debt as of December 31, 2021 consists of the following (in thousands):

	Principal Amount	Unamortized Deferred Debt Issuance Costs (1)	Carrying Amount
8.5% senior secured notes due 2024	\$ 643,500	\$ (14,720)	\$ 628,780
9.0% senior secured notes due 2026	891,000	(33,008)	857,992
13.125% senior notes due 2027	525,000	(29,251)	495,749
Senior secured ABL revolving facility	420,401	—	420,401
	2,479,901	(76,979)	2,402,922
Less: current portion	15,500	—	15,500
Non-current portion	\$ 2,464,401	\$ (76,979)	\$ 2,387,422

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

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
	2,498,762	(93,847)	2,404,915
Less: current portion	15,500	—	15,500
Non-current portion	\$ 2,483,262	\$ (93,847)	\$ 2,389,415

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

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Aggregate maturities of long-term debt as of December 31, 2021 are as follows (in thousands):

2022	\$ 23,250
2023	31,000
2024	1,059,150
2025	18,000
2026	823,500
Thereafter	525,001
	<u>\$ 2,479,901</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 have been modified to be \$325.0 million and \$150.0 million, respectively, at December 31, 2021, totaling \$475.0 million. Borrowings under the ABL facility are subject to borrowing base capacity, with the borrowing base being defined principally as eligible cash, unreserved accounts receivable and inventory in material locations. On December 31, 2021, total borrowing under the ABL facility was \$420.4 million. As of December 31, 2021, \$1.1 million in letters of credit were outstanding and \$53.5 million was available for borrowing under the ABL facility.

In October 2021, the ABL facility was amended to allow for loans denominated in Sterling bearing interest at the Sterling Overnight Index Average Reference Rate (SONIA) plus an annual spread of 0.1193% or loans denominated in Euros bearing interest at the EURIBOR rate, in addition to which a margin of 1.25% to 1.75% is added. In November 2021, LIBOR loans denominated in Sterling automatically converted to loans based on SONIA and LIBOR loans denominated in Euros automatically converted to loans based on EURIBOR.

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 all other 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, 2021, the weighted-average interest rate for borrowings under the ABL facility was 1.88%.

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).

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 made at the end of the fiscal year ending December 31, 2020 and was paid in January 2021, 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, 2021 was accepted and paid in January 2022 and have therefore classified that amortization offer amount as a current liability.

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The ABL facility contained a financial covenant, which was a springing 1.0x consolidated fixed charge coverage ratio only required to be maintained when availability under the ABL facility was 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, 2021, 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 \$53.5 million, which exceeded the Financial Covenant Threshold. In February 2022, the ABL facility was amended to replace the financial covenant with a requirement that we maintain availability under the ABL facility of no less than \$47.5 million. The amendment also 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. Refer to discussion in Note 16, Subsequent Events, for more information about the amendment and other related debt transactions entered into after December 31, 2021.

The following table summarizes the total deferred debt issuance costs for our Credit Facilities as of December 31, 2021 (in thousands). The remaining deferred debt issuance costs as of December 31, 2021 will be amortized over their remaining terms.

### Deferred Debt Issuance Costs (1)

	Gross Balance	Amortization	Balance on December 31, 2021
8.5% senior secured notes due 2024	\$ 25,349	\$ (10,629)	\$ 14,720
9.0% senior secured notes due 2026	47,098	(14,090)	33,008
13.125% senior notes due 2027	39,599	(10,348)	29,251
	112,046	(35,067)	76,979
Senior secured ABL revolving facility	10,083	(3,766)	6,317
	<u>\$ 122,129</u>	<u>\$ (38,833)</u>	<u>\$ 83,296</u>

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

The following table summarizes the total deferred debt issuance costs for our Credit Facilities as of December 31, 2020 (in thousands).

### 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.

For the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, amortization of deferred debt issuance costs was \$18.8 million and \$20.0 million, respectively. As of December 31, 2021, and December 31, 2020, the remaining unamortized deferred debt issuance costs were \$83.3 million and \$102.1 million, respectively, of which \$77.0 million and \$93.8 million, respectively, was offset against the long-term debt. The remaining unamortized deferred debt issuance costs of \$6.3 million and \$8.2 million related to the revolving credit facility was presented on our balance sheet as deferred debt issuance costs, net.



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### **Note 11. Fair Value Measurement**

There were no transfers between the assets and liabilities under Level 1 and Level 2 during the twelve months ended December 31, 2021, and the period from January 9, 2020 to December 31, 2020.

### **Non-Recurring Fair Value Measurements**

During the year ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020, the Company recognized a goodwill impairment of \$136.4 million and \$218.0 million, respectively, 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.

### **Note 12. Leases**

Lease cost includes both fixed and variable expenses recorded for operating leases. The components of lease cost for the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020 were as follows (in thousands):

	Income Statement Location	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
Operating lease cost	Selling, general and administrative expenses	\$ 20,369	\$ 17,309
Variable and short-term lease cost	Selling, general and administrative expenses	1,875	2,065
Sublease income	Selling, general and administrative expenses	(609)	(1,112)
Total net lease cost		<u>\$ 21,635</u>	<u>\$ 18,262</u>

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

	Balance Sheet Location	As of December 31, 2021	As of December 31, 2020
<b>Assets</b>			
Operating	Operating lease assets	\$ 85,606	\$ 81,160
<b>Liabilities</b>			
<i>Current liabilities</i>			
Operating	Operating lease obligations, current portion	\$ 10,881	\$ 11,594
<i>Noncurrent liabilities</i>			
Operating	Operating lease obligations, less current portion	87,659	75,514
Total lease liabilities		<u>\$ 98,540</u>	<u>\$ 87,108</u>

	As of December 31, 2021	As of December 31, 2020
<b>Weighted average remaining lease term (years)</b>		
Operating leases	11.1	11.5
<b>Weighted average discount rate</b>		
Operating leases	7.3 %	7.3 %

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

	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
<b>Cash paid to reduce lease liabilities:</b>		
Operating cash flows for operating leases	\$ 19,767	\$ 10,475
<b>Lease assets obtained in exchange for lease liabilities:</b>		
Operating leases	25,466	16,315

Maturities of lease liabilities as of (in thousands):

	Operating Leases (1)
2022	\$ 19,352
2023	16,777
2024	13,440
2025	11,841
2026	10,902
Thereafter	78,863
Total lease payments	151,175
Less: Imputed interest	(52,635)
Total lease liabilities	98,540
Less: Current portion	(10,881)
Long-term lease liabilities	\$ 87,659

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

## Gain from Sale and Leaseback

In the first quarter of 2021, the Company executed a sale and leaseback of its Derby facility in the United Kingdom for proceeds of \$8.3 million, which resulted in a \$2.6 million gain. The leaseback was determined to be an operating lease, and has a term of 20 years with a termination clause at the end of the 10th year that was deemed 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") to receive certain financial, strategic advisory and consultancy services (the "CASA"). Under the CASA, we are obligated to pay Platinum, or a designee thereof, an annual advisory fee as agreed from time to time, currently \$7.0 million plus fees and expenses. We accrued \$7.0 million for the period during the twelve months ended December 31, 2021, and paid and recorded an expense of \$7.0 million in 2020 related to this agreement.

As described in Note 2, WTHC is subject to recourse provisions on certain trade accounts receivable balances transferred by the Company to a third-party financial institution.

In April and May 2020, certain affiliates of Platinum, related parties of Inco, purchased a portion of the 2027 Notes which 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

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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 is paid in cash on May 15 and November 15 of each fiscal year. The loan will mature on November 10, 2023. The Unsecured Promissory Note was exchanged for new debt as part of the debt refinancing transaction consummated on March 28, 2022. Refer to Note 16. Subsequent Events for further information.

### Note 14. Income Taxes

The components of our income tax benefit (provision) for the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020 was as follows:

(Dollars in thousands)	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
<b>Current benefit (provision)</b>		
Federal	\$ 2,082	\$ 23,736
State and local	(104)	—
Foreign	(11,860)	2,697
Subtotal	(9,882)	26,433
<b>Deferred (provision) benefit</b>		
Federal	(3,828)	(31,757)
State and local	(1,003)	(9,637)
Foreign	16,872	7,940
Subtotal	12,041	(33,454)
<b>Benefit (provision) for income taxes</b>	<b>\$ 2,159</b>	<b>\$ (7,021)</b>

A reconciliation of our benefit (provision) for income taxes to the U.S. federal statutory rate is as follows for the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020:

	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
Benefit for income taxes at statutory rate	21.0 %	21.0 %
Change in valuation allowance	(7.7)%	(15.1)%
Nondeductible items	(4.5)%	(6.9)%
State taxes, net of tax benefit	(0.3)%	(1.4)%
Impact of foreign operations	(5.1)%	(1.0)%
Tax contingencies	(0.4)%	(0.4)%
Impact of Tax Act	— %	2.4 %
Other	(2.6)%	0.1 %
<b>Actual benefit (provision) rate for income taxes</b>	<b>0.4 %</b>	<b>(1.3)%</b>

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, 2021 and 2020 deferred tax balance.

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As of December 31, 2021 and 2020, the components of deferred income tax assets (liabilities) were as follows (in thousands):

	December 31, 2021	December 31, 2020
<b>Deferred tax assets</b>		
Inventories	\$ 60,924	\$ 65,036
Reserves and other accruals	4,452	7,495
Compensation accruals	1,853	2,592
Net operating losses and tax credits	59,129	38,726
Lease liability	23,504	21,365
163(j) interest expense limitation	82,912	40,038
Other	19,863	22,995
<b>Total deferred tax assets</b>	<b>252,637</b>	<b>198,247</b>
<b>Deferred tax liabilities</b>		
Property and equipment	(4,272)	(367)
Unremitted earnings of foreign subsidiaries	(1,412)	(1,664)
Goodwill and intangible assets	(101,612)	(104,068)
Right of use assets	(20,168)	(20,058)
Other	(4,908)	(4,576)
<b>Total deferred tax liabilities</b>	<b>(132,372)</b>	<b>(130,733)</b>
Valuation allowance	(165,100)	(124,314)
<b>Net deferred tax liabilities</b>	<b>\$ (44,835)</b>	<b>\$ (56,800)</b>

As of December 31, 2021, we had federal and state net operating loss carryforwards of \$104.4 million and \$240.7 million. \$1.5 million of the federal net operating loss carryforwards will begin to expire in 2034 and the remaining federal net operating loss carryforwards have an indefinite life. The state net operating losses will begin to expire in 2022. In addition, we had foreign net operating loss carryforwards of \$70.0 million which will begin to expire in 2022. We had U.S. foreign tax credit carryforwards of \$14.7 million which will begin to expire in 2022. The amount of the foreign tax credit that is more-likely-than-not before consideration of the valuation allowance is \$7.2 million.

The Company is 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, 2012.

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 \$24.2 million. As a result of the CARES Act, the Company recognized a tax benefit of \$0.8 million for the year ended December 31, 2021 and a tax benefit of \$13.4 million for the period from January 9 to December 31, 2020.

The Company evaluated 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.

As of December 31, 2021 and 2020, the total amount of gross unrecognized tax benefits was \$11.4 million and \$13.1 million, respectively. Interest and penalties on unrecognized tax benefits were not material as of December 31, 2021. Of the amount as of December 31, 2021, \$5.9 million, if recognized, would have an impact on our effective tax rate as long as there is a full valuation allowance in the U.S.

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The unrecognized tax benefits, which exclude interest and penalties, for the twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020 were as follows:

(Dollars in thousands)	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
<b>Beginning balance</b>	\$ 13,055	\$ 11,237
Increases related to tax positions taken during a prior year	64	1,896
Decreases related to tax positions taken during a prior year	(1,733)	—
Increases related to tax positions taken during the current year	—	67
Decreases related to expiration of statute of limitations	(17)	(145)
<b>Ending balance</b>	11,369	13,055

The Company has evaluated 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 twelve months ended December 31, 2021 and the period from January 9, 2020 to December 31, 2020 is as follows:

(Dollars in thousands)	Twelve Months Ended December 31, 2021	January 9 to December 31, 2020
<b>Beginning balance</b>	\$ 124,314	\$ 19,068
Valuation allowance recorded during the period	40,786	105,246
<b>Ending balance</b>	\$ 165,100	\$ 124,314

### Note 15. 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 was to realign our workforce to the growth areas of our business, to increase efficiency and to reduce costs. Actions under this plan were substantially completed in March 2021 and we incurred approximately \$24.0 million in nonrecurring restructuring costs, over the entirety of the plan, primarily related to severance payments associated with employee terminations. Such expenses were included in merger, reorganization, and integration costs in the consolidated statements of earnings and comprehensive loss.

In August 2021, we committed to a plan to align our organization and cost structure and reduce costs. We anticipate that actions under this plan will continue through the third quarter of 2022. We expect to incur approximately \$8.2 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 \$2.5 million in 2021, primarily consisting of employee severance and related costs. Such expenses were included in merger, reorganization, and integration costs in the consolidated statements of earnings and comprehensive loss. The remaining liability associated with these costs as of December 31, 2021 was not material.

### Note 16. Subsequent Events

#### ABL Facility Amendment

On February 17, 2022, we entered into an amendment to the ABL facility (the "Sixth ABL Amendment") to provide for, among other things, (i) a new tranche of commitments, (ii) secured guarantees by our Canadian and Mexican subsidiaries, and (iii) a modification of the ABL facility's financial covenant.

The new tranche consists of commitments in the aggregate amount of \$40,000,000. Other commitments have been reduced by the same amount, so that the total amount of commitments under the ABL facility after giving effect to the Sixth

ABL Amendment continues to be \$475,000,000. Lenders participating in the new tranche received an amendment fee equal to \$200,000.

The margins for loans in the new tranche is 2.00% for base rate loans and 3.00% for all other loans. The maturity date for the new tranche is February 16, 2024. Among loans under the ABL facility, the original tranches of loans will have the first right to proceeds of collateral, prior to the new tranche. Other terms and conditions of the new tranche are substantially similar to the terms and conditions that apply to the existing ABL facility.

In connection with the Sixth ABL Amendment, our Canadian subsidiaries (Wesco Aircraft Canada Inc. and Haas Group Canada Inc.) provided secured guarantees of the ABL facility. We also agreed to cause our Mexican subsidiary (Haas TCM de Mexico, S. de R.L. de C.V.) to provide a secured guarantee by April 18, 2022.

The ABL facility's financial covenant was replaced with a requirement that we maintain availability under the ABL facility of no less than \$47.5 million. The Sixth ABL Amendment also 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.

### ***Noteholder Transactions***

On March 28, 2022, we consummated a series of transactions with certain holders of the Holdings Notes (the "Participating Holders") to issue new 2026 notes, amend the terms governing the Holdings Notes, and exchange the "Participating Holders' Holdings Notes for new senior secured notes. Certain affiliates of Platinum were "Participating Holders" in the transaction.

First, we issued, to certain of the Participating Holders, \$250.0 million principal of 2026 notes as additional notes under the same indenture that governs the 2026 notes described above.

Second, the Participating Holders consented to amend the indentures and other definitive documents that govern each of the Holdings Notes. As to each series of the Holdings Notes, the Participating Holders consented to eliminate certain covenants from the indentures, including those that formerly limited our ability to, among other things, 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. As to each series of the Secured Notes, the Participating Holders also consented to release all liens that had formerly secured the Secured Notes.

Third, we issued approximately \$1.0 billion of senior secured notes due 2026 (the "new 2026 notes") and approximately \$472.8 million of junior secured notes due 2027 (the "new 2027 notes" and, together with the new 2026 notes, the "New Secured Notes") in exchange for, respectively, \$979.6 million in principal amount of Secured Notes, \$420.9 million in principal amount of 2027 notes, and the entire Unsecured Promissory Note of \$25.0 million, which had been held by the Participating Holders. These issuances included in-kind payment of fees to the Participating Holders in the amounts of 0.9% of principal exchanged for the new 2026 notes and 1.125% of principal exchanged for the new 2027 notes.

The interest rate for the new 2026 notes is 10.5%, with 7.5% to be paid in cash and 3.0% in kind. The interest rate for the new 2027 notes is 13.125%, with 4.0% to be paid in cash in 2022, 6.0% to be paid in cash thereafter, and the remainder to be paid in kind. The maturity date of the new 2026 notes is November 2026, but will accelerate to October 2024 if over \$50 million in principal of the 2024 notes remains outstanding at that date. The maturity date of the new 2027 notes is November 2027. Neither series of the New Secured Notes requires us to offer or pay amortization.

The New Secured Notes 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 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). Relative to the ABL credit facility, the New Secured Notes have senior security interests on the fixed assets of the pledgors and junior security interests on the current assets. Relative to each other, the new 2026 notes have senior security interests on all pledged assets and the new 2027 notes have junior security interests on all pledged assets.

The indentures governing the New Secured Notes each contain customary negative covenants, including, but not limited to, restrictions on our and our subsidiaries' ability to merge and consolidate with other companies, incur indebtedness,

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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 Company's indentures include financial reporting covenants that require audited annual financial statements be provided to the lenders by certain dates, which for fiscal year 2021 was March 31, 2022. The Company did not provide such financial statements to the lenders by March 31, 2022. Additionally, the indentures 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 indentures. The Company has provided these audited annual financial statements to its lenders within the applicable cure periods.

Immediately following the foregoing transactions, long-term debt consisted of the following (in thousands):

	Principal Amount	Unamortized Deferred Debt Issuance Costs (1)	Carrying Amount
10.5% senior secured notes due 2026	\$ 1,272,756	(40,394)	\$ 1,232,362
13.125% junior secured notes due 2027	472,754	(26,955)	445,799
8.5% formerly secured notes due 2024	181,819	(3,844)	177,975
9.0% formerly secured notes due 2026	357,536	(12,708)	344,828
13.125% senior unsecured notes due 2027	104,125	(5,554)	98,571
Senior secured ABL revolving facility	419,443	—	419,443
	2,808,433	(89,455)	2,718,978
Less: current portion	8,090	—	8,090
Non-current portion	\$ 2,800,343	\$ (89,455)	\$ 2,710,888

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

Aggregate maturities of long-term debt as of March 31, 2022 are as follows (in thousands):

Remainder of 2022	\$ 8,090
2023	10,787
2024 (2)	182,606
2025 (2)	426,594
2026 (2)	1,603,477
Thereafter	576,879
	\$ 2,808,433

(2) We have presented the data for 2024-2026 on the assumption that the 2024 notes will be refinanced prior to maturity, so that the maturity of the new 2026 notes will not be accelerated from November 2026 to October 2024 and that the maturity of the ABL facility will not be accelerated from January 2025 to August 2024.

Subsequent events were evaluated through April 7, 2022, which is the date these consolidated financial statements were available to be issued.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Various statements contained in this discussion and analysis constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve certain unknown risks and uncertainties, including, among others, regarding industry trends, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. When used in this report, the words "anticipates," "plans," "believes," "estimates," "intends," "expects," "projects," "will" and similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" in the Offering Memorandum issued by Incora in November 2019 and "- Cautionary Note Regarding Forward-Looking Statements" in this section. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

*The following discussion and analysis are intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our unaudited consolidated and condensed interim financial statements.*

*Unless otherwise noted in this report, the terms "Incora," "Wesco," "the Company," "we," "us," "our" and "our company" mean Wesco Aircraft Holdings, Inc. and its subsidiaries. References to "fiscal year" mean the year ending or ended December 31. For example, "fiscal year 2021" or "fiscal 2021" means the period from January 1, 2021 to December 31, 2021.*

#### **Basis of Presentation**

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., 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 is indirectly owned by certain investment vehicles advised by Platinum Equity Advisors, LLC ("Platinum"), a U.S.-based private equity firm. See Notes 1 and 4 to the consolidated financial statements for further discussion about the Merger.

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 Aerospace and Defense original equipment manufacturers ("OEMs"), our 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.

#### **Coronavirus Pandemic**

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The COVID-19 health crisis has posed significant and widespread risks to our business as well as to the business environment and the markets in which we operate. See Note 2 to the consolidated financial statements for further discussion of the impact of the coronavirus pandemic on our business.

#### **Debt Refinancing**

On March 28, 2022, we consummated a series of transactions with certain holders of the Holdings Notes as defined in Note 10 (the "Participating Holders") to issue new 2026 notes, amend the terms governing the Holdings Notes, and exchange the Participating Holders' Holdings Notes for new senior secured notes. See Note 16. *Subsequent Events* for further discussion of the transactions.



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### **Key Components of Our Results of Operations**

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

#### ***Net Sales***

Our net sales include sales of hardware, chemicals, electronic components, bearings, tools and machined parts. We also provide certain services to our customers, including quality assurance, kitting, just in time ("JIT") delivery, chemical management services ("CMS"), 3rd party logistics (3PL) or 4th party logistics (4PL) programs and point-of-use inventory management. Services under our hardware JIT arrangements are provided by us contemporaneously with the delivery of these products. Our CMS contracts also include the sale of chemical products and corresponding services. The CMS contracts represent an end-to-end integrated chemical management solution.

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

#### ***Income from Operations***

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

The principal component of our cost of sales is product cost, which represents approximately 95.0% of our total cost of sales. The remaining components are freight and expediting fees, import duties, tooling repair charges, packaging supplies and inventory valuation adjustments.

Product cost is determined by the weighted average cost for certain hardware inventory items and the first-in, first-out method for other hardware and chemical products. An inventory provision is calculated to reduce the value of excess and obsolete ("E&O") inventory to its net realizable value. We review inventory for excess quantities and obsolescence quarterly. During the twelve months ended December 31, 2021, net adjustments to cost of sales due to additional E&O provisions were \$(9.4) million. We believe that these adjustments appropriately reduce our inventory to its net realizable value.

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

#### ***Other Expenses***

***Interest Expense, Net.*** Interest expense, net, consists of the interest we pay on our long-term debt, interest and fees on our ABL facility, and amortization of deferred debt issuance costs, net of interest income.

***Other (Expense) Income, Net.*** Other (expense) income, net, is primarily comprised of foreign exchange gains and losses associated with transactions denominated in currencies other than the functional currency of the reporting subsidiary as well as the gain from a sale-leaseback transaction completed in the twelve months ended December 31, 2021.

### **Results of Operations**

As a result of the Merger on January 9, 2020 as discussed in Note 4, the results of operations for the twelve months ended December 31, 2021 are not comparable to the results of operations for the period from January 9, 2020 to December 31, 2020. To better evaluate the impact of the transaction on our results of operations, we have provided pro forma financial information for the twelve months ended December 31, 2020. The Pro forma financial results are presented on a consolidated

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basis and give effect to the Merger, as if it was completed on January 1, 2019. We believe this presentation allows the greatest comparability of operating results between periods.

Earnings before net interest expense, income taxes, depreciation, and amortization ("EBITDA") and special items that management believes are not indicative of the Company's core operating performance ("Adjusted EBITDA") are non-GAAP financial measures which are not required by or defined under U.S. GAAP (Generally Accepted Accounting Principles). We use these non-GAAP financial measures for financial and operational decision-making purposes and to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with U.S. GAAP, including our net loss or net cash used in operating activities. Non-GAAP financial measures have limitations in that they do not reflect all of the items associated with our net loss as determined in accordance with U.S. GAAP and are not a substitute for or a measure of our profitability or net earnings.

Following are the unaudited pro forma results of operations for the twelve months ended December 31, 2021 and 2020 giving effect to the Merger for all periods presented. The tables below include reconciliations of U.S. GAAP net loss to Adjusted EBITDA:

Consolidated Results of Operations	Pro Forma (Unaudited)			
	Incora	Legacy Wesco	Legacy Pattonair	Pro Forma
	January 9 to December 31, 2020	January 1 to January 8, 2020	January 1 to January 8, 2020	Twelve Months Ended December 31, 2020
(dollars in thousands)				
Net sales	\$ 1,886,953	\$ 31,597	\$ 10,823	\$ 1,929,373
Cost of sales	1,497,210	24,409	8,538	1,530,157
Gross profit	389,743	7,188	2,285	399,216
Selling, general & administrative expenses	424,487	6,081	3,350	433,918
Goodwill impairment	218,013	—	—	218,013
Merger, reorganization, and integration costs	70,218	4,241	—	74,459
Loss from operations	(322,975)	(3,134)	(1,065)	(327,174)
Interest (expense) income, net	(229,935)	(790)	22	(230,703)
Other income, net	3,560	173	449	4,182
Loss before income taxes	(549,350)	(3,751)	(594)	(553,695)
(Provision for) benefit from income taxes	(7,021)	1,147	(19)	(5,893)
Net loss	\$ (556,371)	\$ (2,604)	\$ (613)	\$ (559,588)
<b>EBITDA and Adjusted EBITDA</b>				
Net loss	\$ (556,371)	\$ (2,604)	\$ (613)	\$ (559,588)
Plus (minus): interest expense (income), net	229,935	790	(22)	230,703
Plus (minus): provision for (benefit from) income taxes	7,021	(1,147)	19	5,893
Plus: depreciation and amortization	94,160	445	682	95,287
EBITDA	(225,255)	(2,516)	66	(227,705)
Plus: merger, reorganization, and integration costs and other special items	331,317	—	—	331,317
Adjusted EBITDA	\$ 106,062	\$ (2,516)	\$ 66	\$ 103,612

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Consolidated Results of Operations	Pro Forma (Unaudited)	
	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
	(dollars in thousands)	
Net sales	\$ 1,834,258	\$ 1,929,373
Cost of sales	1,473,090	1,530,157
Gross profit	361,168	399,216
Selling, general & administrative expenses	407,482	433,918
Goodwill impairment	136,366	218,013
Merger, reorganization, and integration costs	19,053	74,459
Loss from operations	(201,733)	(327,174)
Interest expense, net	(236,131)	(230,703)
Other (expense) income, net	(12,118)	4,182
Loss before income taxes	(449,982)	(553,695)
Benefit (provision) for income taxes	2,159	(5,893)
Net loss	\$ (447,823)	\$ (559,588)
<b>EBITDA and Adjusted EBITDA</b>		
Net loss	\$ (447,823)	\$ (559,588)
Plus: interest expense, net	236,131	230,703
(Minus) plus: (benefit) provision for income taxes	(2,159)	5,893
Plus: depreciation and amortization	97,295	95,287
EBITDA	(116,556)	(227,705)
Plus: merger, reorganization, and integration costs and other special items	176,524	331,317
Adjusted EBITDA	\$ 59,968	\$ 103,612

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	Pro Forma (Unaudited)	
	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
	(as a percentage of net sales)	
Net sales	100.0 %	100.0 %
Cost of sales	80.3 %	79.3 %
Gross profit	19.7 %	20.7 %
Selling, general & administrative expenses	22.2 %	22.5 %
Goodwill impairment	7.4 %	11.3 %
Merger, reorganization, and integration costs	1.0 %	3.9 %
Loss from operations	(10.9)%	(17.0)%
Interest expense, net	(12.9)%	(12.0)%
Other (expense) income, net	(0.7)%	0.2 %
Loss before income taxes	(24.5)%	(28.8)%
Benefit (provision) for income taxes	0.1 %	(0.3)%
Net loss	(24.4)%	(29.1)%
<b>EBITDA and Adjusted EBITDA</b>		
Net loss	(24.4)%	(29.1)%
Plus: interest expense, net	12.9 %	12.0 %
(Minus) plus: (benefit) provision for income taxes	(0.1)%	0.3 %
Plus: depreciation and amortization	5.3 %	4.9 %
EBITDA	(6.3)%	(11.9)%
Plus: merger, reorganization, and integration costs and other special items	9.6 %	17.2 %
Adjusted EBITDA	3.3 %	5.3 %

### Twelve Months Ended December 31, 2021 compared with Twelve Months Ended December 31, 2020 (Unaudited Pro Forma)

#### Net Sales

Net sales, on a pro forma basis, decreased \$95.1 million, or 4.9%, to \$1,834.3 million for the twelve months ended December 31, 2021, compared with \$1,929.4 million for the twelve months ended December 31, 2020. The \$95.1 million decrease primarily reflects the impacts of closures and delays caused by the COVID-19 pandemic.

#### Loss from Operations

Loss from operations, on a pro forma basis, decreased \$125.4 million, or 38.3%, to \$201.7 million for the twelve months ended December 31, 2021, compared to \$327.2 million for the twelve months ended December 31, 2020. The \$125.4 million decrease in pro forma loss from operations was primarily due to a lower goodwill impairment charge by \$81.6 million and a decrease of \$81.8 million in SG&A expenses including merger, reorganization, and integration costs, offset by a decrease in pro forma gross profit of \$38.0 million.

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For the twelve months ended December 31, 2021, pro forma merger, reorganization, and integration costs as part of SG&A expenses were \$19.1 million, compared with \$74.5 million for the twelve months ended December 31, 2020. The merger, reorganization, and integration costs for the twelve months ended December 31, 2021 primarily relate to one-time severance costs for headcount reduction actions and other integration-related expenses incurred for supply chain and inventory management consulting services, legal and accounting professional services, and nonrecurring professional fees associated with the transactions described in Note 16. *Subsequent Events* to the Consolidated Financial Statements. The merger, reorganization, and integration costs for the twelve months ended December 31, 2020 primarily relate to one-time severance costs for headcount reduction actions.

SG&A expenses excluding merger, reorganization, and integration costs, on a pro forma basis, decreased \$26.4 million, primarily resulting from lower payroll and benefit costs as a result of headcount reduction actions and other cost-saving actions period-over-period. Pro forma SG&A expenses (excluding merger, reorganization, and integration costs) as a percentage of net sales decreased 0.3% compared with the same period in the prior year.

### ***Interest Expense, Net***

Interest expense, net, on a pro forma basis, was \$236.1 million for the twelve months ended December 31, 2021, compared with \$230.7 million for the twelve months ended December 31, 2020. The increase was primarily due to an increase in the borrowings associated with the ABL revolving credit facility period-over-period.

### ***Other (Expense) Income, Net***

Other expense, net was \$12.1 million for the twelve months ended December 31, 2021, compared with other income, net of \$4.2 million for the twelve months ended December 31, 2020. The change was primarily driven by foreign currency exchange rate transaction adjustments offset by the gain from a sale-leaseback transaction completed in the twelve months ended December 31, 2021.

### ***Net Loss***

Net loss, on a pro forma basis, for the twelve months ended December 31, 2021 was \$447.8 million, compared with \$559.6 million for the twelve months ended December 31, 2020. The change in net loss was due to the factors discussed above.

### ***Adjusted EBITDA***

Pro forma adjusted EBITDA for the twelve months ended December 31, 2021 was \$60.0 million, or 3.3% of net sales, compared with pro forma adjusted EBITDA of \$103.6 million, or 5.3% of net sales, for the twelve months ended December 31, 2020. The change in pro forma adjusted EBITDA was primarily driven by the decrease in gross profit period-over-period. Gross profit declined in part from the decline in volume from the COVID-19 pandemic, and in part from a shift in mix from hardware to chemicals.

## **Liquidity and Capital Resources**

### ***Overview***

Our primary sources of liquidity historically are cash flow from operations and available borrowings under our revolving facility. We have historically funded our operations, debt payments, capital expenditures and discretionary funding needs from our cash from operations. We continue to implement various cost reduction measures and initiatives to accelerate the reduction in our working capital to enhance our liquidity. We also have an agreement to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. We review our portfolio of receivables regularly to optimize our liquidity.

We had total available cash and cash equivalents of \$126.4 million and \$152.5 million as of December 31, 2021 and December 31, 2020, respectively, of which \$44.5 million, or 35.2%, and \$81.5 million, or 53.4%, was held by our foreign subsidiaries as of December 31, 2021 and December 31, 2020, respectively. All our cash and cash equivalents as of December 31, 2021 and December 31, 2020 were non-restricted. All our foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies.

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Our primary uses of cash currently are for:

- operating expenses;
- debt service requirements for borrowings under the Credit Facilities;
- working capital requirements to fund the growth of our business; and
- capital expenditures that primarily relate to IT equipment, software development and implementation and our warehouse operations.

Due to fluctuations in our cash flows, including for investment in working capital to fund growth in operations, it is necessary from time to time to borrow under our revolving facility to meet cash demands. In February 2022, the ABL facility was amended to replace the financial covenant with a requirement that we maintain availability under the ABL facility of no less than \$47.5 million. Borrowings under the ABL facility are subject to borrowing base capacity, with the borrowing base being defined principally as eligible cash, unreserved accounts receivable and inventory in material locations. On December 31, 2021, total borrowing under the ABL facility was \$420.4 million. As of December 31, 2021, \$1.1 million in letters of credit were outstanding and \$53.5 million was available for borrowing under the ABL facility.

On March 28, 2022, we consummated a series of transactions with certain holders of the Holdings Notes (the “Participating Holders”) to issue new 2026 notes, amend the terms governing the Holdings Notes, and exchange the Participating Holders’ Holdings Notes for new senior secured notes. See Notes 10 and 16 for further discussion.

We anticipate that cash provided by operating activities, cash and cash equivalents, the refinancing transactions in March 2022, and borrowing capacity under our ABL Facility, including working capital, cost reduction and other initiatives, will be sufficient to meet our cash requirements for the next twelve months.

As of December 31, 2021, we did not have any material capital expenditure commitments.

### **Cautionary Note Regarding Forward-Looking Statements**

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

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: the severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic, of businesses’ and governments’ responses to the pandemic and of individual factors such as aviation passenger confidence on our operations and personnel, and on commercial activity and demand across our and our customers’ businesses, and on global supply chains; the risk that the Merger disrupts our current plans and operations or diverts management’s attention from our ongoing business; the effect of the Merger on our ability to retain and hire key personnel and maintain relationships with our customers, suppliers and others with whom we do business; the effect of the Merger on our operating results and business generally; the amount of costs, fees and expenses related to the Merger; the nature, cost and outcome of any litigation and other legal proceedings, including any such proceedings related to the Merger and instituted against us and others; general economic and industry conditions; conditions in the credit markets; changes in military spending; risks unique to suppliers of equipment and services to the U.S. government; risks associated with the loss of significant customers, a material reduction in purchase orders by significant customers or the delay, scaling back or elimination of significant programs on which we rely; our ability to effectively compete in our industry; risks associated with our long-term, fixed-price agreements that have no guarantee of future sales volumes; our ability to effectively manage our inventory; our suppliers’ ability to provide us with the products we sell in a timely manner, in adequate quantities and/or at a reasonable cost, while also meeting our customers’ quality standards; our ability to maintain effective information technology systems and effectively implement our new warehouse management system; our ability to successfully execute and realize the expected financial benefits from our “Wesco 2020” initiative; our ability to retain key personnel; risks associated with our international operations, including exposure to

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foreign currency movements; changes in trade policies; risks associated with assumptions we make in connection with our critical accounting estimates (including goodwill, excess and obsolete inventory and valuation allowance of our deferred tax assets) and legal proceedings; changes in U.S. income tax law; our dependence on third-party package delivery companies; fuel price risks; fluctuations in our financial results from period-to-period; environmental risks; risks related to the handling, transportation and storage of chemical products; risks related to the aerospace industry and the regulation thereof; risks related to our indebtedness; and other risks and uncertainties.