



scansource

**Q3 FY 2014 FINANCIAL RESULTS
CONFERENCE CALL**

May 1, 2014 at 5:00 pm ET

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.

ScanSource disclaims any intentions or 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.

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 Company’s Form 8-K, filed with the SEC, with the quarterly earnings press release for the period indicated.

Highlights – Q3 FY14

- Third quarter 2014 net sales of \$683 million, below our expected range, and EPS of \$0.59, above our expected range
- Double-digit Y/Y growth in operating income and EPS, despite mixed sales results
- Overall sales unchanged from prior year period
 - Worldwide Barcode & Security: 4% Y/Y increase, driven by Brazil and Europe
 - Worldwide Communications & Services: 7% Y/Y decrease; missed sales expectations
- Excellent gross profit and operating margins for both segments
- Third quarter 2014 return on invested capital of 14.8%*
- Strong balance sheet for growth

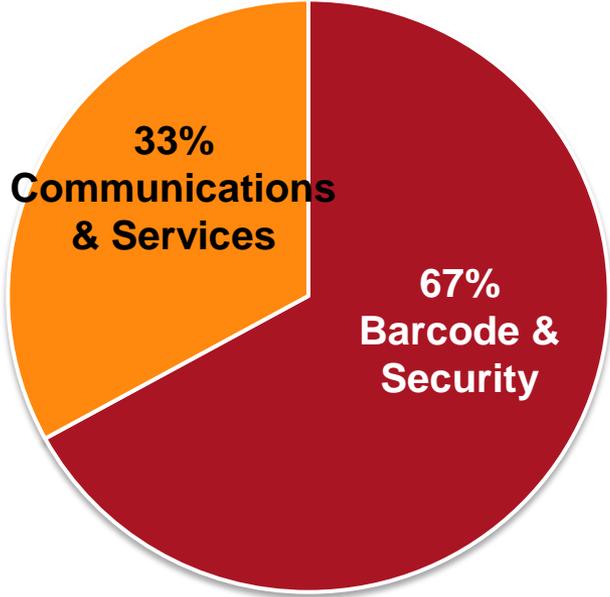
* See Appendix for calculation of ROIC, a non-GAAP measure.

Income Statement Highlights

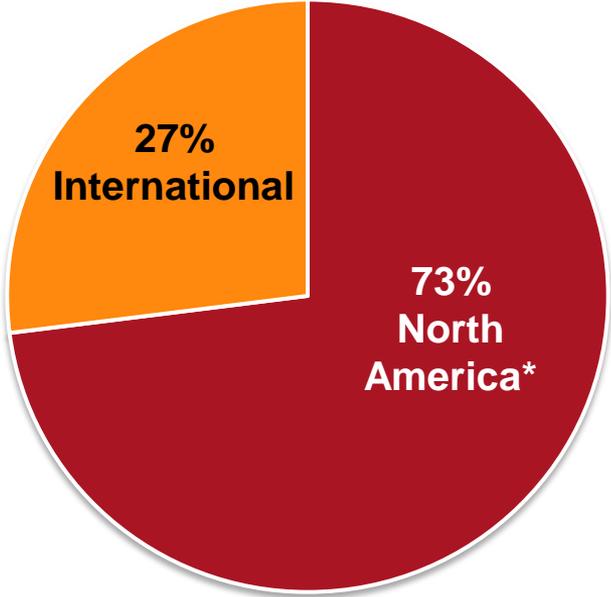
<i>In millions, except EPS</i>	Q3 FY14	Q3 FY13	Y/Y Change:
Net sales	\$683.0	\$683.0	▪ <i>Unchanged</i>
Gross margin % (of net sales)	10.74%	10.08%	▪ <i>66 bp margin increase</i>
SG&A expenses	\$46.7	\$47.9	▪ <i>2.6% lower SG&A</i>
Change in FV of contingent consideration	\$1.0	\$0.1	▪ <i>\$0.9 FV decrease</i>
Operating income	\$25.7	\$20.8	▪ <i>23% increase</i>
Operating income % (of net sales)	3.76%	3.04%	▪ <i>72 bp margin increase</i>
Net income	\$16.9	\$14.0	▪ <i>21% increase</i>
Diluted EPS	\$0.59	\$0.50	▪ <i>18% increase</i>

Q3 FY14 Sales Mix

By Technology



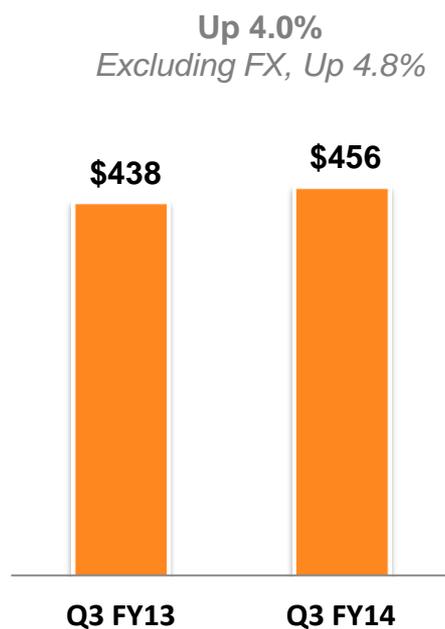
By Geography



Barcode & Security = Worldwide Barcode and Security
Communications & Services = Worldwide Communications and Services
As a % of Q3 FY14 net sales of \$683.0 million
** Includes the United States and Canada.*

WW Barcode & Security

Net Sales, \$ in millions



\$ in millions

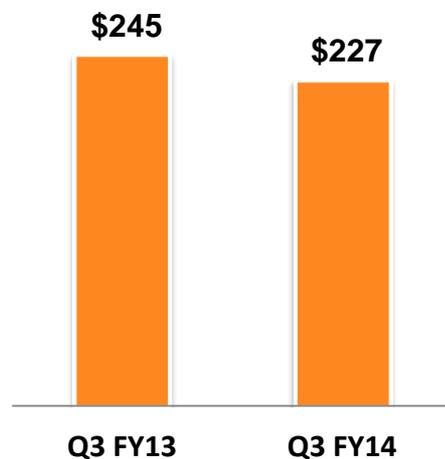
	Q3 FY14	Q3 FY13
Net sales	\$455.8	\$438.2
Gross profit	\$43.0	\$39.1
Gross margin	9.4%	8.9%
Operating income	\$13.8	\$10.4
Operating income %	3.0%	2.4%

* See Appendix for reconciliation of net sales excluding impact of foreign exchange to a GAAP measure.

WW Communications & Services

Net Sales, \$ in millions

Down (7.2)%
Excluding FX, Down (7.4)%



\$ in millions	Q3 FY14	Q3 FY13
Net sales	\$227.2	\$244.8
Gross profit	\$30.3	\$29.8
Gross margin	13.3%	12.2%
Operating income	\$11.8	\$10.4
Operating income %	5.2%	4.2%

* See Appendix for reconciliation of net sales excluding impact of foreign exchange to a GAAP measure.

Q3 FY14 Key Measures

<i>\$ in millions</i>	Q3 FY14	Q2 FY14	Q3 FY13
Return on invested capital ("ROIC")*	14.8%	15.9%	13.3%
Cash and cash equivalents (Q/E)	\$183.6	\$157.1	\$93.9
Uncleared checks (included in accounts payable)	\$53.2	\$107.1	\$47.3
Operating cash flow, trailing 12-months	\$86.1	\$140.8	\$110.9
Days sales outstanding in receivables	55	53	55
Inventory (Q/E)	\$479.9	\$467.2	\$418.0
Inventory turns	5.1	5.9	5.4
Paid for inventory days	15.3	11.3	13.5

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

Q4 FY14 Outlook*

For the Quarter Ending June 30, 2014:

Net Sales

- Range from \$715 million to \$745 million
- Range midpoint: \$730 million

Diluted Earnings Per Share

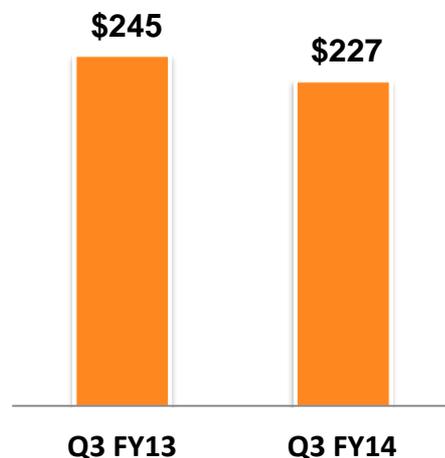
- Range from \$0.55 to \$0.58 per share
- Range midpoint: \$0.565

* Outlook as of May 1, 2014

WW Communications & Services Highlights

Net Sales, \$ in millions

Down (7.2)%
Excluding FX, Down (7.4)%

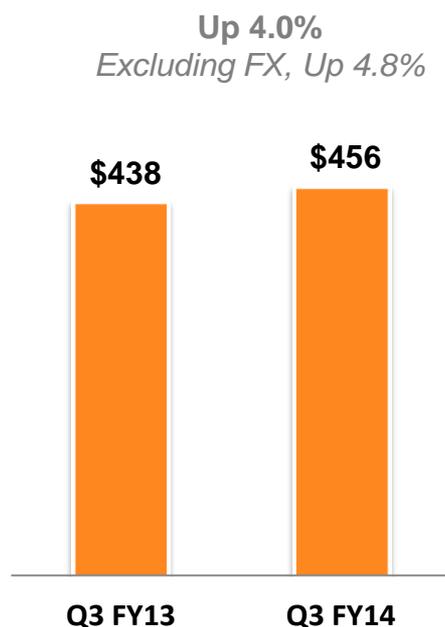


- 33% of overall sales
- Disappointing sales quarter, due to execution challenges
- Gross profit and operating income increase from more favorable product mix and higher service fee income
- ScanSource Services Group increased configuration and Communications professional services offerings

* See Appendix for reconciliation of net sales excluding impact of foreign exchange to a GAAP measure.

WW Barcode & Security Highlights

Net Sales, \$ in millions



- 67% of overall sales
- Sale of Motorola's Enterprise business to Zebra Technologies announced
- In North America, strong growth in POS was offset by weaker AIDC (especially big AIDC deals)
- Strong sales growth for International POS & Barcode units, driven by Brazil and Europe
- Security returned to growth with 8% Y/Y sales increase

* See Appendix for reconciliation of net sales excluding impact of foreign exchange to a GAAP measure.

Launching a New Technology – 3D Printing

- 3D printing ready for value-added distribution
 - Lower product costs, advancements in technology capabilities, emergence of a reseller channel, high-growth market
- Key vendor relationship:
 - 3D Systems
(leader in 3D printing and design-to-manufacturing solutions)
- Solutions targeted for manufacturing, health care, aerospace, and automotive
- New opportunity for existing channel
- Focus on United States with dedicated ScanSource 3D team



Appendix: Non-GAAP Financial Information

	<u>Q3 FY14</u>	<u>Q2 FY14</u>	<u>Q3 FY13</u>
Return on invested capital (ROIC), annualized (a)	14.8%	15.9%	13.3%
<u>Reconciliation of Net Income (Loss) to EBITDA</u>			
Net income (loss) - GAAP	\$ 16,949	\$ 18,298	\$ 13,978
Plus: Income taxes	9,031	9,511	7,202
Plus: Interest expense	217	235	102
Plus: Depreciation and amortization	1,743	1,778	2,274
EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 27,940</u>	<u>\$ 29,822</u>	<u>\$ 23,556</u>
<u>Invested Capital Calculation</u>			
Equity - beginning of the quarter	\$ 751,446	\$ 723,748	\$ 696,960
Equity - end of quarter	772,786	751,446	709,912
Average equity	762,116	737,597	703,436
Average funded debt (b)	5,429	5,429	15,675
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 767,545</u>	<u>\$ 743,026</u>	<u>\$ 719,111</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.
- (b) Average daily amounts outstanding on short-term and long-term interest-bearing debt.

Appendix: Non-GAAP Financial Information

Worldwide Barcode & Security

Net sales, excluding impact of foreign exchange (FX) - Y/Y Change:

Q3 FY14 net sales	\$	455.8
Foreign exchange impact		<u>3.6</u>
Q3 FY14 net sales, excluding FX impact	\$	459.4
Q3 FY13 sales	\$	<u>438.2</u>
% Change		4.8%

Worldwide Communications & Services

Net sales, excluding impact of foreign exchange (FX) - Y/Y Change:

Q3 FY14 net sales	\$	227.2
Foreign exchange impact		<u>(0.5)</u>
Q3 FY14 net sales, excluding FX impact	\$	226.7
Q3 FY13 sales	\$	<u>244.8</u>
% Change		-7.4%