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SCSC - Q3 2014 ScanSource Inc. Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ScanSource quarterly earnings conference call. (Operator Instructions) Today's call is being recorded. If anyone has any objections, you may disconnect at this time. I would now like to turn the call over to Mary Gentry, Treasurer and Director of Investor Relations. Ma'am, you may begin.

Mary Gentry - *ScanSource, Inc. - Treasurer, Director of IR*

Thank you and welcome to ScanSource's earnings conference call for the quarter ended March 31, 2014. With me today are Mike Baur, our CEO, and Charlie Mathis, our CFO. We will review operating results for the quarter and then take your questions. A slide presentation that accompanies our comments and webcast is posted in the investor relations section of our web site.

Certain statements made on this call will be forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. These risks and uncertainties include but are not limited to those factors identified in the release and in ScanSource's SEC filings. Any forward looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent day. ScanSource undertakes no duty to update any forward looking statements to actual results or changes in expectations.

We will be discussing both GAAP and non-GAAP results during our call, and have provided reconciliations between these amounts in our press release, which can be found on our web site and has also been filed with our Form 8-K.

Mike Baur will now begin our discussion with an overview of the quarterly results.

Mike Baur - *ScanSource, Inc. - CEO*

Thanks, Mary. And thank you for joining us. Let's start with slide 3 on our presentation deck. For the third quarter 2014 we reported net sales of $683 million, below our expected range, and diluted EPS of $0.59, above our expected range. We had favorable bottom line results for third quarter 2014 including double digit year over year growth in operating income and earnings per share, despite lower than expected sales.

Overall, net sales were unchanged from the prior year, with mixed results. For worldwide barcode and security, sales increased 4% year over year, coming back to year over year sales growth after three quarters of declines. Our international POS and barcode business units increased 9% year over year, driven by strong performance from Brazil and Europe. In addition, our security business unit returned to growth with an 8% increase over the prior year quarter.

However, we missed our sales expectations for worldwide communications and services, following solid growth in both of our communications business units in North America in the December quarter.

For worldwide communications and services, sales decreased 7% year over year. After a disappointing March quarter, we expect our communications business to grow on a sequential quarter basis.

In spite of the mixed sales results, both segments have excellent gross profit and operating margins from a more favorable sales mix including higher service fee income and vendor program recognition. In particular, our international business had better operating results than a year ago. Our margins and EPS were strong in the quarter, and we delivered a 14.8% return on invested capital.

With that, I'll turn the call over to Charlie to discuss our third quarter financial results in more detail, and our outlook for the fourth quarter.

Charlie Mathis - *ScanSource, Inc. - SVP and CFO*

Thanks, Mike. I'll begin with slide number 4 of the investor presentation, third quarter fiscal year 2014 results. Net sales of $683 million were unchanged from the prior year, and increased .4% excluding the impact of foreign exchange. For the quarter, growth in worldwide barcode and security sales offset declines in worldwide communication and service sales.

Sales for our international businesses increased 5.5% from the year ago quarter, or 7.3% excluding the impact of foreign exchange. Brazil grew 23% year over year in U.S. dollars, and even higher in local currency. Europe POS and barcode grew approximately 8% in U.S. dollars. In addition, our international operations experienced a significant turnaround in profitability year over year due to performance improvement initiatives put in place as well as top line revenue success. We are pleased with the progress we have made, and still see opportunity for further improvement.

The consolidated gross profit margin for the third quarter 2014 was 10.7%, up from 10.1% in the prior year quarter, due to favorable sales mix of products and geography, as well as timing and attainment of vendor programs.

The worldwide barcode and security gross margin increased to 9.4% from 8.9% for the year ago quarter, due to higher percentage of sales coming from Brazil and Europe, and better vendor program attainment.

The worldwide communications and service gross margin increased to 13.3% from 12.2% for the year ago quarter, primarily due to a favorable product sales mix within the business, a higher percentage of service fee income, as well as improved margins in European communications compared to prior year.

SG&A expenses totaled $46.7 million, or 6.8% of net sales, slightly less than the year ago quarter, which totaled $47.9 million or 7% of net sales. The decrease in SG&A expense is primarily due to lower bad debt expense, partially offset by increased employee related expenses. Our SG&A expenses included expenses for parts of our business where we're still investing and see opportunities for growth.

In the third quarter 2014 the fair value measurement of our earn-out for the CDC Brazil acquisition was a loss of approximately $1 million, compared to $100,000 in the prior year quarter, largely due to improved operating results in Brazil.

Third quarter 2014 operating income was $25.7 million, with an operating margin of 3.8%, up from 3% for the third quarter 2013. The higher operating margins in both of our segments reflect the higher gross margins as previously discussed.

Our effective tax rate for the quarter was 34.8%, with the expected range for fourth quarter 2014 from 34% to 34.5%.

Third quarter 2014 net income was $16.9 million, or $0.59 per diluted share, compared to diluted EPS of $0.50 for the third quarter 2013, an 18% increase year over year.

Return on invested capital totaled 14.8% for the quarter, compared to 13.3% for the year ago quarter.

Now let me discuss the balance sheet, and you can see some of the key metrics on slide 8 of the presentation. Cash and cash equivalents at March 31, 2014 were $183.6 million, an increase of $26.4 million since the December quarter end.

We include in accounts payable balance checks released but not yet cleared which totaled $53.2 million at March 31, 2014, and $107.1 million at December 31, 2013.

For the trailing 12-minth period, we generated $86 million in cash from operating activities.

Our days sales outstanding at March 31, 2014 were 55 days, in line with our typical range. Higher inventory levels, which increased $62 million from the year ago level, led to lower inventory turns for the quarter, 5.1 times versus 5.4 times for the prior year.

We are going into June with higher inventory levels, in part from the lower than expected sales near the end of March quarter. Paid for inventory days at the end of March, 2014 increased to 15.3 days, up from 13.5 days for the end of the prior year March quarter.

We had $5.4 million of debt at March 31, 2014, the same as a year ago. We had no borrowings from our credit facility during the last year.

In January we kicked off our new ERP project with SAP, and for the first quarter are on schedule and on budget. We plan to provide updates on financial projections once we get through the June quarter.

Our capital expenditures for fiscal year 2014 are expected to be $11 million to $14 million, primarily for spending on the ERP project.

We believe we have significant resources and capital to grow the Company in the future, while maintaining our high margins and high ROIC. On our call last quarter, we summarized our priorities in allocating capital, which are consistent with how the Company has created shareholder value in the past.

These priorities are unchanged. First, invest in organic growth of our business, and second, pursue acquisitions that meet our strategic and financial goals. We will continue to focus on these top priorities of using our capital resources, while keeping the strong balance sheet for financial flexibility in running our business.

Turning now to our next fiscal quarter, we expect net sales for the quarter ended June 30, 2014 to range from $715 million to $745 million, and earnings per share to range from $0.55 to $0.58 per diluted share.

With that, I'll turn the call back over to Mike.

Mike Baur - *ScanSource, Inc. - CEO*

Thanks, Charlie. Let me start with our worldwide communications and services segment on slide 10, which is 33% of overall sales this quarter. Worldwide communications and services net sales of $227 million decreased 7% year over year, and decreased 14% sequentially.

I'm going to combine my comments on our communications businesses, both units in North America and our communication unit in Europe, since the themes are consistent. We had disappointing sales quarters due to execution challenges. Despite these sales results, both gross profit and operating income increased over the prior year, reflecting a more favorable product mix and higher service fee income.

In addition, market demand softened, with end users delaying purchasing and upgrading decisions, as well as expected big deals that did not materialize near the end of the quarter.

ScanSource Services Group provides education and training, network assessments, customer configuration, marketing, in our SUMO partnership community, principally in North America. During the quarter, this group increased configuration services for IP phone provisioning, security cameras, and key injections for POS payment processing systems.

We also introduced new communications professional services offerings including contact center implementation and Cisco assessment and integration services. We continue to introduce new training and certification classes, and recently received two awards from Avaya for education services in North America - the highest student satisfaction and highest response rate.

Now turning to worldwide barcode and security, summarized on slide 11, which represents 67% of overall sales for the quarter. Worldwide barcode and security sales of $456 million increased 4% year over year. On a sequential quarter basis, sales decreased 4%, which is at the low end of our typical seasonal decline from the December to the March quarter.

The big news for our worldwide barcode and security unit is the announced sale of Motorola's enterprise business to Zebra Technologies. We believe the acquisition will have minimal effect on ScanSource, because we are already both companies' biggest partner worldwide, and we look forward to learning more about it as the transaction proceeds to closing. But based on a survey of our customers, they believe this transaction is positive for the industry.

Sales of our POS and barcode unit in North America were basically flat compared to the prior year sales. However, strong growth in our POS big deals and our POS run rate business was offset by a weaker market for our AIDC products. Pricing pressures on certain AIDC products led to a loss of market share by our sales team. In addition, our AIDC big deals declined as customers are taking longer to make decisions on larger projects and are breaking them into smaller pieces.

We also had good sales this quarter from two of our newer vendors, Code and J2. And in February we added Motorola's industrial mobile computing products, formerly known as Psion, to our product offerings in North America.

Our POS and barcode team in Europe exceeded its sales plan, with good year over year growth led by the key vendors in our AIDC business. We sold to a record number of customers this quarter, and delivered strong growth in most product categories. Both the improved business environment and a better mix of inventory led to strong results in Europe.

Our team in Brazil had an exceptionally strong March quarter with double digit growth in year over year net sales, even with currency fluctuations as a growth headwind. We had excellent growth across all product categories as well as with most vendors. The overall market for both AIDC and POS grew, and we gained market share. In addition, we had our best quarter ever with big deals. Again this quarter our team in Brazil executed very well, with profitability and ROI ahead of plan. We are pleased with the continued solid execution in Brazil for three quarters in a row. This reinforces our commitment to and confidence in our investment in Brazil.

In Latin America and Mexico, where our business is very project-driven, we had fewer big deals this quarter. Despite this, sales in Mexico increased year over year, driven by our run rate business.

Our security business in the U.S. and Canada returned to growth, with an 8% year over year sales increase for the quarter. We had good growth in networking infrastructure, video surveillance, and access control. Our strength in wireless continued, including a record quarter with Ruckus.

On April 1 we launched ScanSource Security on Demand, an online educational and information portal for security and networking resellers.

Turning now to slide 12, we are launching a new technology business unit, 3D Printing. We think 3D printing is ready for value-added distribution, given lower product cost, advancement in technology capabilities, and the emergence of a reseller channel. We recently signed an agreement with 3D Systems, a leader in 3D printing and design to manufacturing solutions. This new technology is an ideal opportunity for our existing channel to uncover new solutions for their end user customers. We are recruiting resellers to join the 3D Systems channel, and we have already hired and trained a ScanSource 3D team to provide education, sales support, and technical advice.

At this time, we'll be glad to answer your questions.

Q AND A

Operator

(Operator Instructions) Chris McGinnis, Sidoti and Company.

Chris McGinnis - *Sidoti and Company - Analyst*

Good afternoon. Thanks for taking my question. Hello?

Mike Baur - *ScanSource, Inc. - CEO*

Go ahead, Chris. We're having trouble hearing you.

Chris McGinnis - *Sidoti and Company - Analyst*

I guess just on the communications segment, was there any kind of product line that's most under pressure or is it more of the--I guess the kind of the execution that you talked to with the buying down? Obviously, I know the market's weak, but maybe just dig in that too a little bit more.

Mike Baur - *ScanSource, Inc. - CEO*

Sure, Chris. This is Mike. Our communications business for us was disappointing from a top line perspective, and as we said, there were some execution challenges kind of in the channel. And certainly we didn't anticipate them as we went into this quarter. So as a result, our history has been we try not to talk specifically about individual vendors because I guess my message today is that it wasn't just one vendor, one issue, one problem. But there were multiple problems. And we believe that the issues that we faced in March, some of them will be mitigated in the June quarter, but I think our forecast reflects that we've returned to better performance in that segment. And that's what we expect to see in June.

Chris McGinnis - *Sidoti and Company - Analyst*

And then just two more real quick. I guess just on the 3D market itself, I guess, how long have you been contemplating getting in it, and maybe how many resellers are you working with now? And how big is, I guess, that reseller market? Does it need to be established still in the U.S.?

Mike Baur - *ScanSource, Inc. - CEO*

Well, we've looked at it for quite a while. And we know that there already are a fairly large number of resellers that worked on a traditional channel that sold and serviced equipment related to the reprographics industry, the CAD CAM industry, et cetera. That's kind of the traditional channel that has emerged with 3D printers being sold through that as well as service bureaus.

Our goal is to see how much of that technology can actually make its way into our existing channel. So we decided to partner with 3D Systems, one of the leading vendors. I think most people would know them by now. They're a public company. They actually happen to be here in South Carolina also, up in Rock Hill.

But we looked at where the current state of that market is. And it is still early days. And so we're going to be trying to bring an incremental group of resellers into that space. We think, based on early response from our channel, that there is significant interest. We have to take that interest and turn it into revenue. So we've got a team already in place, and we decided to go ahead and announce that today on the call. And we'll update you some more after we get another quarter under our belt. But it's still very early days for this business, but we are excited about it because we think some of the issues that are there today in that channel remind us of the early days in barcode and telephony, as well as security, which we started in 2004.

Chris McGinnis - *Sidoti and Company - Analyst*

Right. And then I guess just quickly for Charlie, just on the gross margin profile, how sustainable is this? It sounds like some of it is mix. Obviously, I know it fluctuates a bit. Maybe just talk about that going forward.

Charlie Mathis - *ScanSource, Inc. - SVP and CFO*

Yes, Chris. So the historical model of the Company has been a gross margin around 10%, which reflects the value added and the amount of investments we make in the business. So our current visibility on the product mix and the vendor programs suggest a more normalized margin, something more around 10%. And so if you look at the forecast, that's how you're going to get to our earnings per share number.

Chris McGinnis - *Sidoti and Company - Analyst*

Great. Thank you very much.

Mike Baur - *ScanSource, Inc. - CEO*

Thanks, Chris.

Operator

Keith Housum, Northcoast Research.

Keith Housum - *Northcoast Research - Analyst*

Good afternoon and thanks for taking my call. I guess, Mike, if I just could kind of expand on the question regarding 3D Systems, any idea about how big the market is now, and are you guys going to be the first distributor here to kind of join this market and help to grow that? So you have, I guess, a first to market approach?

Mike Baur - *ScanSource, Inc. - CEO*

Yes, Keith, we know that the industry itself has said that it's several billion in revenue today. The question is how much of that revenue would flow through our channel, and what is our participation rate going to be relative to competition. So I would say that if you look at the business today, there's kind of three areas of focus for the printers being sold.

There's a consumer business--that's probably the low end, say, a couple of thousand dollar printer market. We don't expect to play a big role there. That--those products are actually being distributed today by some of our broad line competitors. That's probably not where you'll see us play. We'll have access to that market, but that's not our focus.

There's a second group of printing technology that 3D Systems calls their production printers. And there's a high end of that also, where they actually do manufacturing with them. So we're going to be in that middle range of printers. And these are about $50,000 to $60,000 printers.

And it requires a strong service capability from the reseller channel. It requires software and installation expertise. So we like the profile of the requirements for a reseller channel. So for us, we're going to take our existing channel, and we've got a series of seminars and shows scheduled throughout this year to introduce the technology and see which of our resellers might have a business already--probably target or ready yet--the most popular segments or verticals, which are manufacturing and health care. And then we'll see how that plays out.

But as we said when we got into security in 2004, we never know for sure how fast these things will go. We think it will take some time. But we believe that the opportunity over time can be significant. And so we're willing to start now and make some investment on this next leg of our stool.

Keith Housum - *Northcoast Research - Analyst*

So the market you're really focusing on, the $50,000 and $60,000 printers, is there another distributor already playing in that market, or are they currently going direct there?

Mike Baur - *ScanSource, Inc. - CEO*

They have a--it's primarily going direct today, direct from the manufacturer to resellers, and some business direct to end users. But most of that business is today being sold through resellers, at least by 3D, and not going through distribution.

Keith Housum - *Northcoast Research - Analyst*

Okay. Got you. And 3D is committed to working with you guys to make you guys that tier two distributor.

Mike Baur - *ScanSource, Inc. - CEO*

Well, we certainly hope so. I mean, we've got a--we've been working with them now for probably--discussions have gone on since late last year. So it's about a six, seven month process. And frankly we're both having to educate each other on what it is that a value added distributor can bring and what it is that they need as a manufacturer of these products. I think it's a--certainly a very good opportunity for our channel. And we're excited about it.

Keith Housum - *Northcoast Research - Analyst*

Okay. And as to the last talk you made on that, that's going to be included in the barcode security bucket?

Mike Baur - *ScanSource, Inc. - CEO*

Yes. We decided to do that for now. We've got a dedicated team, but we're going to share some of the senior executive resources for that team. We will roll the results of that unit up into the segment that is barcode and security, correct.

Keith Housum - *Northcoast Research - Analyst*

Got it. Okay. And I apologize for asking these questions and you guys addressed already, but have you guys talked about the ERP at all, and what's the update from--since the last time we talked?

Mike Baur - *ScanSource, Inc. - CEO*

Well, we said on the call that we kicked it off in January. And currently we're on schedule, on budget, and that we will give more update after the June quarter. We expect to spend $11 million to $14 million in ERP for fiscal year '14, and the majority of that is on the ERP system.

Keith Housum - *Northcoast Research - Analyst*

Got it. And then Charlie, of course, I've got to ask this question again. Your cash balances does nothing but grow. Any change in the thought process on using the balance sheet for alternative means?

Charlie Mathis - *ScanSource, Inc. - SVP and CFO*

Well, we laid out the priorities, and those haven't changed as to how we want to use our capital there. I would say that we think the timing's right to focus on strategic acquisitions. We've done a lot to get our house in order in some of these other areas. So we are ready and spending a lot of time to try to find the right strategic acquisition.

Mike Baur - *ScanSource, Inc. - CEO*

And I would add to that too, Keith, that last year when we made the management changes structurally, that was last July now--it's hard to believe. So we'll have a year of our new management structure under our belt here. So you add that to the fact that we've got the ERP project well underway, and we've had strong performance from Europe and Brazil, we feel like we've got the management bandwidth and financial resources to look at the strategic acquisition.

Keith Housum - *Northcoast Research - Analyst*

Okay. So of course I've got a follow-up to that. Is there a preference to make it a more of a geographical expansion or to additional product lines along the lines of a 3D Systems and 3D printing?

Mike Baur - *ScanSource, Inc. - CEO*

Well, I would say that our growth opportunities that we talked about probably for the last couple of years are still there. And we still think security can grow. We think that there is opportunity. We've never made an acquisition there, so we think that business could still grow and has good operating profit performance.

We believe the communication business, although this quarter we didn't have the execution we wanted from a top line, still delivers excellent profitability and return on invested capital, so we still see growth there because we're not present in a material way at all in South America. And what we have done so far in Europe is stabilize that business there. So we need to get that business on a growth trajectory.

And so in general I would say that where you see us having strong returns, strong margins, that's where we're going to focus our efforts--other than a new technology like 3D printing.

Keith Housum - *Northcoast Research - Analyst*

Okay. All right, guys. I appreciate it. Thank you.

Mike Baur - *ScanSource, Inc. - CEO*

You bet.

Operator

Sasha Kostadinov, Shaker Investments.

Sasha Kostadinov - *Shaker Investments - Analyst*

Yes, thank you very much for taking my question. Earlier, someone asked you about your gross margins and the implied gross margin in your guidance. And I believe--I just wanted to make sure I understood, your answer was pretty much that your model is to have a 10% gross margin and that's why you're including that in your guidance. Is there anything specific in the business, other than that being your business model, that would lead you to think that the gross margin would decline from this current quarter's 10.7%?

Mike Baur - *ScanSource, Inc. - CEO*

Yes, let me add one clarification to that, and then I'll let Charlie respond too. I think the real point is it's not our model to achieve 10%. That's what we're--that's what we actually achieved in our product mix and our portfolio operates historically. So it's really more of a portfolio and mix. And so it could decline if, for example, we had more sales from one of our lower margin business units, right?

So that's kind of how we look at it. And what we've learned over the years is having this portfolio has been surprisingly stable from a gross margin over time. So we look at things not just the last two or three quarters, but back seven or eight years. That's why Charlie indicated 10% is kind of the model. But it's really the results of the portfolio of products and vendors, et cetera.

Our efforts are always to try to find higher margin products and vendors as some of our other products move to more lower value, lower commodity status. And so that's been always our challenge is, we use gross margin as a barometer to really tell us what SG&A is needed. And so our real goal is more on the ROIC and operating profits. That's where we're trying to model the company. And we'll take the gross margin that we're given and deliver strong ROIC and strong operating profits to our investors. That's really the model.

Sasha Kostadinov - *Shaker Investments - Analyst*

Okay. Thank you for that clarification. And I'm assuming that you don't have a lot of visibility going forward. So how is it that you're able to adjust your SG&A line in response to your gross margin or your cost of sales?

Charlie Mathis - *ScanSource, Inc. - SVP and CFO*

Well, I think this is on a longer term basis we're able to do that. And we're currently investing in certain parts of our business like 3D printing, where we see growth opportunities. But I would just say going back to this forecast number, the percent of sales that we achieve from Brazil and Europe, which has higher margins, that was one of the reasons that for the quarter that it was higher, up to that 10.7%, as well as higher margins in particular products within the business.

But going forward, our current visibility into these--into the product mix and the geography mix as well as just obtaining the vendor programs, is less than the 10.7% and closer to the 10%.

Sasha Kostadinov - *Shaker Investments - Analyst*

Got you. And then last, going back to the question about acquisitions, obviously you have an admirable balance sheet for doing that. How would you say the environment is or the receptivity of companies that you do have an interest in? Is there an interest in being acquired out there? Are you having--can you just maybe give us a sense of how easy a process this will be, or will this be an arduous process?

Mike Baur - *ScanSource, Inc. - CEO*

Well, let me add one comment, and then I'll let Charlie. So I would say if you look back again historically at the 20 acquisitions--21 acquisitions we've made, we typically knew the targets. We knew the space they were in. We knew enough about where they could fit with ScanSource, and frankly, they knew us.

And so I would say in all of those cases over the years, they were very receptive to our approach, because they felt like being part of the ScanSource value added model was positive for the owners and their employees. And so that's been our history. That's what we like to do, is to find companies that we know well enough to be comfortable with the valuation and with the synergies that we would get out of the business post-acquisition.

Charlie, do you want to talk about--.

Charlie Mathis - *ScanSource, Inc. - SVP and CFO*

No, I think that--I mean, we've gotten very good receptions as far as strategic targets that we're interested in. Like I said, we've just started within the last quarter being really active in this. But Mike--he's been in the business a long time. He knows a lot of people out there, and they're usually pretty receptive to him.

So I would say that those--that's been going well. And we're very optimistic about the ability to find the right strategic acquisition at the right value.

Sasha Kostadinov - *Shaker Investments - Analyst*

Well thank you very much, gentlemen. Good luck on your search, and take care. Thanks.

Mike Baur - *ScanSource, Inc. - CEO*

Thank you.

Operator

Sanjay Ayer, Citigroup.

Sanjay Ayer - *Citigroup - Analyst*

Hi guys. I just wanted to go back to the communications segment. It says--or you said that it was 7% year over year decline. And then if I heard you right, then you said going forward from here you're back to growth. Is it--am I supposed to take that as if you look at the first half, it was just contracts or deals that got pushed into the second quarter, so over the first half you're kind of flat with no effect? And then maybe you could just dig into the reasons why that happened, whether it was more your customers or vendors, and kind of what the split was there. Thanks.

Mike Baur - *ScanSource, Inc. - CEO*

I would say this is that we're really saying that sequentially. So coming from March to June, we're going to have significant growth. It won't be significant growth year over year. And so that was kind of the point I was trying to make, because we think there was definitely some softness. And we don't know how long that's going to last. Some of that, we don't know if that's a quarter or two.

There were some execution challenges that we think we can improve and can fix, that will result in the June quarter for communications being much better than the March quarter. So that was what we're trying to say. Without, as you know, without the benefit of having any backlog or any forecast that we can hold anybody to, this is with the best knowledge that we have.

Sanjay Ayer - *Citigroup - Analyst*

Thank you.

Operator

We are showing no further questions at this time. (Operator Instructions) One moment, please. John (inaudible), Deutsche Bank.

Unidentified Participant

Hi guys. Can you hear me okay?

Mike Baur - *ScanSource, Inc. - CEO*

Yes.

Unidentified Participant

Just curious, when you mentioned delays in the first quarter regarding the communications segment on these big deals. Are these deals you feel that are still in the pipeline and just delayed, or what's--any more color on that would be helpful.

Mike Baur - *ScanSource, Inc. - CEO*

Yes, you bet. So we can't put a number on deals that didn't happen that may happen. We get that feedback from our resellers who say that their business was down too. So when our business was off, it wasn't just us. It wasn't that we, for this discussion, lost market share to another distributor and that business went away. So that business didn't happen.

And from the channel, from the resellers, they're telling us they think it still should happen. But we don't have a way to put a great number on it. So all we can do is talk to our vendors, because they have access to some of the deals in the channel, and talk with our customers. And that's why, as we look to the June number, coming from that part of our business, we think it will be substantially better. We're just not sure it's going to be--we can't with any more certainty than we had last quarter, really, tell you how much more it'll be.

So we're trying to manage this business that didn't perform well with--will it be all back in June, or will it be two more quarters? That's what we don't know. That's why we're trying to be as honest as we can about what we know and what we don't know.

Unidentified Participant

Okay. Thank you.

Mike Baur - *ScanSource, Inc. - CEO*

You bet.

Operator

We are showing no further questions at this time.

Mike Baur - *ScanSource, Inc. - CEO*

Okay, thanks. Thanks for joining us. Our next conference call to discuss our June 30 quarterly earnings and year-end results is expected to be on August 21, 2014.

Operator

That concludes today's conference. Thank you for participating. You may disconnect at this time.