

# INVESTOR PRESENTATION

February 2014



# Safe Harbor

This presentation may contain certain comments, which are “forward-looking” statements that involve plans, strategies, economic performance and trends, projections, expectations, or beliefs about future events and other statements that are not descriptions of historical facts, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties; these statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995.

Any number of factors could cause actual results to differ materially from anticipated results. For more information concerning factors that could cause actual results to differ from anticipated results, see the “Risk Factors” included in the Company’s annual report on Form 10-K for the fiscal year ended June 30, 2013, as well as the quarterly report on Form 10-Q for the quarter ended December 31, 2013, filed with the Securities and Exchange Commission (“SEC”). Although ScanSource believes the expectations reflected in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements.

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In addition to disclosing results that are determined in accordance with United States Generally Accepted Accounting Principles (“GAAP”), the Company also discloses certain non-GAAP measures, including return on invested capital (“ROIC”) and the percentage change in net sales excluding the impact of foreign currency exchange rates. A reconciliation of the Company’s non-GAAP financial information to GAAP financial information is provided in the Appendix and in the Company’s Form 8-K, filed with the SEC, with the quarterly earnings press release for the period indicated.



# Overview

- The leading international value-added distributor of specialty technology products
- Attractive markets:
  - Point-of-Sale (POS) and Barcode
  - Communications (voice, video and data)
  - Physical Security (video surveillance and access)
- Distribute for ~ 250 technology manufacturers
- Sell to ~ 28,000 value-added technology resellers
- Central logistics strategy for major geographic regions

## AT A GLANCE

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NASDAQ: SCSC

Headquarters: Greenville, SC

~1,400 Employees

Founded in 1992

26 offices: U.S., Canada, Latin America, Brazil, Europe



**The ScanSource Difference**





# Attractive Markets

- Focused on resellers in attractive markets
  - Point-of-Sale (POS) and Barcode
  - Communications (voice, video and data)
  - Physical Security (surveillance, ID, access and networking)

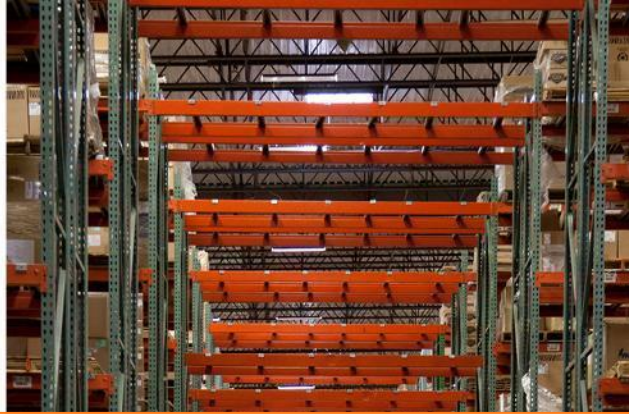


# Markets We Serve

	Estimated Worldwide Market Size	Estimated Americas Market Size
Point-of-Sale (POS) and Barcode (AIDC)	~\$22 billion	~\$10 billion
Communications	~\$19 billion	~\$7 billion
Physical Security	~\$23 billion	~\$8 billion

*SOURCE: VDC Research Group, IHL Group, ABI Research, The Freedonia Group, Inc., and Company estimates*

*Note: Excludes service contracts*



# Proven Business Model

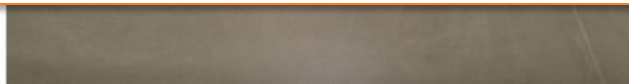
- Growth – Incremental and Channel Shift
- Best-of-Breed Technology Vendors
- Dedicated Business Units
- Shared Services, e.g. centralized distribution
- Committed to Channel (two-tier) – sell only to resellers
- Value-Added Services
- Superior Customer Service





# Growth Strategy

- Incremental Market Growth
- Channel Shift
  - Direct to Indirect
  - One-Tier to Two-Tier
- Multi-Vendor Solutions
- Market Share
- New Vendors and New Geographies



# Segments Enhance Technology Focus

## Worldwide Barcode and Security

**President:** Buck Baker

**Technologies:**  
POS and Barcode  
Physical Security

**Business Units:**



## Worldwide Communications and Services

**President:** Mike Ferney

**Technologies:**  
Communications  
Services

**Business Units:**



# Dedicated Business Units

## By Technology and Geography

### POS and Barcode

Business Unit President  
Sales  
Merchandising  
Technical Support

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Business Units:  
North America, Europe,  
Latin America, Brazil

### Physical Security

Business Unit President  
Sales  
Merchandising  
Technical Support

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Business Units:  
North America

### Communications

Business Unit President  
Sales  
Merchandising  
Technical Support

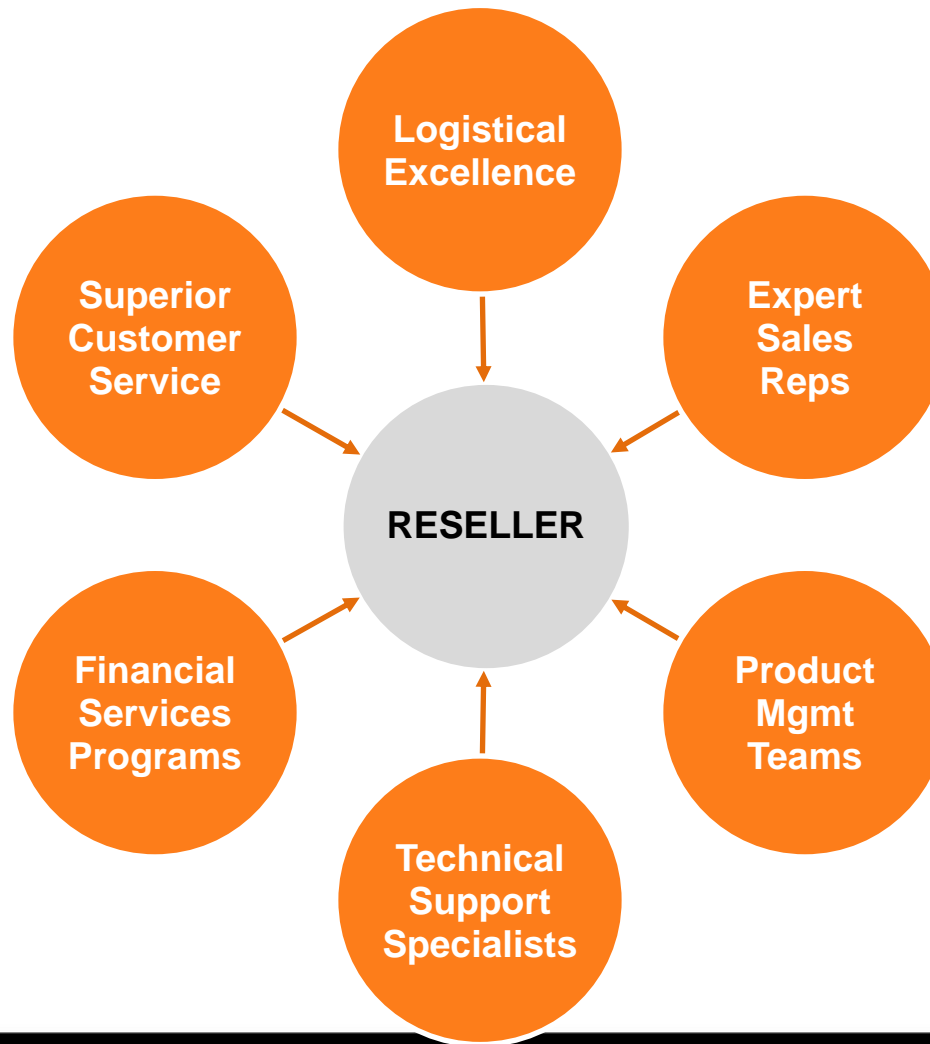
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Business Units:  
North America, Europe;  
ScanSource Catalyst (NA)

### Shared Services

Centralized Logistics    Reseller Financial Services    Customer Service    Marketing  
Services Group    Human Resources    Finance & Accounting    Legal

# Value-Added Services



# Professional Services Add More Value



- Customer configuration center
  - Training and certification programs
  - E-commerce solutions
  - Network assessments
  - Strategic marketing services
  - Online networking community
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- PLUS, Business Unit tools, such as online configuration, pricing, and product selection, and educational programs

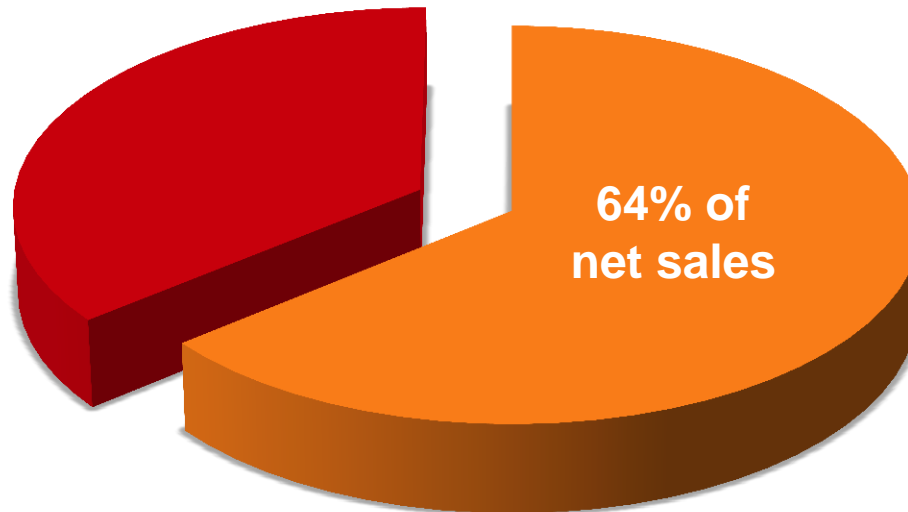


# Distributor of Growth Technologies

- Unified Communications
- Videoconferencing
- IP Video Surveillance
- RFID and Barcode Imaging
- Enterprise Mobility
- Retail – mobile POS, mobile payments
- Payment Processing Solutions
- Cloud-based Services

# Worldwide Barcode and Security

% of Net Sales, Q2 FY14



- Worldwide Barcode and Security
- Worldwide Communications and Services

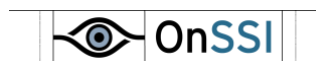
# POS and Barcode Vendors



*Business Units: ScanSource POS and Barcode in US/Canada, Europe, Latin America and Brazil*

# Security Vendors

## Video Surveillance, Identification/Access Control, and Wireless Infrastructure

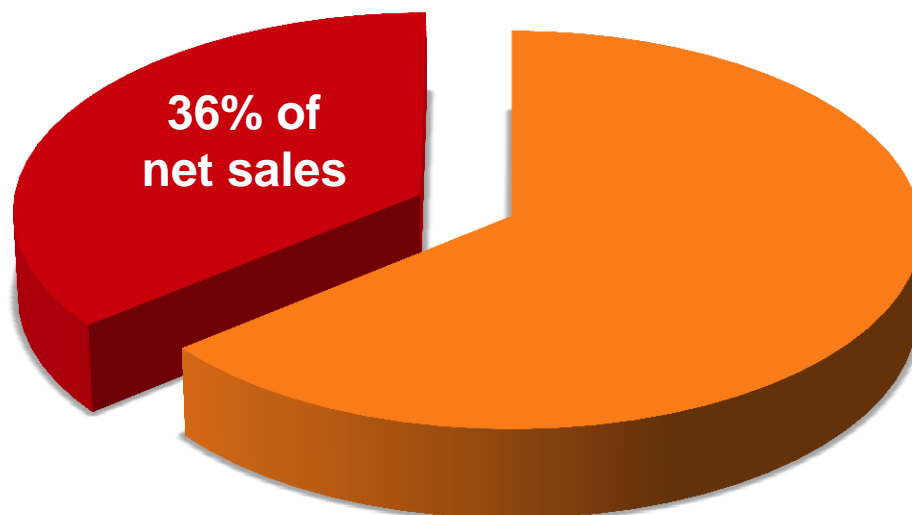


SEE MORE. DO MORE.

*Business Unit: ScanSource Security in US/Canada*

# Worldwide Communications & Services

% of Net Sales, Q2 FY14



- Worldwide Barcode and Security
- Worldwide Communications and Services

# Communications Vendors



*Business Units: ScanSource Catalyst in US/Canada; ScanSource Communications in US/Canada and Europe*

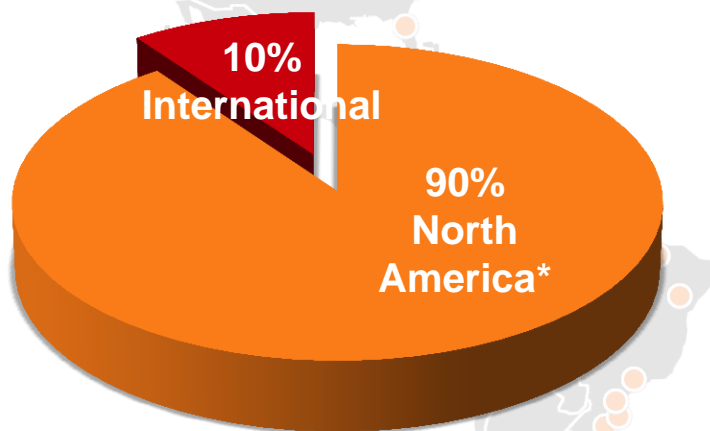


## International Growth

*26 offices in U.S., Canada, Latin America, Brazil and Europe*

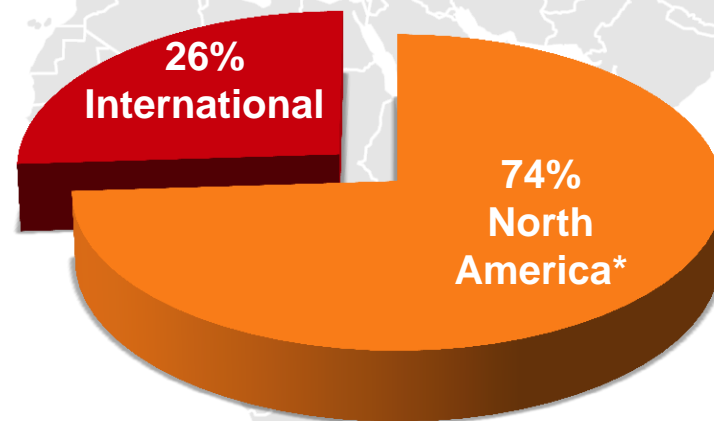
# International Growth

10 Years Ago



% of Net Sales, Q2 FY04

Now



% of Net Sales, Q2 FY14

*\* Includes the United States and Canada*



**Europe POS and Barcode**

**Europe Communications**

**Europe Physical Security**

**LA POS and Barcode**

**LA Communications**

**LA Physical Security**

## International Growth

- Expand Communications and Security
- Add presence in new geographies



# Financial Overview



# Strong Financial Position for Growth

## Solid Capital Structure

- 0.7% debt to equity ratio\*
- \$300 million available on revolving credit facility
- Extended credit facility term 5 years (matures 11/18)

## Excellent Liquidity and Financial Flexibility

- 2.5 current ratio – consistently strong at over 2 for last 5 fiscal year ends
- Generated \$141 million in cash from operations during trailing 12-month period

## Working Capital Management

- 5.9 inventory turns (5-qtr range: 5.4-6.3 turns)
- Paid for inventory days of 11 (5-qtr range: 2-18 days)
- 53 days sales outstanding in receivables (5-qtr range: 53-55 days)

*Information as of 12/31/13, unless otherwise indicated; \* Includes short-term and long-term debt*

# Highlights – Q2 FY14

- Second quarter 2014 net sales of \$741 million, at the lower end of our expected range, and EPS of \$0.64, at the upper end of our expected range
- Both North America Communications business units (ScanSource Communications and Catalyst) had solid Y/Y sales growth and higher margins
- POS & Barcode sales declined Y/Y; however, sales grew Q/Q for all POS and Barcode business units
- Record sales quarter in Brazil for the second quarter in a row
- Second quarter 2014 return on invested capital of 15.9%\*
- Strong balance sheet position for growth
- Signed contract with SAP for software and implementation services for new ERP

\* See Appendix for calculation of ROIC, a non-GAAP measure.

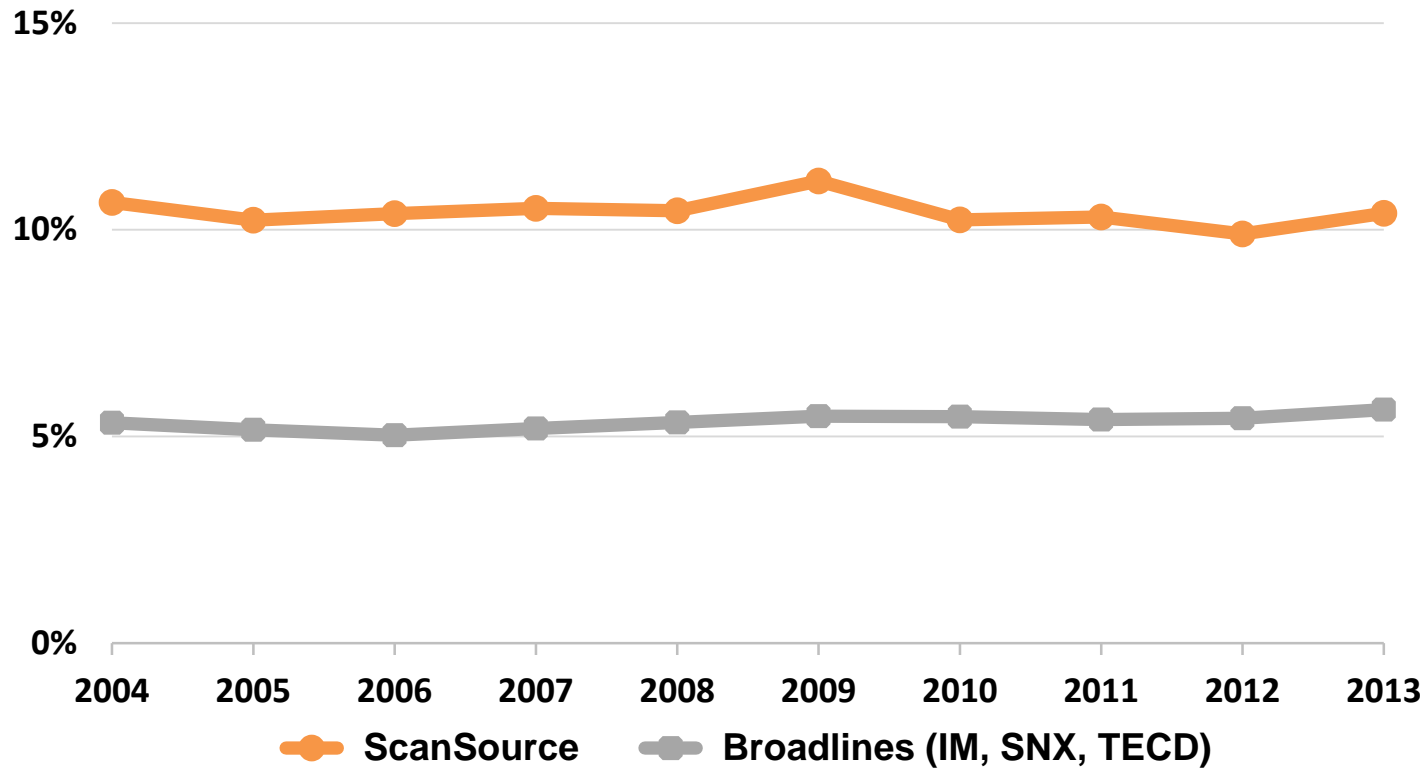
# Performance Metrics vs. Competitors

Performance Metric:*	Broadline Technology Distributors	SCSC
Gross Profit Margin	~5.7%	10.4%
SG&A Expense	~4.0%	6.7%
Operating Margin	~1.6%	3.7%
Net Income	~1.0%	2.5%

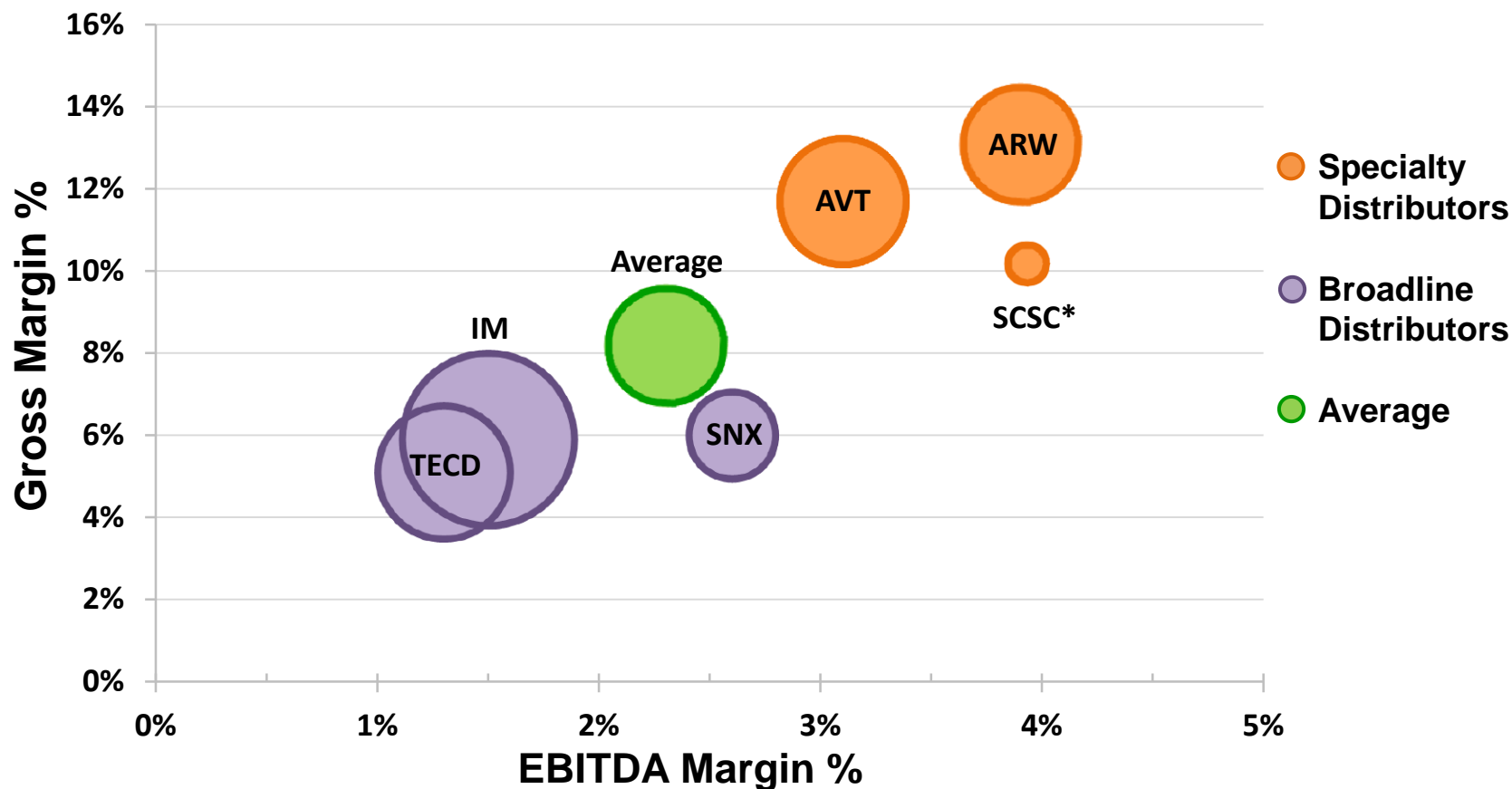
\* As a % of net sales. Reflects performance for the quarter ended December 31, 2013 for SCSC and for competitors (broadline technology distributors) based on the following publicly-filed results: IM (QE 12/28/13), SNX (QE 11/30/13), and TECD (FYE 1/31/13)

# Gross Margin %

## SCSC vs. Broadlines



# Financial Margins Analysis



Note: Data from latest annual 10-K SEC filings based upon continuing operations.

\* SCSC EBITDA excludes impairment charges and Belgian tax compliance costs. See Appendix for reconciliation to GAAP measure.

# Return on Invested Capital

- ROIC is a key metric used to manage our business
- Executive compensation is directly tied to ROIC performance

Mar '12	Jun '12	Sep '12	Dec '12	Mar '13	Jun '13	Sep '13	Dec '13
13%	18%	17%	15%	13%	17%	17%	16%

*ROIC, a non-GAAP measure, is calculated as net income plus interest expense, income taxes, depreciation and amortization (EBITDA) divided by invested capital for the period. Invested capital is defined as average equity plus average daily interest-bearing debt for the period. EBITDA excludes \$48.8 million in non-cash impairment charges for the quarter ended June 30, 2013. A reconciliation of the Company's non-GAAP financial information to GAAP financial information is provided in the Company's Form 8-K, filed with the SEC, with the quarterly press release for the period indicated.*



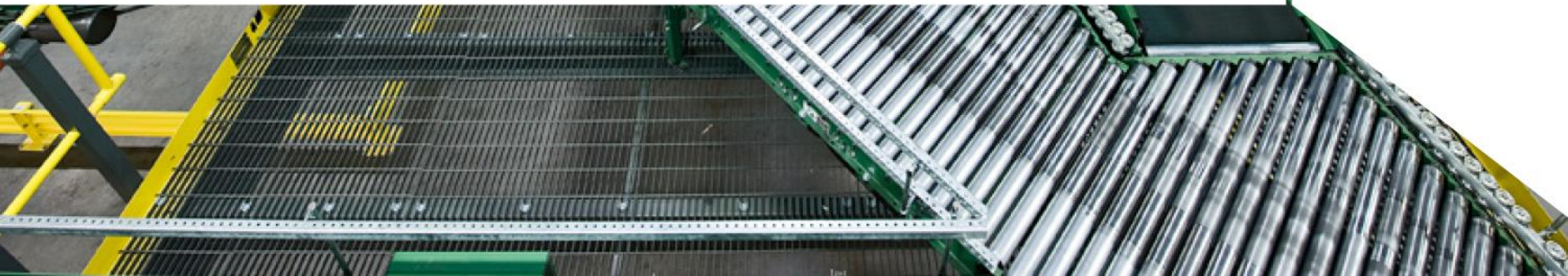
# In Summary

- Leading distributor in the specialty technology markets we serve
- Attractive target markets
- Proven and focused business model
- Experienced and committed management team
- Balance sheet strength and financial flexibility
- History of consistent performance
- Positioned for growth

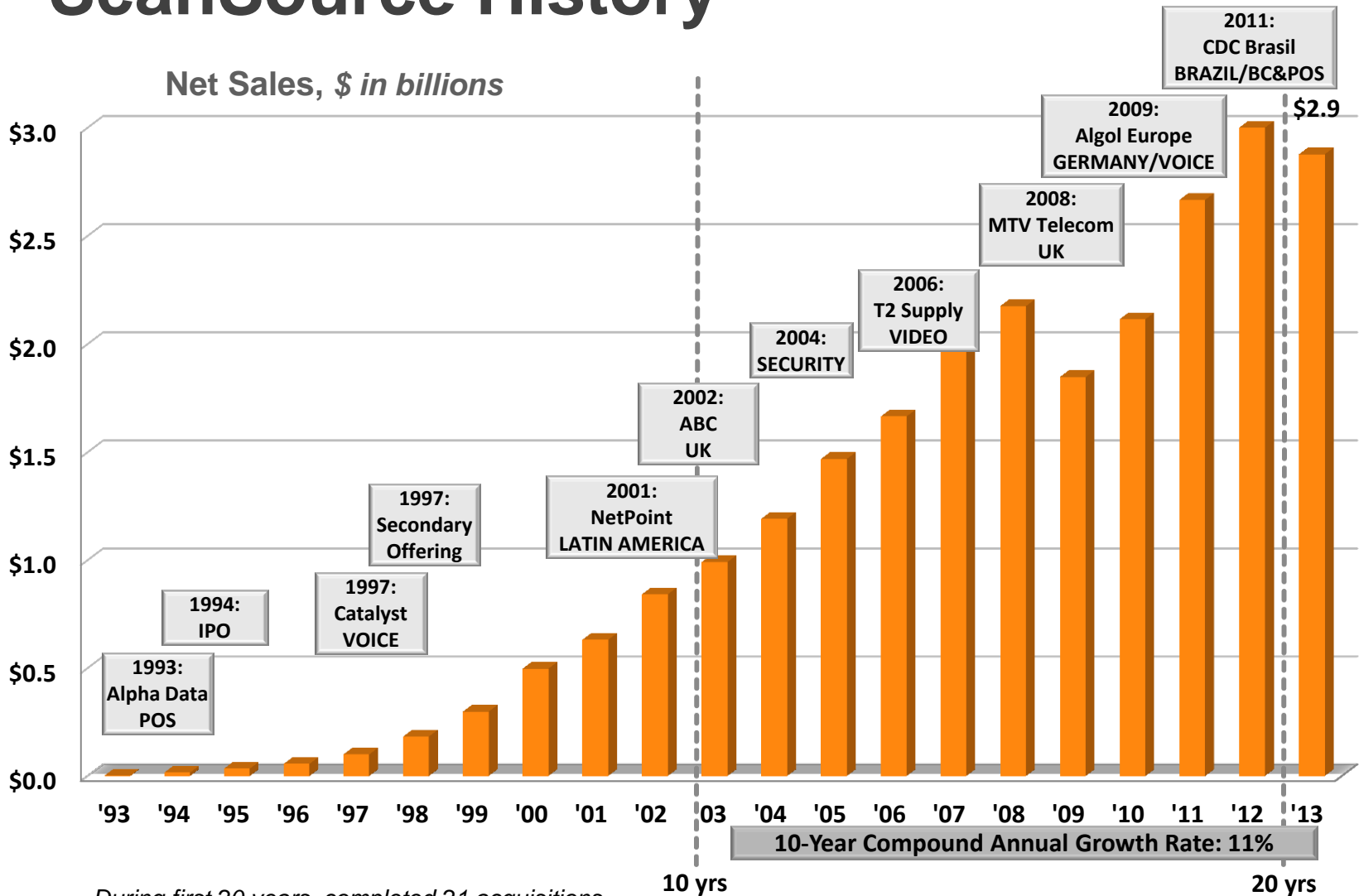


[scansource.com](https://scansource.com)

## Appendix



# ScanSource History



# Segment Financial Results – Q2 FY14

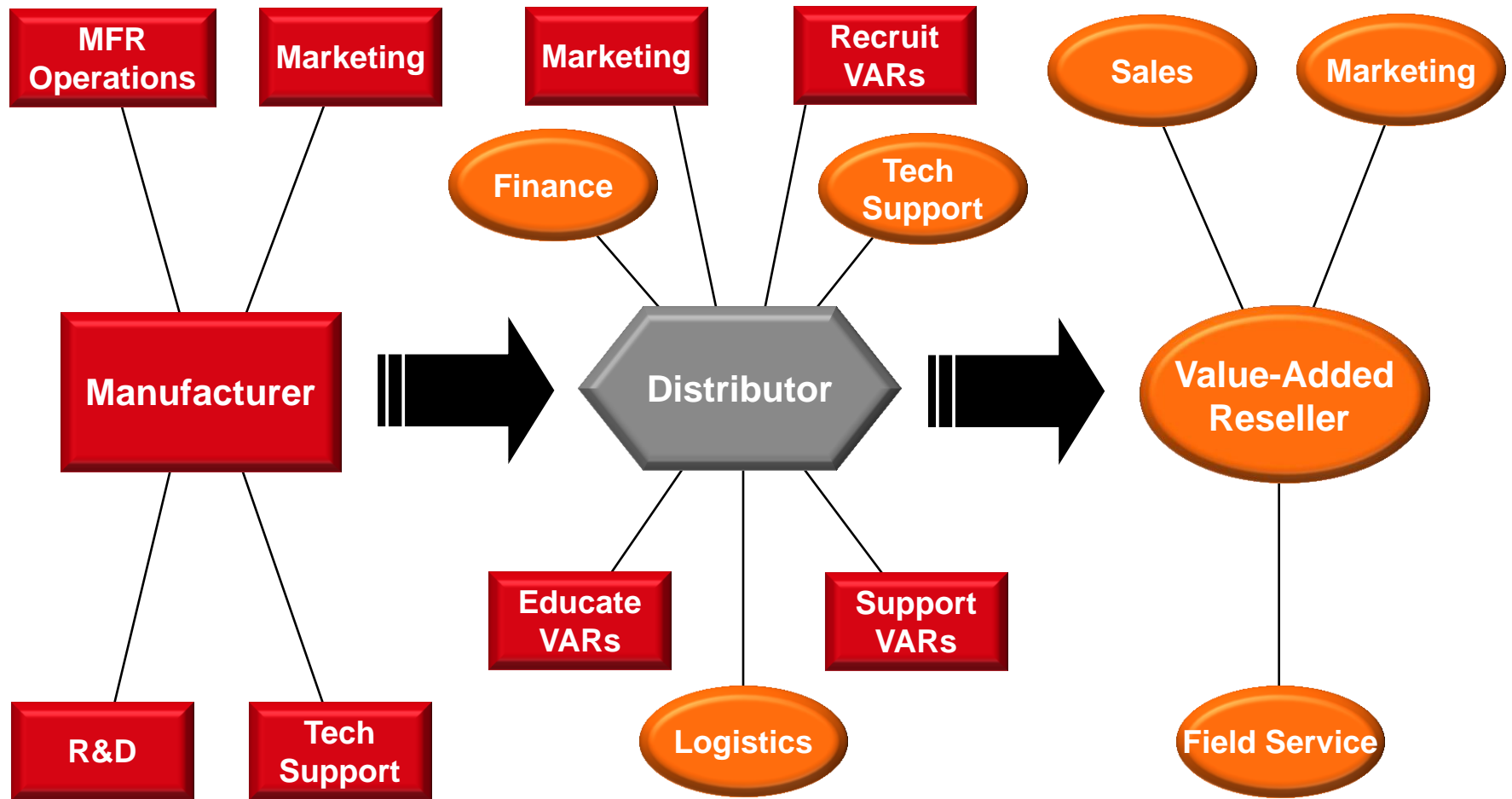
## WW Barcode & Security

<i>\$ in millions</i>	Q2 FY14	Q2 FY13
Net sales	\$476.2	\$489.1
Gross profit	\$42.8	\$44.4
Gross margin	9.0%	9.1%
Operating income	\$13.0	\$13.3
Operating income %	2.7%	2.7%

## WW Communications & Services

<i>\$ in millions</i>	Q2 FY14	Q2 FY13
Net sales	\$264.4	\$258.6
Gross profit	\$34.5	\$29.9
Gross margin	13.1%	11.6%
Operating income	\$14.5	\$11.1
Operating income %	5.5%	4.3%

# Two-Tier Business Model



# Appendix: Non-GAAP Financial Information

	Year Ended June 30,	
	2013	2012
<b>Return on invested capital (ROIC), annualized (a)</b>	<b>16.0%</b>	<b>17.2%</b>

## Reconciliation of Net Income (Loss) to EBITDA

Net income (loss) - GAAP	\$ 34,662	\$ 74,288
Plus: Income taxes	18,364	36,923
Plus: Interest expense	775	1,639
Plus: Depreciation and amortization	8,457	9,580
EBITDA	62,258	122,430
Adjustments: Impairment charges, including ERP & goodwill, and Belgian costs	50,893	-
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 113,151</u>	<u>\$ 122,430</u>

## Invested Capital Calculation

Equity - beginning of the quarter/year	\$ 652,311	\$ 587,394
Equity - end of quarter/year	695,956	652,311
Add: Impairment charges, including ERP & goodwill, and Belgian costs. net of tax	34,616	-
Average equity	691,442	619,853
Average funded debt (b)	15,405	92,125
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 706,847</u>	<u>\$ 711,978</u>

## Notes:

(a) Calculated as net income plus interest expense, income taxes, depreciation and amortization (EBITDA), annualized and divided by invested capital for the period. EBITDA excludes non-cash impairment charges and costs associated with Belgian tax compliance and personnel replacement costs, including related professional fees.

(b) Average daily amounts outstanding on our short-term and long-term interest-bearing debt.

# Appendix: Non-GAAP Financial Information

	Q2 FY14	Q1 FY14	Q4 FY13	Q3 FY13	Q2 FY13	Q1 FY13	Q4 FY12	Q3 FY12
<b>Return on invested capital (ROIC), annualized (a)</b>	<b>15.9%</b>	<b>16.9%</b>	<b>17.2%</b>	<b>13.3%</b>	<b>15.2%</b>	<b>17.0%</b>	<b>18.1%</b>	<b>13.5%</b>

## Reconciliation of Net Income (Loss) to EBITDA

Net income (loss) - GAAP	\$ 18,298	\$ 19,437	\$ (13,315)	\$ 13,978	\$ 16,357	\$ 17,642	\$ 19,785	\$ 14,756
Plus: Income taxes	9,511	9,002	(6,352)	7,202	8,417	9,097	8,846	7,049
Plus: Interest expense	235	247	419	102	130	124	150	254
Plus: Depreciation and amortization	1,778	1,869	1,594	2,274	2,275	2,314	2,242	2,754
EBITDA (numerator for ROIC)(non-GAAP)	29,822	30,555	(17,654)	23,556	27,179	29,177	31,023	24,813
Adjustments: Impairment charges, including ERP & goodwill	-	-	48,772	-	-	-	-	-
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 29,822</u>	<u>\$ 30,555</u>	<u>\$ 31,118</u>	<u>\$ 23,556</u>	<u>\$ 27,179</u>	<u>\$ 29,177</u>	<u>\$ 31,023</u>	<u>\$ 24,813</u>

## Invested Capital Calculation

Equity - beginning of the quarter	\$ 723,748	\$ 695,956	\$ 709,912	\$ 696,960	\$ 676,136	\$ 652,311	\$ 642,450	\$ 616,103
Equity - end of quarter	751,446	723,748	695,956	709,912	696,960	676,136	652,311	642,450
Add: Impairment charges, including ERP & goodwill, net of tax	-	-	33,216	-	-	-	-	-
Average equity	737,597	709,852	719,542	703,436	686,548	664,224	647,381	629,277
Average funded debt (b)	5,429	5,429	5,429	15,675	23,850	16,563	41,324	111,247
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 743,026</u>	<u>\$ 715,281</u>	<u>\$ 724,971</u>	<u>\$ 719,111</u>	<u>\$ 710,398</u>	<u>\$ 680,787</u>	<u>\$ 688,705</u>	<u>\$ 740,524</u>

## Notes:

- (a) Calculated as net income plus interest expense, income taxes, depreciation and amortization (EBITDA), annualized and divided by invested capital for the period. EBITDA excludes non-cash impairment charges.
- (b) Average daily amounts outstanding on our short-term and long-term interest-bearing debt.