



# Q1 FY 2015 FINANCIAL RESULTS CONFERENCE CALL

October 30, 2014 at 5:00 pm ET

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# SAFE HARBOR

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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, 2014, 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 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 – Q1 FY15

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- Record net sales for first quarter 2015 of \$792 million, up 8% Y/Y, and non-GAAP diluted EPS of \$0.75\*; both above our expected range
- Record sales quarter for Worldwide Barcode & Security, up 11% Y/Y
- Worldwide Communications & Services sales increased 3% Y/Y
- First quarter 2015 return on invested capital of 16.2%\* excluding acquisition costs and contingent consideration
- On September 19, 2014, completed acquisition of Imago, Europe's leading value-added video and voice communications distributor

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

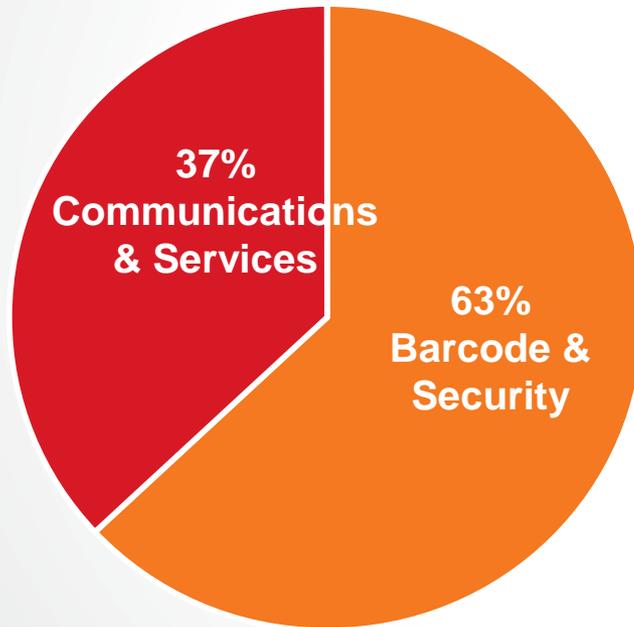
# HIGHLIGHTS – Q1 FY15

<i>In millions, except EPS</i>	Q1 FY15		Q1 FY14		Y/Y Change (non-GAAP):
	GAAP	Non-GAAP*	GAAP	Non-GAAP*	
Net sales	\$791.7	\$791.7	\$731.9	\$731.9	▪ 8.2% increase
Gross profit	77.6	77.6	76.5	76.5	▪ 1.5% increase
Gross profit margin % (of net sales)	9.8%	9.8%	10.5%	10.5%	▪ 64 bp margin decrease
SG&A expenses	45.8	45.8	46.6	46.6	▪ 1.7% lower SG&A
Amortization of intangible assets	1.0	--	0.9	--	
Change, FV contingent consideration	0.5	--	0.7	--	
Acquisition costs	1.3	--	--	--	
Operating income	29.0	31.8	28.2	29.9	▪ 6.5% increase
Operating income % (of net sales)	3.7%	4.0%	3.9%	4.1%	▪ 6 bp margin decrease
Net income	\$19.2	\$21.6	\$19.4	\$20.5	▪ 5.0% increase
Diluted EPS	\$0.67	\$0.75	\$0.69	\$0.73	▪ 2.7% increase

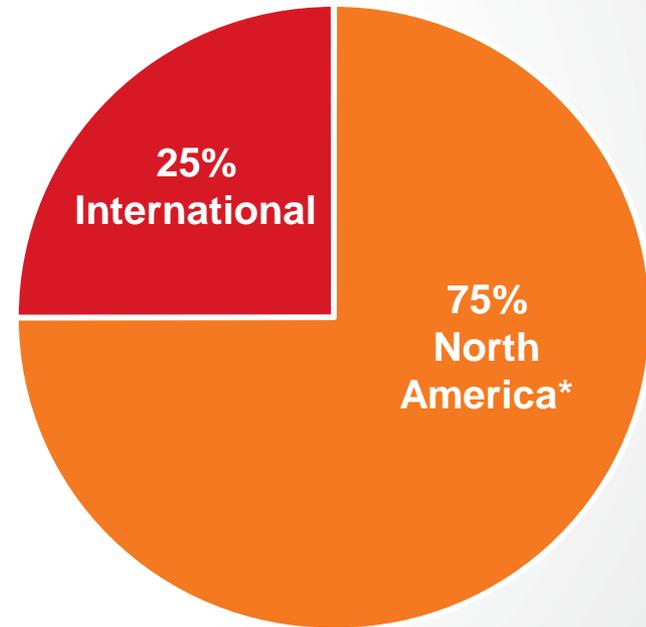
\* See Appendix for calculation of non-GAAP measures and reconciliations to GAAP measures.

# Q1 FY15 SALES MIX

By Technology



By Geography



*Barcode & Security = Worldwide Barcode and Security*  
*Communications & Services = Worldwide Communications and Services*  
As a % of Q1 FY15 net sales of \$791.7 million  
\* Includes the United States and Canada.

# WW BARCODE & SECURITY

## Net Sales, \$ in millions



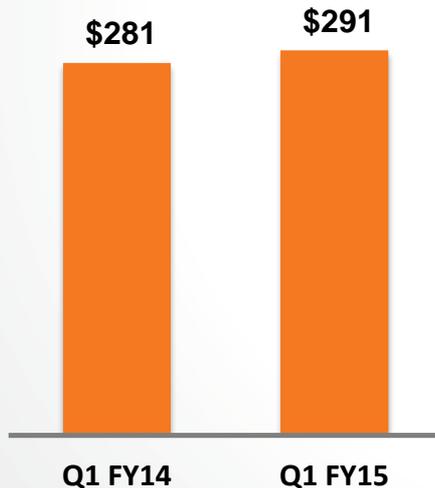
<i>\$ in millions</i>	Q1 FY15	Q1 FY14
Net sales	\$501.0	\$450.6
Gross profit	\$43.0	\$40.7
Gross margin	8.6%	9.0%
Operating income	\$12.5	\$12.0
Operating income %	2.5%	2.7%
Non-GAAP operating income	\$13.6	\$13.3
Non-GAAP operating income %	2.7%	2.9%

Non-GAAP operating income excludes amortization of intangibles and change in fair value of contingent consideration. See Appendix for calculation of non-GAAP measures and reconciliations to GAAP measures.

# WW COMMUNICATIONS & SERVICES

## Net Sales, \$ in millions

Up 3.4%  
Excluding FX, Up 3.4%



\$ in millions	Q1 FY15	Q1 FY14
Net sales	\$290.8	\$281.3
Gross profit	\$34.6	\$35.8
Gross margin	11.9%	12.7%
Operating income	\$17.8	\$16.3
Operating income %	6.1%	5.8%
Non-GAAP operating income	\$18.2	\$16.6
Non-GAAP operating income %	6.3%	5.9%

Non-GAAP operating income excludes amortization of intangibles and change in fair value of contingent consideration. See Appendix for calculation of non-GAAP measures and reconciliations to GAAP measures.

# Q1 FY15 KEY MEASURES

<i>\$ in millions</i>	Q1 FY15	Q4 FY14	Q1 FY14
Return on invested capital ("ROIC")*	16.2%	14.0%	17.4%
Cash and cash equivalents (Q/E)	\$139.9	\$194.9	\$193.8
Operating cash flow, trailing 12-months	\$2.7	\$47.7	\$172.7
Days sales outstanding in receivables	55**	55	55
Inventory (Q/E)	\$495.1	\$504.8	\$433.1
Inventory turns	5.7**	5.6	6.3
Paid for inventory days	9.7**	10.9	2.2

\* Excludes non-GAAP adjustments and change in fair value of contingent consideration. See Appendix for calculation of ROIC, a non-GAAP measure.

\*\* Excludes the impact of Imago, which was completed September 19, 2014.

# Q2 FY15 OUTLOOK\*

For the quarter ending December 31, 2014, excluding planned acquisition of Network 1 and other adjustments for non-GAAP measures:

## Net Sales

- Range from \$780 million to \$800 million
- Range midpoint: \$790 million

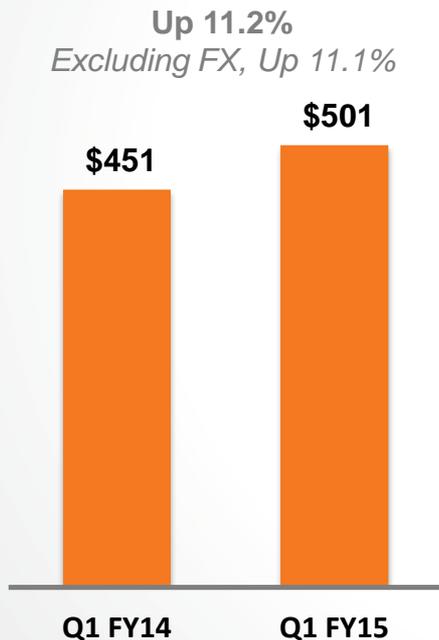
## Non-GAAP Diluted Earnings Per Share

- Range from \$0.64 to \$0.66 per share
- Range midpoint: \$0.65

*\* Outlook as of October 30, 2014. Non-GAAP diluted EPS excludes amortization of intangibles, change in fair value of contingent consideration, and acquisition costs.*

# WW BARCODE & SECURITY HIGHLIGHTS

## Net Sales, \$ in millions



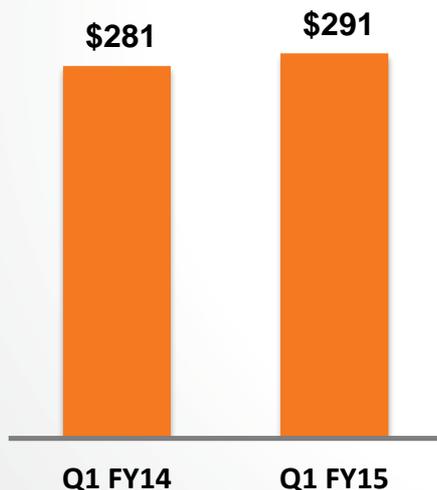
- 63% of overall sales
- Record sales quarter for the segment
- Record quarters for North America POS & Barcode, Brazil and Mexico
- Strong growth from international POS & Barcode units
- Strong big deal quarter

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

# WW COMMUNICATIONS & SERVICES HIGHLIGHTS

## Net Sales, \$ in millions

Up 3.4%  
Excluding FX, Up 3.4%



- 37% of overall sales
- Increased 9% sequentially with Q/Q increases for all Communications business units
- Record sales quarter for ScanSource Communications in North America
- ScanSource Services Group had a record quarter for configuration services

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

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

(\$ in thousands)

	Quarter Ended September 30, 2014			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 28,977	\$ 29,236	\$ 19,208	\$ 0.67
Adjustment:				
Amortization of intangible assets	992	992	660	0.02
Change in fair value of contingent consideration	513	513	341	0.01
Acquisition costs (a)	1,350	1,350	1,350	0.05
Non-GAAP measure	<u>\$ 31,832</u>	<u>\$ 32,091</u>	<u>\$ 21,559</u>	<u>\$ 0.75</u>

	Quarter Ended September 30, 2013			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 28,221	\$ 28,439	\$ 19,437	\$ 0.69
Adjustment:				
Amortization of intangible assets	924	924	605	0.02
Change in fair value of contingent consideration	738	738	487	0.02
Non-GAAP measure	<u>\$ 29,883</u>	<u>\$ 30,101</u>	<u>\$ 20,529</u>	<u>\$ 0.73</u>

(a) Acquisition costs are nondeductible for tax purposes.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

(\$ in thousands)

	Quarter Ended September 30, 2014			
	WW Barcode & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 500,960	\$ 290,760	\$ -	\$ 791,720
GAAP operating income	\$ 12,541	\$ 17,786	\$ (1,350)	\$ 28,977
Adjustments:				
Amortization of intangible assets	580	412	-	992
Change in fair value of contingent consideration	498	15	-	513
Acquisition costs	-	-	1,350	1,350
Non-GAAP operating income	<u>\$ 13,619</u>	<u>\$ 18,213</u>	<u>\$ -</u>	<u>\$ 31,832</u>
GAAP operating income % (of net sales)	2.5%	6.1%	n/m	3.7%
Non-GAAP operating income % (of net sales)	2.7%	6.3%	n/m	4.0%

	Quarter Ended September 30, 2013			
	WW Barcode & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 450,644	\$ 281,260	\$ -	\$ 731,904
GAAP operating income	\$ 11,959	\$ 16,262	\$ -	\$ 28,221
Adjustments:				
Amortization of intangible assets	576	348	-	924
Change in fair value of contingent consideration	738	-	-	738
Non-GAAP operating income	<u>\$ 13,273</u>	<u>\$ 16,610</u>	<u>\$ -</u>	<u>\$ 29,883</u>
GAAP operating income % (of net sales)	2.7%	5.8%	n/m	3.9%
Non-GAAP operating income % (of net sales)	2.9%	5.9%	n/m	4.1%

n/m = not meaningful



# APPENDIX: NON-GAAP FINANCIAL INFORMATION

(\$ in thousands)

	Q1 FY15	Q4 FY14	Q1 FY14
<b>Return on invested capital (ROIC), annualized (a)</b>	<b>16.2%</b>	<b>14.0%</b>	<b>17.4%</b>
<u>Reconciliation of Net Income to EBITDA</u>			
Net income - GAAP	\$ 19,208	\$ 27,105	\$ 19,437
Plus: Income taxes	10,028	13,774	9,002
Plus: Interest expense	190	33	247
Plus: Depreciation and amortization	1,897	1,985	1,869
EBITDA	31,323	42,897	30,555
Change in fair value of contingent consideration	513	93	738
Acquisition costs	1,350	-	-
Legal recovery, net of attorney fees	-	(15,490)	-
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	\$ 33,186	\$ 27,500	\$ 31,293
<u>Invested Capital Calculation</u>			
Equity - beginning of the quarter	\$ 802,643	\$ 772,786	\$ 695,956
Equity - end of quarter	810,265	802,643	723,748
Add: Change in fair value of contingent consideration, net of tax	341	61	487
Add: Acquisition costs, net of tax	1,350	-	-
Less: Legal recovery, net of attorney fees, net of tax	-	(9,756)	-
Average equity	807,300	782,867	710,096
Average funded debt (b)	6,205	5,429	5,429
Invested capital (denominator for ROIC)(non-GAAP)	\$ 813,505	\$ 788,296	\$ 715,525

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

(\$ in millions)

## **Worldwide Barcode & Security**

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

Q1 2015 net sales	\$	501.0
Foreign exchange impact		(0.2)
Q1 2015 net sales, excluding FX impact	\$	500.8
Q1 2014 sales	\$	450.6
% Change		11.1%

## **Worldwide Communications & Services**

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

Q1 2015 net sales	\$	290.8
Foreign exchange impact		0.1
Q1 2015 net sales, excluding FX impact	\$	290.9
Q1 2014 sales	\$	281.3
% Change		3.4%