



Q2 FY17 FINANCIAL RESULTS CONFERENCE CALL

February 7, 2017 at 5:00 pm ET



SAFE HARBOR AND NON-GAAP

Safe Harbor Statement

This presentation contains certain comments that are “forward-looking” statements, including sales, GAAP diluted EPS, and non-GAAP diluted EPS, that involve plans, strategies, economic performance and trends, projections, expectations, costs or beliefs about future events and other statements that are not descriptions of historical facts. Forward-looking information is inherently subject to risks and uncertainties.

Any number of factors could cause actual results to differ materially from anticipated results, including declines in sales and margins, currency fluctuations, difficulties in integrating acquisitions and general economic factors. For more information concerning factors that could cause actual results to differ from anticipated results, see the “Risk Factors” included in the Company’s quarterly report on Form 10-Q for the quarter ended December 31, 2016 and annual report on Form 10-K for the fiscal year ended June 30, 2016, filed with the Securities and Exchange Commission (“SEC”).

Although ScanSource believes the expectations in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement. ScanSource disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by law.

Non-GAAP Financial Information

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 non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP diluted earnings per share, 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.

HIGHLIGHTS

Vs. Forecast: **EPS Up and Net Sales Down**

- GAAP diluted EPS of \$0.91 and non-GAAP diluted EPS* of \$0.75 exceed forecast range
- Higher gross margins in both segments contribute to EPS upside
- Net sales of \$905 million below forecast; miss primarily in Worldwide Barcode, Networking and Security segment

Improved Sequential Financial Results

- First full quarter of operations following our acquisition of Intelisys with excellent results from recurring revenue model; drove sequential increases in gross and operating margins
- In addition to Intelisys benefit, gross margin of 10.9% reflects an increased mix of higher margin sales

Favorable Cash Flows and ROIC

- Q2 FY17 operating cash flow of \$29 million, reflecting some working capital efficiency; trailing 12-months operating cash flow of \$128 million
- Adjusted return on invested capital of 13.8%*
- Outlook midpoint for Q3 FY17 reflects Y/Y organic sales growth

* See Appendix for calculation of non-GAAP measures and reconciliations to GAAP measures.

HIGHLIGHTS – Q2 FY17

<i>\$ in millions, except EPS</i>	Q2 FY17	Q1 FY17	Q2 FY16	Y/Y Change	Q/Q Change
Net sales	\$904.8	\$932.6	\$993.5	-9%	-3%
Gross profit	98.5	91.5	100.6	-2%	+8%
<i>Gross profit margin % (of net sales)</i>	10.9%	9.8%	10.1%	+76 bps	+107 bps
Operating income	23.3	22.9	31.9	-27%	+2%
Non-GAAP operating income	29.6	26.7	36.3	-18%	+11%
GAAP net income	23.0	14.8	20.7	+12%	+55%
Non-GAAP net income	19.1	17.5	23.7	-20%	+9%
GAAP diluted EPS	\$0.91	\$0.58	\$0.77	+18%	+57%
Non-GAAP diluted EPS	\$0.75	\$0.68	\$0.88	-15%	+10%

WW BARCODE, NETWORKING & SECURITY

Net Sales, \$ in millions

Down (14%)
Organic Growth, Down (14%)



\$ in millions	Q2 FY17	Q1 FY17	Q2 FY16
Net sales	\$595.4	\$633.4	\$689.5
Gross profit	\$49.2	\$50.1	\$57.7
Gross margin	8.3%	7.9%	8.4%
Operating income	\$12.0	\$13.5	\$19.0
Operating income %	2.0%	2.1%	2.8%
Non-GAAP operating income	\$13.1	\$14.5	\$20.0
Non-GAAP operating income %	2.2%	2.3%	2.9%

Organic growth, a non-GAAP measure, reflects reported sales growth less impacts from foreign currency translation and acquisitions. Non-GAAP operating income excludes amortization of intangibles and change in fair value of contingent consideration.

WW COMMUNICATIONS & SERVICES

Net Sales, \$ in millions

Up 2%
Organic Growth, Down (2%)



\$ in millions	Q2 FY17	Q1 FY17	Q2 FY16
Net sales	\$309.4	\$299.2	\$304.0
Gross profit	\$49.3	\$41.4	\$42.9
Gross margin	15.9%	13.9%	14.1%
Operating income	\$11.6	\$9.9	\$12.9
Operating income %	3.8%	3.3%	4.2%
Non-GAAP operating income	\$16.5	\$12.2	\$16.2
Non-GAAP operating income %	5.3%	4.1%	5.3%

Organic growth, a non-GAAP measure, reflects reported sales growth less impacts from foreign currency translation and acquisitions. Non-GAAP operating income excludes amortization of intangibles and change in fair value of contingent consideration.

WORKING CAPITAL MEASURES

<i>\$ in millions</i>	Q2 FY17	Q1 FY17	Q2 FY16
Accounts receivable (Q/E)	\$620.6	\$637.8	\$588.4
Days sales outstanding in receivables*	60*	59*	53
Inventory (Q/E)	\$512.9	\$567.3	\$604.1
Inventory turns	6.0	6.0	6.0
Accounts payable (Q/E)	\$476.3	\$533.0	\$512.0
Paid for inventory days*	6.5*	6.0*	9.3
Working capital (Q/E) (AR+INV-AP)	\$657.1	\$672.1	\$680.5

* Excludes the impact of the Intelisys acquisition, which was completed 8/29/16

CASH FLOW AND BALANCE SHEET HIGHLIGHTS

<i>\$ in millions</i>	Q2 FY17	Q1 FY17	Q2 FY16
Adjusted EBITDA (QTR)	\$32.6	\$29.2	\$38.6
Adjusted return on invested capital (QTR)*	13.8%	13.1%	17.5%
Operating cash flow, trailing 12-months	\$128.4	\$116.2	\$44.7
Cash and cash equivalents (Q/E)	\$45.1	\$45.1	\$39.4
Debt (Q/E)	\$141.7	\$166.1	\$115.1
Net debt to adjusted EBITDA, trailing 12-months	0.88x	1.04x	0.61x
Shares repurchased – # of shares (QTR)	100,530	477,113	801,040
Shares repurchased – dollars (QTR)	\$3.5	\$16.9	\$29.6
Cum. repurchases under plan – # shares (as of Q/E)	577,643	477,113	2,429,968
Cum. repurchases under plan – dollars (as of Q/E)	\$20.3	\$16.9	\$90.4
Remaining authorization under plan (as of Q/E)	\$99.7	\$103.1	\$29.6

* Excludes non-GAAP adjustments and change in fair value of contingent consideration.

Q3 FY17 OUTLOOK*

For the quarter ending March 31, 2017, excluding amortization of intangible assets, change in fair value of contingent consideration, and acquisition costs:

Net Sales

- Range from \$800 million to \$860 million

GAAP Diluted EPS

- Range from \$0.42 to \$0.49 per share

Non-GAAP Diluted EPS

- Range from \$0.62 to \$0.69 per share

* Outlook as of February 7, 2017. Non-GAAP diluted EPS excludes amortization of intangible assets, change in fair value of contingent consideration, and acquisition costs. Reflects the following FX rates: \$1.07 to EUR 1.00 for the Euro, \$0.3125 to R\$1.00 for the Brazilian real (R\$3.20 to \$1), and \$1.25 to GBP 1.00 for the British pound.

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Operating Income, Pre-Tax Income, Net Income & EPS – QTR

(\$ in thousands)

	Quarter Ended December 31, 2016			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 23,275	\$ 35,781	\$ 23,036	\$ 0.91
Adjustments:				
Amortization of intangible assets	4,165	4,165	2,740	0.11
Change in fair value of contingent consideration	1,791	1,791	1,000	0.04
Acquisition costs (a)	335	335	335	0.01
Legal settlement, net of attorney fees	-	(12,777)	(8,047)	(0.32)
Non-GAAP measure	\$ 29,566	\$ 29,295	\$ 19,064	\$ 0.75

	Quarter Ended September 30, 2016			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 22,875	\$ 22,724	\$ 14,816	\$ 0.58
Adjustments:				
Amortization of intangible assets	3,154	3,154	2,108	0.08
Change in fair value of contingent consideration	169	169	46	0.00
Acquisition costs (a)	498	498	498	0.02
Non-GAAP measure	\$ 26,696	\$ 26,545	\$ 17,468	\$ 0.68

	Quarter Ended December 31, 2015			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 31,852	\$ 31,632	\$ 20,656	\$ 0.77
Adjustments:				
Amortization of intangible assets	2,545	2,545	1,732	0.06
Change in fair value of contingent consideration	1,816	1,816	1,244	0.05
Acquisition costs (a)	60	60	60	0.00
Non-GAAP measure	\$ 36,273	\$ 36,053	\$ 23,692	\$ 0.88

(a) Acquisition costs are nondeductible for tax purposes.



APPENDIX: NON-GAAP FINANCIAL INFORMATION

Net Sales, Constant Currency and Excluding Acquisitions – QTR

(\$ in thousands)

	<u>WW Barcode, NW & Security</u>	<u>WW Comms. & Services</u>	<u>Consolidated</u>
For the quarter ended December 31, 2016:			
Q2 FY17 net sales, as reported	\$ 595,359	\$ 309,433	\$ 904,792
Foreign exchange impact (a)	(3,257)	(2,557)	(5,814)
Q2 FY17 net sales, constant currency	592,102	306,876	898,978
Less: Acquisitions	-	(8,487)	(8,487)
Q2 FY17 net sales, constant currency excluding acquisitions	<u>\$ 592,102</u>	<u>\$ 298,389</u>	<u>\$ 890,491</u>
Q2 FY16 net sales, as reported	\$ 689,530	\$ 303,992	\$ 993,522
Less: Acquisitions	-	-	-
Q2 FY16 net sales, excluding acquisitions	<u>\$ 689,530</u>	<u>\$ 303,992</u>	<u>\$ 993,522</u>
Y/Y % Change:			
As reported	-13.7%	1.8%	-8.9%
Constant currency	-14.1%	0.9%	-9.5%
Constant currency, excluding acquisitions (organic growth)	-14.1%	-1.8%	-10.4%

(a) Year-over-year sales growth excluding the translation impact of changes in foreign currency rates. Calculated by translating net sales for the quarter ended December 31, 2016 into U.S. dollars using the weighted average foreign exchange rates for the quarter ended December 31, 2015.

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Highlights by Segment – Y/Y for Quarter

(\$ in thousands)

	Quarter Ended December 31, 2016			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 595,359	\$ 309,433	\$ -	\$ 904,792
GAAP operating income	\$ 11,985	\$ 11,625	\$ (335)	\$ 23,275
Adjustments:				
Amortization of intangible assets	1,079	3,086	-	4,165
Change in fair value of contingent consideration	-	1,791	-	1,791
Acquisition costs	-	-	335	335
Non-GAAP operating income	\$ 13,064	\$ 16,502	\$ -	\$ 29,566
GAAP operating income % (of net sales)	2.0%	3.8%	n/m	2.6%
Non-GAAP operating income % (of net sales)	2.2%	5.3%	n/m	3.3%

(\$ in thousands)

	Quarter Ended December 31, 2015			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 689,530	\$ 303,992	\$ -	\$ 993,522
GAAP operating income	\$ 19,000	\$ 12,912	\$ (60)	\$ 31,852
Adjustments:				
Amortization of intangible assets	1,047	1,498	-	2,545
Change in fair value of contingent consideration	-	1,816	-	1,816
Acquisition costs	-	-	60	60
Non-GAAP operating income	\$ 20,047	\$ 16,226	\$ -	\$ 36,273
GAAP operating income % (of net sales)	2.8%	4.2%	n/m	3.2%
Non-GAAP operating income % (of net sales)	2.9%	5.3%	n/m	3.7%

n/m = not meaningful



APPENDIX: NON-GAAP FINANCIAL INFORMATION

Highlights by Segment – Prior Quarter

Quarter Ended September 30, 2016

(\$ in thousands)

	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 633,405	\$ 299,161	\$ -	\$ 932,566
GAAP operating income	\$ 13,456	\$ 9,917	\$ (498)	\$ 22,875
Adjustments:				
Amortization of intangible assets	1,085	2,069	-	3,154
Change in fair value of contingent consideration	-	169	-	169
Acquisition costs	-	-	498	498
Non-GAAP operating income	\$ 14,541	\$ 12,155	\$ -	\$ 26,696
GAAP operating income % (of net sales)	2.1%	3.3%	n/m	2.5%
Non-GAAP operating income % (of net sales)	2.3%	4.1%	n/m	2.9%

n/m = not meaningful

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Adjusted Return on Invested Capital

(\$ in thousands)

	Q2 FY17	Q1 FY17	Q4 FY16	Q3 FY16	Q2 FY16
Adjusted return on invested capital (ROIC), annualized (a)	13.8%	13.1%	10.1%	12.3%	17.5%
<u>Reconciliation of Net Income to EBITDA</u>					
Net income - GAAP	\$ 23,036	\$ 14,816	\$ 12,925	\$ 14,042	\$ 20,656
Plus: Income taxes	12,745	7,908	5,678	7,311	10,976
Plus: Interest expense	912	589	440	694	709
Plus: Depreciation and amortization	6,588	5,224	4,584	4,281	4,351
EBITDA	43,281	28,537	23,627	26,328	36,692
Change in fair value of contingent consideration	1,791	169	(3,226)	1,139	1,816
Acquisition costs	335	498	553	29	60
Legal settlement, net of attorney fees	(12,777)	-	-	-	-
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 32,630</u>	<u>\$ 29,204</u>	<u>\$ 20,954</u>	<u>\$ 27,496</u>	<u>\$ 38,568</u>
<u>Invested Capital Calculation</u>					
Equity - beginning of the quarter	\$ 773,161	\$ 774,496	\$ 757,374	\$ 754,794	\$ 764,693
Equity - end of quarter	787,536	773,161	774,496	757,374	754,794
Add: Change in fair value of contingent consideration, net of tax	1,000	46	(2,095)	748	1,244
Add: Acquisition costs, net of tax	335	498	553	29	60
Add: Legal settlement, net of attorney fees, net of tax	(8,047)	-	-	-	-
Average equity	776,993	774,101	765,164	756,473	760,396
Average funded debt (b)	162,483	107,718	71,577	146,213	117,421
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 939,476</u>	<u>\$ 881,819</u>	<u>\$ 836,741</u>	<u>\$ 902,686</u>	<u>\$ 877,817</u>

Notes:

(a) Calculated as net income plus interest expense, income taxes, depreciation and amortization (EBITDA), annualized divided by invested capital for the period. Adjusted EBITDA reflects other adjustments for non-GAAP measures.

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

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Forecasted Range for EPS – Q3 FY17 Outlook

(\$ in thousands)

	Forecast for Quarter ending March 31, 2017	
	<u>Range Low</u>	<u>Range High</u>
GAAP diluted EPS	\$ 0.42	\$ 0.49
Adjustments:		
Amortization of intangible assets	0.11	0.11
Change in fair value of contingent consideration	0.09	0.09
Non-GAAP diluted EPS	<u>\$ 0.62</u>	<u>\$ 0.69</u>