



# INVESTOR PRESENTATION

FEBRUARY 2018

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# 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 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

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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 5% of net sales

# DEEP VENDOR PARTNERSHIPS



% OF NET SALES, Q2 FY18

*Businesses: 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, Q2 FY18

*Businesses: Communications in US/Canada and Europe; Intelisys in US/Canada; Network1 in Latin America/Brazil*

# Solutions-As-A-Service

High Margin • Recurring Revenue  
Adjacent to Pull through Other Business



Software



IoT  
Connected Devices



Infrastructure/  
Platform



Cloud



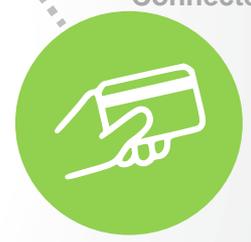
Carrier Services



Managed Services

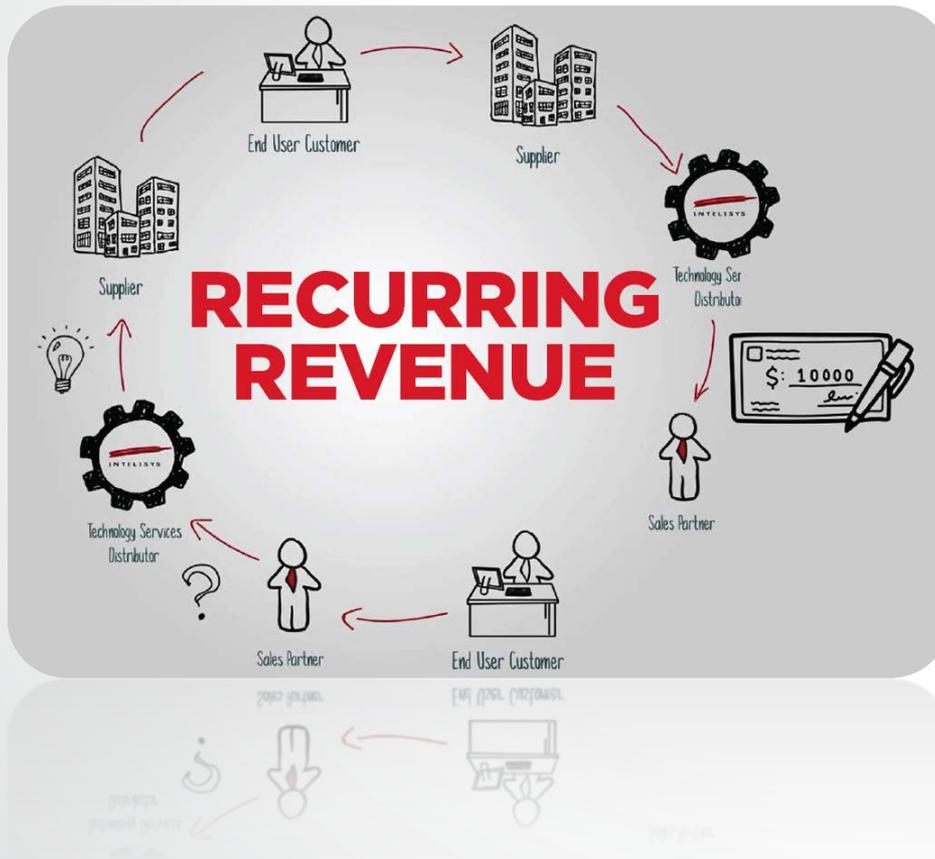


Hosted Voice/Video



Payments

# 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

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**1** Mobile computing

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**2** Video surveillance

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**3** POS Portal

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**4** Communications channel opportunity

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**5** Intelisys

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**6** Network1

*Note: Opportunities not listed in order of importance*



# FINANCIAL HIGHLIGHTS

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# LONGER-TERM OPERATING GOALS AND RECENT RESULTS

OPERATING GOALS



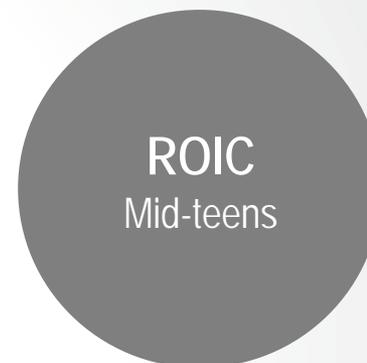
Q2 FY18  
Y/Y **14.1%**  
Y/Y, organic\* **10.4%**



Q2 FY18  
**10.9%**



Q2 FY18  
GAAP **2.2%**  
Non-GAAP\* **3.4%**



Q2 FY18  
**13.3%\***

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 Q2 FY18 CASH USES

FUNDED BY OPERATING CASH FLOW (+\$11 million\*) AND INCREASE IN NET DEBT (+\$310 million)

### INVESTMENTS IN PROFITABLE GROWTH



**ACQUISITIONS**  
\$295 million



**CAPEX**  
\$12 million

### RETURN OF CASH TO SHAREHOLDERS



**SHARE REPURCHASES**  
\$21 million

\* Operating cash flow: \$(84) million Q2 FY18 YTD; \$95 million FY17

# STRONG FINANCIAL POSITION FOR GROWTH

## STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY

2.4x net debt to adjusted EBITDA, trailing 12-months  
\$35 million in cash and \$361 million in debt  
\$400 million committed credit facility; \$45 million available  
\$100 million available under share repurchase authorization

## WORKING CAPITAL MANAGEMENT

6.2 inventory turns (5-qtr range: 5.6-6.2)  
Paid for inventory days of 9.4\* (5-qtr range: 4.7-12.5)  
60 days sales outstanding in receivables\* (5-qtr range: 60-63)

*Information as of 12/31/17, unless otherwise indicated*

*\* Excludes Intelisys*

# INVESTMENT HIGHLIGHTS

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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



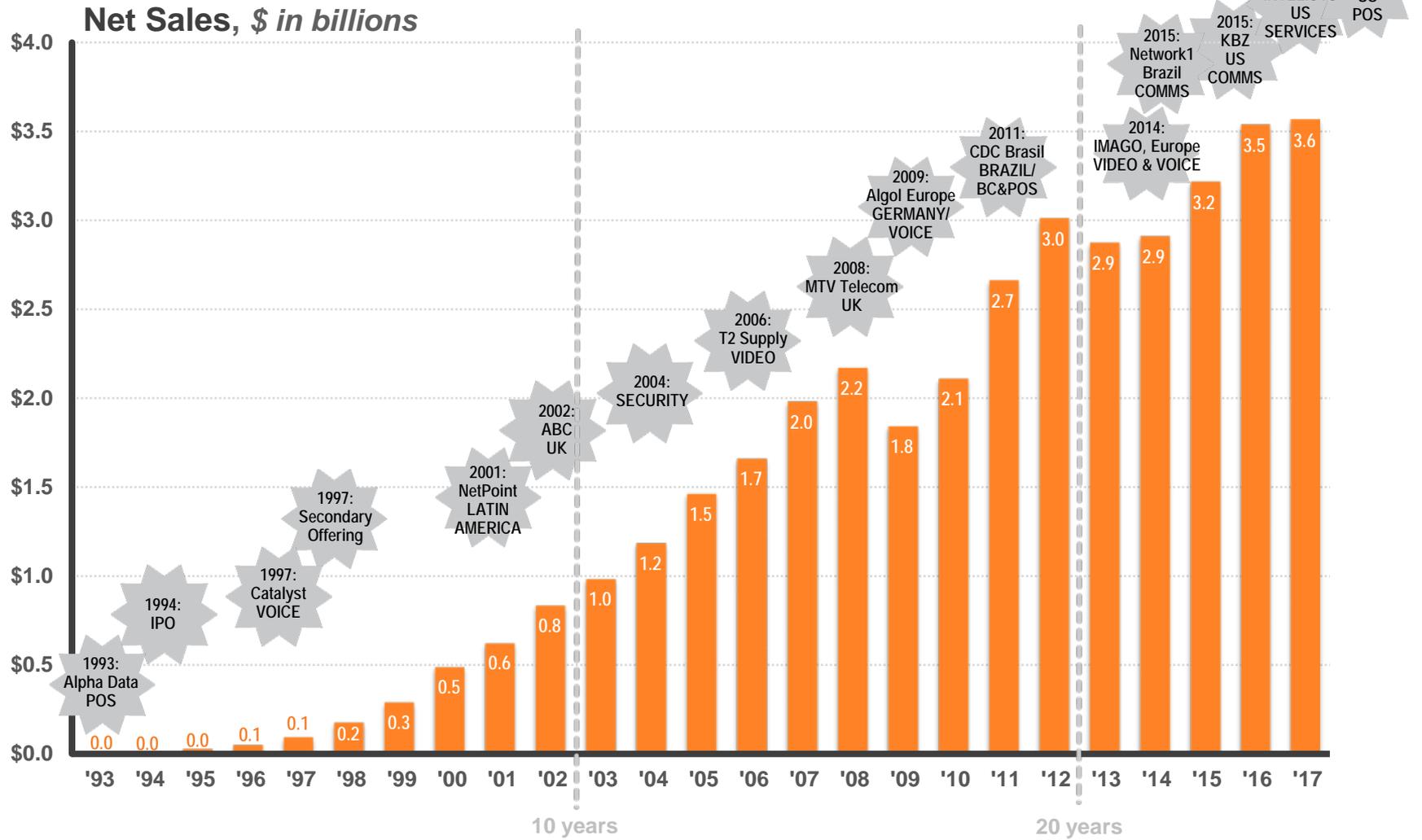
# APPENDIX

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**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 – Q2 FY18

## WORLDWIDE BARCODE, NW & SECURITY

<i>\$ in millions</i>	Q2 FY18	Q1 FY18	Q2 FY17
Net sales	\$719.8	\$620.3	\$593.8
Gross profit	\$62.0	\$57.5	\$49.0
Gross margin	8.6%	9.3%	8.2%
Operating income	\$15.5	\$14.0	\$12.1
Operating income %	2.2%	2.3%	2.0%
Non-GAAP operating income	\$17.9	\$15.9	\$13.2
Non-GAAP operating income %	2.5%	2.6%	2.2%

## WORLDWIDE COMMUNICATIONS & SERVICES

<i>\$ in millions</i>	Q2 FY18	Q1 FY18	Q2 FY17
Net sales	\$312.4	\$304.2	\$311.0
Gross profit	\$51.0	\$48.5	\$49.6
Gross margin	16.3%	15.9%	15.9%
Operating income	\$6.8	\$(6.3)	\$11.5
Operating income %	2.2%	(2.1)%	3.7%
Non-GAAP operating income	\$16.9	\$14.7	\$16.4
Non-GAAP operating income %	5.4%	4.8%	5.3%

*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)

	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18
<b>Consolidated:</b>								
Net sales, as reported	\$ 798,404	\$ 877,473	\$ 932,566	\$ 904,792	\$ 813,538	\$ 917,291	\$ 924,559	\$ 1,032,212
Foreign exchange impact	23,345	7,506	(4,028)	(5,814)	(6,837)	(2,150)	(8,039)	(13,831)
Net sales, constant currency	821,749	884,979	928,538	898,978	806,701	915,141	916,520	1,018,381
Less: Acquisitions	(63,637)	(79,701)	(102,195)	(8,487)	(8,893)	(9,178)	(24,303)	(19,706)
Net sales, constant currency excluding acquisitions	<u>\$ 758,112</u>	<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>
Prior Year Quarter Net sales, as reported	\$ 763,203	\$ 856,685	\$ 870,829	\$ 993,522	\$ 798,404	\$ 877,472	\$ 932,565	\$ 904,792
Less: Acquisitions	-	-	(34,628)	-	-	-	(2,863)	-
Prior Year Quarter Net sales, as adjusted	<u>\$ 763,203</u>	<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>
<b>Y/Y% Change:</b>								
Sales growth, as reported	4.6%	2.4%	7.1%	-8.9%	1.9%	4.5%	-0.9%	14.1%
Sales growth, constant currency	7.7%	3.3%	6.6%	-9.5%	1.0%	4.3%	-1.7%	12.6%
Sales growth, constant currency excluding acquisitions (organic growth)	-0.7%	-6.0%	-1.2%	-10.4%	-0.1%	3.2%	-4.0%	10.4%

(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 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
Acquisition costs	-	-	-	-
Legal settlement	-	-	-	-
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%

*(\$ in thousands)*

	Quarter Ended September 30, 2017			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 620,329	\$ 304,230	\$ -	\$ 924,559
GAAP operating income	\$ 14,035	\$ (6,265)	\$ (172)	\$ 7,598
Adjustments:				
Amortization of intangible assets	1,774	3,237	-	5,011
Change in fair value of contingent consideration	69	16,812	-	16,881
Acquisition costs	-	-	172	172
Legal settlement	-	952	-	952
Non-GAAP operating income	\$ 15,878	\$ 14,736	\$ -	\$ 30,614
GAAP operating income % (of net sales)	2.26%	-2.06%	n/m	0.82%
Non-GAAP operating income % (of net sales)	2.56%	4.84%	n/m	3.31%

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment – QTR

	Quarter Ended December 31, 2016 (a)			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
(\$ in thousands)				
Net sales	\$ 593,833	\$ 310,959	\$ -	\$ 904,792
GAAP operating income	\$ 12,131	\$ 11,479	\$ (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	<u>\$ 13,210</u>	<u>\$ 16,356</u>	<u>\$ -</u>	<u>\$ 29,566</u>
GAAP operating income % (of net sales)	2.04%	3.69%	n/m	2.57%
Non-GAAP operating income % (of net sales)	2.22%	5.26%	n/m	3.27%

*n/m = not meaningful*

(a) Reflects reclassifications between segments for certain geographies to provide comparable financial information.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Return on Invested Capital (ROIC) – QTR

(\$ in thousands)

	<b>Q2 FY18</b>
<b>Return on invested capital (ROIC), annualized (a)</b>	<b>13.3%</b>
<u>Reconciliation of Net Income to EBITDA</u>	
Net income (GAAP)	\$ 7,969
Plus: Interest expense	2,285
Plus: Income taxes	12,341
Plus: Depreciation and amortization	9,901
EBITDA (non-GAAP)	32,496
Change in fair value of contingent consideration	6,913
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 39,409</u>
<u>Invested Capital Calculation</u>	
Equity - beginning of the quarter	\$ 852,976
Equity - end of quarter	860,787
Change in fair value of contingent consideration, net of tax	4,742
Tax reform charges	6,689
Average equity	862,597
Average funded debt (b)	311,327
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 1,173,924</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 current 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%