



INVESTOR PRESENTATION

JUNE 2018





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 or forecasted results, including but not limited to, changes in interest and exchange rates and regulatory regimes impacting our international operations, the impact of tax reform laws, the failure of acquisitions to meet our expectations, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and vendors, termination of our relationship with key vendors or a significant modification of the terms under which we operate with a key vendor, the decline in demand for the products and services that we provide, reduced prices for the products and services that we provide due both to competitor and customer actions, and other factors set forth in the “Risk Factors” contained in our annual report on Form 10-K for the year ended June 30, 2017, and subsequent report on Form 10-Q, 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, adjusted EBITDA, return on invested capital (“ROIC”) and net sales excluding the impact of foreign currency exchange rates and acquisitions (organic growth). 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.

SCANSOURCE OVERVIEW

LEADING GLOBAL PROVIDER
OF SPECIALTY TECHNOLOGY
PRODUCTS AND SOLUTIONS

Two-tier value-added business model
Best-of-breed vendors in specialty
technology markets
ROIC-driven company



POS, PAYMENTS
& BARCODE



UNIFIED COMMUNICATIONS
& COLLABORATION



NETWORKING &
PHYSICAL SECURITY



TELECOM & CLOUD
SERVICES

NASDAQ: SCSC • Headquarters: Greenville, SC • Founded in 1992 • 500+ Technology Vendors
35,000+ Customers • 2,500+ Employees • 48 offices: US, Canada, Latin America, Europe



MISSION

To be the **center** of the solution delivery channel –
connecting companies and people around the globe

CUSTOMER CHANNELS



VARs = Value-Added Resellers; ISOs = Independent Sales Organizations; ISVs = Independent Software Vendors

ROBUST VALUE PROPOSITION

FOR VENDORS



Top 15 vendors represent more than 80% of net sales

FOR CUSTOMERS



No single customer represents more than 8% of net sales

DEEP VENDOR PARTNERSHIPS



% OF NET SALES, Q3 FY18

Segment includes POS and Barcode in US/Canada, Europe, Latin America/Brazil; Networking and Security in US/Canada; ScanSource KBZ and POS Portal in US

BARCODE, NETWORKING & SECURITY KEY VENDORS



DEEP VENDOR PARTNERSHIPS

COMMUNICATIONS & SERVICES KEY VENDORS

AVAYA

CenturyLink™

COMCAST
BUSINESS

Jabra GN

Level(3)™

Mitel

plantronics®

Polycom

verizon✓

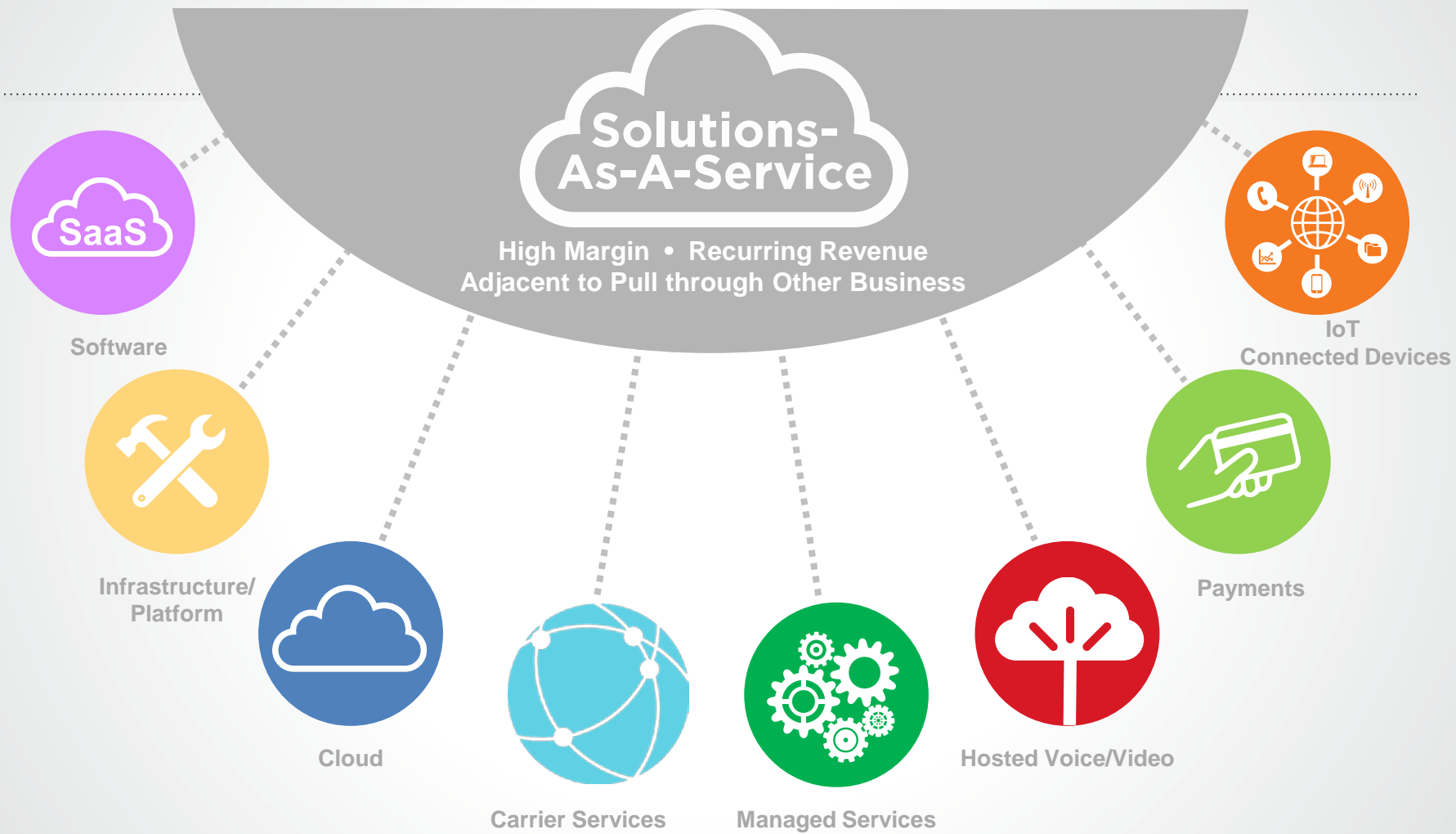
windstream.
communications

xc communications

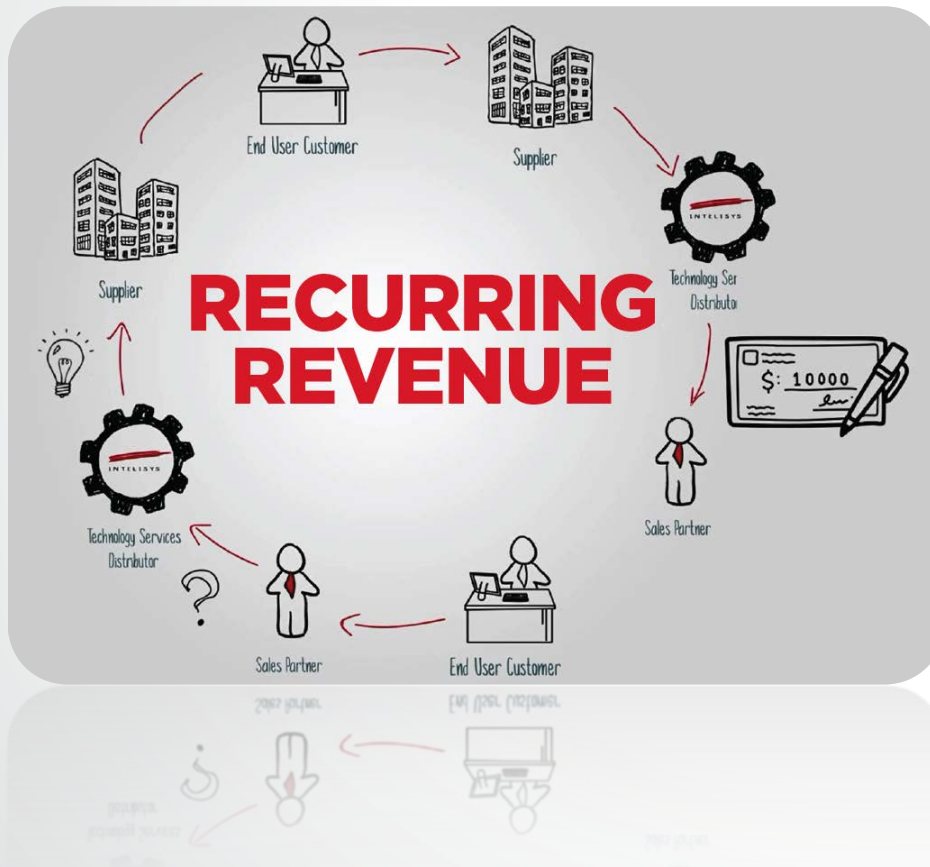


% OF NET SALES, Q3 FY18

Segment includes Communications in US/Canada and Europe; Intelisys in US/Canada; Network1 in Latin America/Brazil



INTELISYS RECURRING REVENUE MODEL



Key Value-Adds: Telecom and Cloud Services Distributor

- Trusted advisor. Supplier agnostic.
- Technical support for complex bids and education.
- Supplier aggregation. Protection from quotas.
- Platform that enables real time visibility and consolidated commission payments to sales partners.
- Channel financing (advance commissions and partner investment programs).
- Post sale escalation support with suppliers.

Note: Intelisys acquisition completed August 2016

POS PORTAL MARKET CHANNELS

VALUABLE MARKET CHANNELS FOR PAYMENTS SOLUTIONS

Contract Deployment



Long-term contracts with top processors including Cayan, Elavon, Transfirst, TSYS, Vantiv, Worldpay; value-added services and repair-replacements

ISOs/Agents and VARs



2-Tier wholesale distribution model focused on SMB and mid-market; hardware orders have services attached, such as configuration and key injection

ISV Referrals



ISV (independent software vendor) selling partners refer leads; pre-validated tablet POS solution bundles with purchase and “as a service” offer

FY18 KEY OPPORTUNITIES FOR GROWTH

1 Mobile computing

2 Video surveillance

3 POS Portal

4 Communications channel opportunity

5 Intelisys

6 Network1

Note: Opportunities not listed in order of importance



FINANCIAL HIGHLIGHTS

LONGER-TERM OPERATING GOALS AND RECENT RESULTS

OPERATING GOALS

SALES GROWTH

Faster than market

Q3 FY18

Y/Y **10.1%**

Y/Y, organic* **5.4%**

YTD FY18

Y/Y **7.6%**

Y/Y, organic* **3.8%**

GROSS MARGIN

11%+

Q3 FY18

11.6%

YTD FY18

11.3%

OPERATING MARGIN

3.5% to 4%

Q3 FY18

GAAP **2.0%**

Non-GAAP* **3.1%**

YTD FY18

GAAP **1.7%**

Non-GAAP* **3.3%**

ROIC

Mid-teens

Q3 FY18

11.2%

YTD FY18

12.4%

OPERATING GOALS

* Non-GAAP operating income excludes amortization of intangibles, changes in fair value of contingent consideration and acquisition costs. ROIC, a non-GAAP measure, is calculated as EBITDA, plus change in fair value of contingent consideration divided by invested capital. See appendix for calculations of non-GAAP measures and reconciliations to GAAP measures.

CAPITAL ALLOCATION STRATEGY

- Priorities: organic growth, strategic acquisitions, share repurchase
- Net leverage of at least 1x EBITDA

FY17 to Q3 FY18 CASH USES

FUNDED BY OPERATING CASH FLOW (+\$92 million*) AND INCREASE IN NET DEBT (+\$231 million)

INVESTMENTS IN PROFITABLE GROWTH



ACQUISITIONS
\$295 million



CAPEX
\$14 million

RETURN OF CASH TO SHAREHOLDERS



SHARE REPURCHASES
\$21 million

* Operating cash flow: \$(3) million Q3 FY18 YTD; \$95 million FY17

STRONG FINANCIAL POSITION FOR GROWTH

STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY

1.8x net debt to adjusted EBITDA, trailing 12-months

\$35 million in cash and \$282 million in debt

\$400 million committed credit facility; \$123 million available

\$100 million available under share repurchase authorization

WORKING CAPITAL MANAGEMENT

5.5 inventory turns (5-qtr range: 5.5-6.2)

Paid for inventory days of 11.6* (5-qtr range: 4.7-12.5)

64 days sales outstanding in receivables* (5-qtr range: 60-64)

Information as of 3/31/18, unless otherwise indicated

** Excludes Intelisys; paid for inventory days represent Q/E inventory days less Q/E accounts payable days*

INVESTMENT HIGHLIGHTS

1

MARKET LEADERSHIP

Leadership position in specialty markets with continued growth driven by innovative technology offerings; aligning the business to address customer needs

2

DEEP PARTNERSHIPS

Access to customer channels and deep vendor partnerships serve as strong competitive advantages

3

EXPANSION OPPORTUNITIES

Capitalizing on expansion in higher margin and growth areas; opportunity for expansion in Solutions-as-a-Service with recurring revenue opportunities

4

SUSTAINABLE MARGINS

Sustainable margin profile supported by multiple technologies, services and solutions

5

STRONG FINANCIALS

ROIC drives strong balance sheet and financial flexibility enabling disciplined cash deployment into faster growth areas while increasing bottom-line profitability

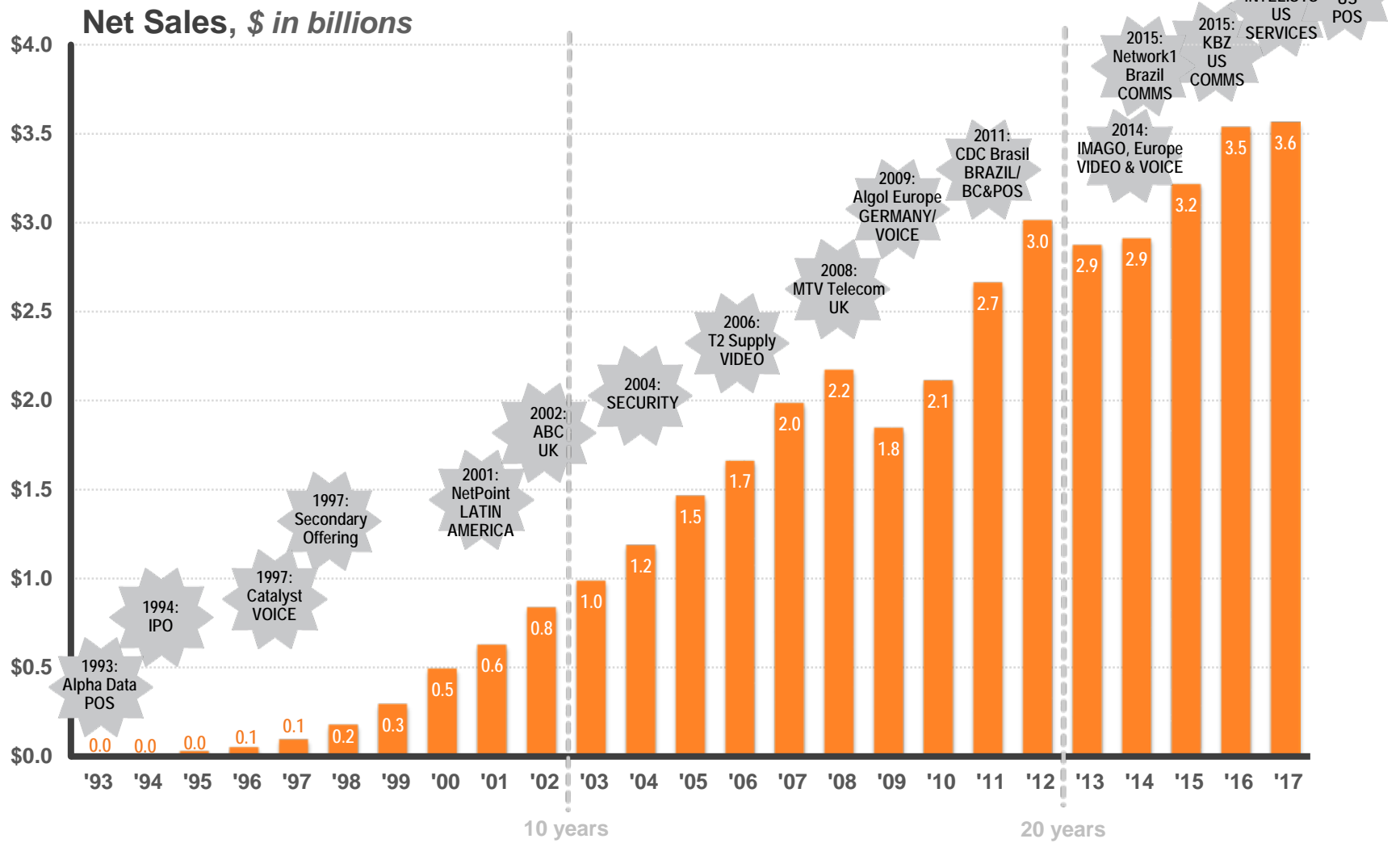


APPENDIX

scansource.com



SCANSOURCE HISTORY



Since inception, completed 27 acquisitions
 Net sales for fiscal years ended 6/30

10-Year Compound Annual Growth Rate: 6%

ACQUISITION OF POS PORTAL

ABOUT POS PORTAL

- Leading distributor of payment devices and services primarily to the SMB market segment
- Focused solely on the US payments industry channels
- Founded in 2000 and HQ in Sacramento, CA; operations in the US with ~180 employees
- Offers payment terminals, comprehensive key injection services, reseller partner branding, extensive encryption key libraries, P2PE encryption, integrated solutions

MARKET CHANNELS

CONTRACT
DEPLOYMENT

1,000+
ISOs and
AGENTS

ISV
REFERRALS

- Contracts with top processors, including Cayan, Elavon, Transfirst, TSYS, Vantiv, Worldpay
- Partners with ISVs (independent software vendors) to deliver pre-validated tablet POS solution bundles that merchants may purchase outright or “as a service”

TRANSACTION

\$144.9
MILLION
INITIAL PURCHASE

EARNOUT
\$13.2
MILLION
(paid in Dec 2017)

EBITDA
EARN-OUT
BASED ON

- All-cash stock purchase; closed 7/31/17
- Expected to be accretive to EPS in first year, excluding one-time acquisition costs and intangibles amortization

STRATEGIC RATIONALE

- Creates the industry's **leading payments channel** where value-added services are key
- **Complementary** solution delivery channels with little customer overlap in a complex marketplace
 - ScanSource: enterprise and mid-market
 - POS Portal: SMB
- Both companies' existing **customers benefit**; larger portfolio of POS offerings (from ScanSource) and industry-leading services and capabilities (from POS Portal)

ACQUISITION OF INTELISYS

ABOUT INTELISYS

- Industry-leading technology services distributor of business telecommunications and cloud services
- High-growth, recurring revenue model for the channel; two-tier services-based business model
- Founded in 1994 and HQ in Petaluma, CA; operations in the US
- ~120 employees, more than 130 supplier partners, and over 2,300 sales partners

TRANSACTION

\$83.6
MILLION
INITIAL PURCHASE

4 years
EARN-OUT
PERIOD

EBITDA
EARN-OUT
BASED ON

- All-cash asset purchase; closed 8/29/16
- Initial purchase price \$83.6 million (52%) with 4 annual earn-out payments based on a multiple of EBITDA (12% annually)
- Estimated earn-out payment range from \$100 to \$150 million

MARKET DYNAMICS

~\$150
BILLION

**SMB Spend on
Telecom Services**

10%
INDIRECT

**% of Market Served
by Indirect Channel**

- Large and growing addressable channel market
- Expected growth of opportunities for indirect channel

STRATEGIC RATIONALE

- Enter telecom and cloud services market; large, **growing addressable market** with expected **channel shift**
- Acquiring the **market leader** in a fragmented market with relatively small-sized existing master agents
- Brings **high-growth, recurring revenue model** to the channel
- See opportunity for VARs and sales agents to **sell complete solutions** – connectivity with products

SEGMENT FINANCIAL RESULTS – Q3 FY18

WORLDWIDE BARCODE, NW & SECURITY

<i>\$ in millions</i>	Q3 FY18	Q2 FY18	Q3 FY17
Net sales	\$604.3	\$719.8	\$549.0
Gross profit	\$56.5	\$62.0	\$45.9
Gross margin	9.3%	8.6%	8.4%
Operating income	\$11.6	\$15.5	\$11.2
Operating income %	1.9%	2.2%	2.0%
Non-GAAP operating income	\$13.9	\$17.9	\$12.3
Non-GAAP operating income %	2.3%	2.5%	2.2%

WORLDWIDE COMMUNICATIONS & SERVICES

<i>\$ in millions</i>	Q3 FY18	Q2 FY18	Q3 FY17
Net sales	\$291.3	\$312.4	\$264.6
Gross profit	\$47.4	\$51.0	\$46.8
Gross margin	16.3%	16.3%	17.7%
Operating income	\$6.4	\$6.8	\$8.8
Operating income %	2.2%	2.2%	3.3%
Non-GAAP operating income	\$14.0	\$16.9	\$13.9
Non-GAAP operating income %	4.8%	5.4%	5.2%

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.

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Y/Y Sales Growth – Organic and Reported

(\$ in thousands)

	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	YTD FY18
Consolidated:									
Net sales, as reported	\$ 877,473	\$ 932,566	\$ 904,792	\$ 813,538	\$ 917,291	\$ 924,559	\$ 1,032,212	\$ 895,637	\$2,852,408
Foreign exchange impact	7,506	(4,028)	(5,814)	(6,837)	(2,150)	(8,039)	(13,831)	(15,646)	(37,516)
Net sales, constant currency	884,979	928,538	898,978	806,701	915,141	916,520	1,018,381	879,991	2,814,892
Less: Acquisitions	(79,701)	(102,195)	(8,487)	(8,893)	(9,178)	(24,303)	(19,706)	(22,361)	(66,370)
Net sales, constant currency excluding acquisitions	<u>\$ 805,278</u>	<u>\$ 826,343</u>	<u>\$ 890,491</u>	<u>\$ 797,808</u>	<u>\$ 905,963</u>	<u>\$ 892,217</u>	<u>\$ 998,675</u>	<u>\$ 857,630</u>	<u>\$2,748,522</u>
Prior Year Quarter Net sales, as reported	\$ 856,685	\$ 870,829	\$ 993,522	\$ 798,404	\$ 877,472	\$ 932,565	\$ 904,792	\$ 813,538	\$2,650,895
Less: Acquisitions	-	(34,628)	-	-	-	(2,863)	-	-	(2,863)
Prior Year Quarter Net sales, as adjusted	<u>\$ 856,685</u>	<u>\$ 836,201</u>	<u>\$ 993,522</u>	<u>\$ 798,404</u>	<u>\$ 877,472</u>	<u>\$ 929,702</u>	<u>\$ 904,792</u>	<u>\$ 813,538</u>	<u>\$2,648,032</u>
Y/Y% Change:									
Sales growth, as reported	2.4%	7.1%	-8.9%	1.9%	4.5%	-0.9%	14.1%	10.1%	7.6%
Sales growth, constant currency	3.3%	6.6%	-9.5%	1.0%	4.3%	-1.7%	12.6%	8.2%	6.2%
Sales growth, constant currency excluding acquisitions (organic growth)	-6.0%	-1.2%	-10.4%	-0.1%	3.2%	-4.0%	10.4%	5.4%	3.8%

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

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Highlights by Segment – QTR

(\$ in thousands)

	Quarter Ended March 31, 2018				YTD FY18 Consolidated
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated	
Net sales	\$ 604,322	\$ 291,315	\$ -	\$ 895,637	\$ 2,852,408
GAAP operating income	\$ 11,566	\$ 6,375	\$ -	\$ 17,941	\$ 47,880
Adjustments:					
Amortization of intangible assets	2,310	2,793	-	5,103	15,601
Change in fair value of contingent consideration	-	4,801	-	4,801	28,595
Acquisition costs	-	-	-	-	172
Legal settlement	-	-	-	-	952
Non-GAAP operating income	\$ 13,876	\$ 13,969	\$ -	\$ 27,845	\$ 93,199
GAAP operating income % (of net sales)	1.91%	2.19%	n/m	2.00%	1.68%
Non-GAAP operating income % (of net sales)	2.30%	4.80%	n/m	3.11%	3.27%

(\$ in thousands)

	Quarter Ended December 31, 2017				
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated	
Net sales	\$ 719,786	\$ 312,426	\$ -	\$ 1,032,212	
GAAP operating income	\$ 15,542	\$ 6,799	\$ -	\$ 22,341	
Adjustments:					
Amortization of intangible assets	2,309	3,177	-	5,487	
Change in fair value of contingent consideration	-	6,913	-	6,913	
Non-GAAP operating income	\$ 17,852	\$ 16,889	\$ -	\$ 34,741	
GAAP operating income % (of net sales)	2.16%	2.18%	n/m	2.16%	
Non-GAAP operating income % (of net sales)	2.48%	5.41%	n/m	3.37%	

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Highlights by Segment – QTR

(\$ in thousands)

	Quarter Ended March 31, 2017			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 548,971	\$ 264,567	\$ -	\$ 813,538
GAAP operating income	\$ 11,175	\$ 8,803	\$ -	\$ 19,978
Adjustments:				
Amortization of intangible assets	1,098	3,119	-	4,217
Change in fair value of contingent consideration	-	1,960	-	1,960
Acquisition costs	-	-	-	-
Non-GAAP operating income	\$ 12,273	\$ 13,882	\$ -	\$ 26,155
GAAP operating income % (of net sales)	2.04%	3.33%	n/m	2.46%
Non-GAAP operating income % (of net sales)	2.24%	5.25%	n/m	3.21%

n/m = not meaningful

APPENDIX: NON-GAAP FINANCIAL INFORMATION

Return on Invested Capital (ROIC) – QTR

(\$ in thousands)

	Q3 FY18	YTD FY18
Return on invested capital (ROIC), annualized (a)	11.2%	12.4%
<u>Reconciliation of Net Income to EBITDA</u>		
Net income - GAAP	\$ 10,649	\$ 22,765
Plus: Interest expense	2,784	6,655
Plus: Income taxes	5,143	20,118
Plus: Depreciation and amortization	9,438	28,204
EBITDA	28,014	77,742
Change in fair value of contingent consideration	4,801	28,595
Acquisition costs	-	172
Legal settlement, net of attorney fees	-	952
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 32,815</u>	<u>\$ 107,461</u>
<u>Invested Capital Calculation</u>		
Equity - beginning of the quarter	\$ 860,787	\$ 837,145
Equity - end of quarter	877,796	877,796
Change in fair value of contingent consideration, net of tax	3,272	19,018
Acquisition costs, net of tax	-	172
Legal settlement, net of attorney fees, net of tax	-	771
Tax reform charges	-	6,689
Average equity	870,928	870,796
Average funded debt (b)	315,872	283,819
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 1,186,800</u>	<u>\$ 1,154,615</u>

(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

Gross Margin and Non-GAAP Operating Income %

(\$ in millions)	FY '08	FY '09	FY '10	FY '11	FY '12	FY '13	FY '14	FY '15	FY '16	FY '17
Net sales	\$2,175.5	\$1,848.0	\$2,115.0	\$2,666.5	\$3,015.3	\$2,877.0	\$2,913.6	\$3,218.6	\$3,540.2	\$3,568.2
Gross margin	10.5%	11.3%	10.4%	10.3%	10.0%	10.2%	10.3%	10.2%	10.0%	10.8%
GAAP operating income	\$ 94.0	\$ 74.1	\$ 75.8	\$ 113.1	\$ 113.5	\$ 51.0	\$ 121.8	\$ 101.4	\$ 96.9	\$ 88.2
Adjustments:										
Amortization of intangible assets	2.5	2.6	2.0	3.0	6.4	4.9	3.9	6.6	9.8	15.5
Change in fair value of contingent consideration	-	-	-	(0.1)	0.1	1.8	2.3	2.7	1.3	5.2
Acquisition costs	-	-	-	-	-	-	-	3.3	0.9	1.3
Impairment charges, including ERP & goodwill, and Belgian costs	-	-	-	-	-	50.9	-	-	-	-
Legal recovery, net of attorney fees	-	-	-	-	-	-	(15.5)	-	-	-
Non-GAAP operating income	\$ 96.5	\$ 76.7	\$ 77.8	\$ 116.0	\$ 120.0	\$ 108.7	\$ 112.5	\$ 114.0	\$ 108.9	\$ 110.2
GAAP operating income % (of net sales)	4.32%	4.01%	3.58%	4.24%	3.76%	1.77%	4.18%	3.15%	2.74%	2.47%
Non-GAAP operating income % (of net sales)	4.43%	4.15%	3.68%	4.35%	3.98%	3.78%	3.86%	3.54%	3.08%	3.09%