



# INVESTOR PRESENTATION

DECEMBER 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 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, 2018, 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 TECHNOLOGY  
PRODUCTS AND SOLUTIONS

Channel sales model

Best-of-breed suppliers 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 Suppliers  
38,000+ Customers • 2,600+ Employees • 49 offices: US, Canada, Latin America, Europe, South Africa



# MISSION

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To be the **center** of the solution delivery channel –  
**connecting** businesses and providing **solutions**  
for their complex needs

## CUSTOMER CHANNELS



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

# ROBUST VALUE PROPOSITION

## FOR SUPPLIERS



## FOR CUSTOMERS



# DEEP SUPPLIER PARTNERSHIPS



% OF NET SALES, Q1 FY19

Segment includes the following acquisitions:  
KBZ (2015) and POS Portal (2017)

## BARCODE, NETWORKING & SECURITY KEY VENDORS



# DEEP SUPPLIER PARTNERSHIPS

## COMMUNICATIONS & SERVICES KEY VENDORS

 audiocodes

 AVAYA

 BARCO

CENTURYLINK  
Channel Partner Program  
DIAMOND PARTNER

 COMCAST  
BUSINESS



 FORTINET

 Jabra GN

 Level (3)

 Mitel

 plantronics

 Polycom

 RingCentral

 verizon

 west

 windstream.  
communications

 xc communications



% OF NET SALES, Q1 FY19

*Segment includes the following acquisitions:  
Network1 (2015), Intelisys (2016) and  
Canpango (2018)*

# 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



## Telecom and Cloud Services Distributor

- Master agent business model
- Intelisys earns percentage of commissions, building recurring revenues
- Large, growing addressable market with expected channel shift

~\$150  
BILLION

SMB Spend on  
Telecom Services

10%  
INDIRECT

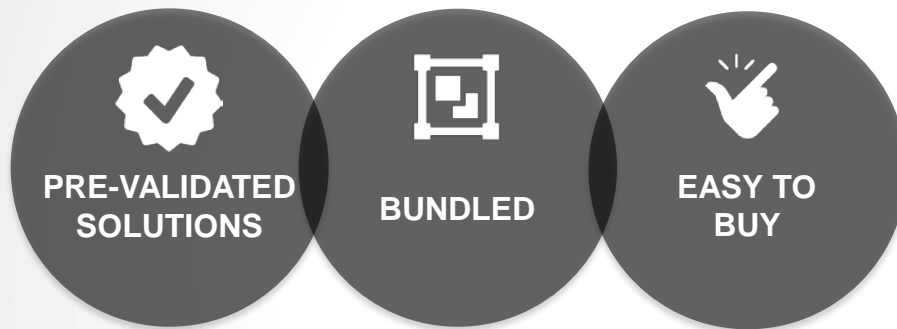
% of Market Served  
by Indirect Channel

- More than 125 leading cloud carriers and providers; top UCaaS and CCaaS
- Very low working capital requirements and no inventories

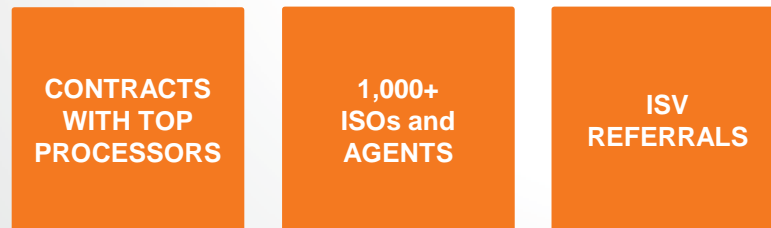
Note: Intelisys acquisition completed August 2016

# POS PORTAL CUSTOMER CHANNELS

## PAYMENTS SOLUTIONS AT VALUE-ADDED MARGINS



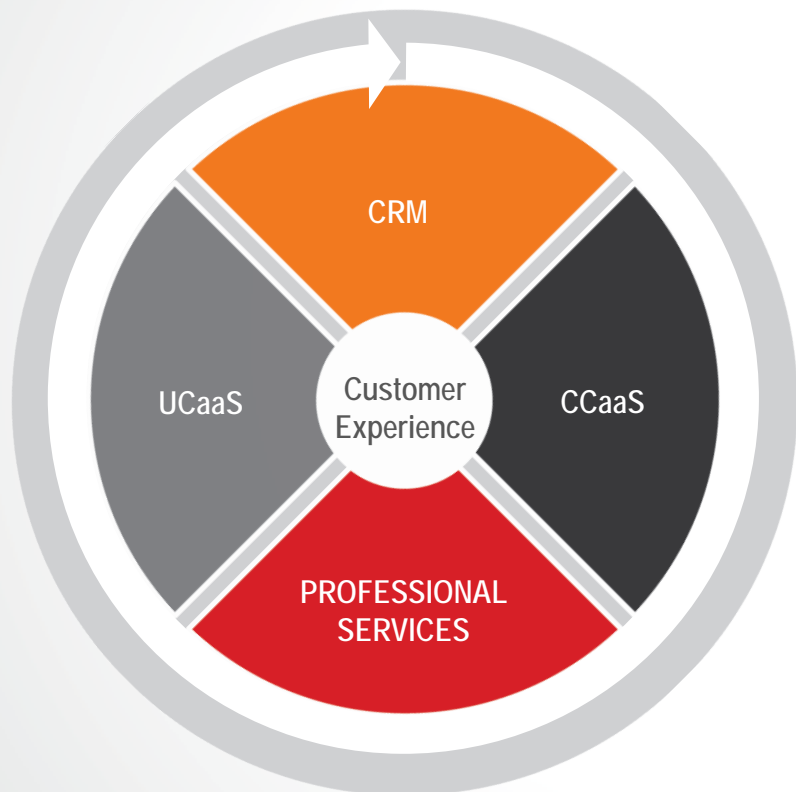
## CUSTOMER CHANNELS



## ISV Strategy - Example

- Salon ISV with cloud-based solution (SaaS)
- 10,000 end users
- ISV focus: subscriptions not hardware
- Engineer bundled payment solutions (hardware, software, and support)
- ISV refers end user to POS Portal
- Simplify end user experience

# CANPANGO PROFESSIONAL SERVICES



*Definitions: CRM (Customer Relationship Management);  
CCaaS (Contact Center as a Service); UCaaS (Unified  
Communications as a Service)*

*Note: Canpango acquisition completed August 2018*

## Global Salesforce Implementation and Professional Services Business

- Deep knowledge of CRM and integration with telecom systems
  - Unified Communications
  - Contact Center solutions
- Capabilities to help channel partners sell customer experience (CX) solutions
- Salesforce Managed Partner
- 70+ employees
- 400+ customers



# 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



**Q1 FY19**  
Y/Y **5.2%**  
Y/Y, organic\* **6.5%**

**FY18**  
Y/Y **7.8%**  
Y/Y, organic\* **4.1%**



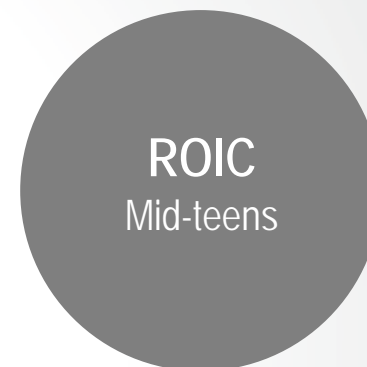
**Q1 FY19**  
**11.5%**

**FY18**  
**11.3%**



**Q1 FY19**  
GAAP **2.2%**  
Non-GAAP\* **3.4%**

**FY18**  
GAAP **1.8%**  
Non-GAAP\* **3.2%**



**Q1 FY19**  
**12.9%**

**FY18**  
**12.5%**

OPERATING GOALS

\* Non-GAAP operating income excludes amortization of intangibles, changes in fair value of contingent consideration and other non-GAAP items. 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 FY19 YTD CASH USES

FUNDED BY OPERATING CASH FLOW (+\$128 million) AND INCREASE IN NET DEBT (+\$248 million)

### INVESTMENTS IN PROFITABLE GROWTH



**ACQUISITIONS**  
\$341 million



**CAPEX**  
\$18 million

### RETURN OF CASH TO SHAREHOLDERS



**SHARE REPURCHASES**  
\$21 million

# STRONG FINANCIAL POSITION FOR GROWTH

## STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY

1.8x net debt to adjusted EBITDA, trailing 12-months  
\$19 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

5.4 inventory turns (5-qtr range: 5.4 to 6.2)  
Paid for inventory days of 8.1\* (5-qtr range: 6.8 to 11.6)  
60 days sales outstanding in receivables\* (5-qtr range: 59 to 64)

*Information as of 9/30/18, unless otherwise indicated*

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



# 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



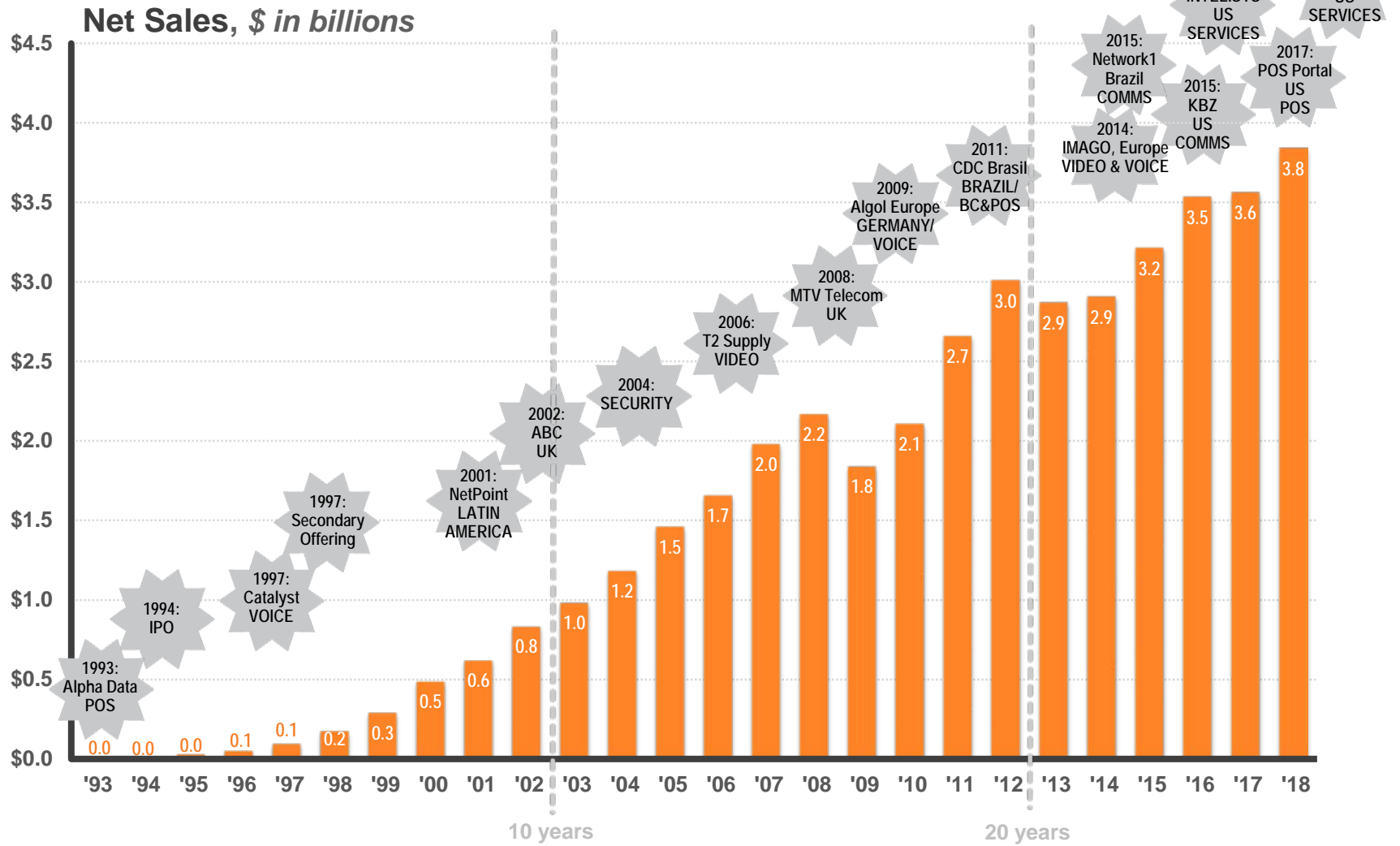
# APPENDIX

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**scansource.com**



# SCANSOURCE HISTORY



Since inception, completed 28 acquisitions  
 Net sales for fiscal years ended 6/30

**10-Year Compound Annual Growth Rate: 6%**

# SEGMENT FINANCIAL RESULTS – Q1 FY19

## WORLDWIDE BARCODE, NW & SECURITY

<i>\$ in millions</i>	Q1 FY19	Q4 FY18	Q1 FY18
Net sales	\$655.1	\$684.6	\$620.3
Gross profit	\$62.0	\$62.4	\$57.5
Gross margin	9.5%	9.1%	9.3%
Operating income	\$13.5	\$15.8	\$14.0
Operating income %	2.1%	2.3%	2.3%
Non-GAAP operating income	\$16.5	\$16.6	\$15.9
Non-GAAP operating income %	2.5%	2.4%	2.6%

## WORLDWIDE COMMUNICATIONS & SERVICES

<i>\$ in millions</i>	Q1 FY19	Q4 FY18	Q1 FY18
Net sales	\$317.8	\$309.3	\$304.2
Gross profit	\$50.3	\$51.0	\$48.5
Gross margin	15.8%	16.5%	15.9%
Operating income	\$8.3	\$4.0	\$(6.3)
Operating income %	2.6%	1.3%	(2.1)%
Non-GAAP operating income	\$16.2	\$14.2	\$14.7
Non-GAAP operating income %	5.1%	4.6%	4.8%

*Non-GAAP operating income excludes amortization of intangibles, change in fair value of contingent consideration and other non-GAAP items. 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)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1 FY19
<b>Consolidated:</b>						
Net sales, as reported	\$ 924,559	\$1,032,212	\$ 895,637	\$ 993,852	\$3,846,260	\$ 972,900
Foreign exchange impact	(8,039)	(13,831)	(15,646)	(100)	(37,616)	20,820
Net sales, constant currency	916,520	1,018,381	879,991	993,752	3,808,644	993,720
Less: Acquisitions	(24,303)	(19,706)	(22,361)	(30,842)	(97,211)	(24,429)
Net sales, constant currency excluding acquisitions	<u>\$ 892,217</u>	<u>\$ 998,675</u>	<u>\$ 857,630</u>	<u>\$ 962,910</u>	<u>\$3,711,433</u>	<u>\$ 969,291</u>
Prior Year Quarter Net sales, as reported	\$ 932,566	\$ 904,792	\$ 813,538	\$ 917,291	\$3,568,186	\$ 924,559
Less: Acquisitions	(2,863)	-	-	-	(2,863)	(14,553)
Prior Year Quarter Net sales, as adjusted	<u>\$ 929,703</u>	<u>\$ 904,792</u>	<u>\$ 813,538</u>	<u>\$ 917,291</u>	<u>\$3,565,323</u>	<u>\$ 910,006</u>
<b>Y/Y% Change:</b>						
Sales growth, as reported	-0.9%	14.1%	10.1%	8.3%	7.8%	5.2%
Sales growth, constant currency	-1.7%	12.6%	8.2%	8.3%	6.7%	7.5%
Sales growth, constant currency excluding acquisitions (organic growth)	-4.0%	10.4%	5.4%	5.0%	4.1%	6.5%

(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 September 30, 2018			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 655,113	\$ 317,787	\$ -	\$ 972,900
GAAP operating income	\$ 13,532	\$ 8,255	\$ (355)	\$ 21,432
Adjustments:				
Amortization of intangible assets	2,309	2,694	-	5,003
Change in fair value of contingent consideration	-	4,584	-	4,584
Acquisition costs	-	-	355	355
Restructuring costs	708	620	-	1,328
Non-GAAP operating income	<u>\$ 16,549</u>	<u>\$ 16,153</u>	<u>\$ -</u>	<u>\$ 32,702</u>
GAAP operating income % (of net sales)	2.07%	2.60%	n/m	2.20%
Non-GAAP operating income % (of net sales)	2.53%	5.08%	n/m	3.36%

(\$ in thousands)

	Quarter Ended June 30, 2018			
	WW Barcode, NW & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 684,552	\$ 309,300	\$ -	\$ 993,852
GAAP operating income	\$ 15,768	\$ 3,991	\$ -	\$ 19,759
Adjustments:				
Amortization of intangible assets	2,309	2,747	-	5,056
Change in fair value of contingent consideration	-	8,448	-	8,448
Tax recovery	(1,512)	(954)	-	(2,466)
Non-GAAP operating income	<u>\$ 16,565</u>	<u>\$ 14,232</u>	<u>\$ -</u>	<u>\$ 30,797</u>
GAAP operating income % (of net sales)	2.30%	1.29%	n/m	1.99%
Non-GAAP operating income % (of net sales)	2.42%	4.60%	n/m	3.10%

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment – QTR

	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
Legal settlement, net of attorney fees	-	952	-	952
Acquisition costs	-	-	172	172
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%

*n/m = not meaningful*

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Return on Invested Capital (ROIC)

(\$ in thousands)

### Return on invested capital (ROIC), annualized (a)

#### Reconciliation of Net Income to EBITDA

	Q1 FY19	FY18
	<b>12.9%</b>	<b>12.5%</b>
Net income - GAAP	\$ 14,322	\$ 33,153
Plus: Interest expense	2,627	9,149
Plus: Income taxes	4,902	27,772
Plus: Depreciation and amortization	9,268	37,495
EBITDA	31,119	107,569
Change in fair value of contingent consideration	4,584	37,043
Acquisition costs	355	172
Tax recovery and related interest income	-	(3,119)
Legal settlement, net of attorney fees	-	952
Restructuring Costs	1,328	-
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 37,386</u>	<u>\$ 142,617</u>

#### Invested Capital Calculation

Equity - beginning of the quarter	\$ 866,376	\$ 837,145
Equity - end of quarter	877,897	866,376
Change in fair value of contingent consideration, net of tax	3,487	24,697
Acquisition costs, net of tax	355	172
Tax recovery and related interest income	-	(2,058)
Legal settlement, net of attorney fees, net of tax	-	771
Tax reform charges	-	9,034
Restructuring costs, net of tax	955	-
Average equity	874,535	868,069
Average funded debt (b)	272,277	276,233
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 1,146,812</u>	<u>\$ 1,144,302</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 %

<i>(\$ in millions)</i>	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Net sales	\$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	\$3,846.3
Gross margin	11.3%	10.4%	10.3%	10.0%	10.2%	10.3%	10.2%	10.0%	10.8%	11.3%
GAAP operating income	\$ 74.1	\$ 75.8	\$ 113.1	\$ 113.5	\$ 51.0	\$ 121.8	\$ 101.4	\$ 96.9	\$ 88.2	\$ 67.6
Adjustments:										
Amortization of intangible assets	2.6	2.0	3.0	6.4	4.9	3.9	6.6	9.8	15.5	20.7
Change in fair value of contingent consideration	-	-	(0.1)	0.1	1.8	2.3	2.7	1.3	5.2	37.0
Acquisition costs	-	-	-	-	-	-	3.3	0.9	1.3	0.2
Impairment charges, including ERP & goodwill, and Belgian costs	-	-	-	-	50.9	-	-	-	-	-
Tax recovery and related interest income	-	-	-	-	-	-	-	-	-	(2.5)
Legal recovery, net of attorney fees	-	-	-	-	-	(15.5)	-	-	-	1.0
Non-GAAP operating income	\$ 76.7	\$ 77.8	\$ 116.0	\$ 120.0	\$ 108.7	\$ 112.5	\$ 114.0	\$ 108.9	\$ 110.2	\$ 124.0
GAAP operating income % (of net sales)	4.01%	3.58%	4.24%	3.76%	1.77%	4.18%	3.15%	2.74%	2.47%	1.76%
Non-GAAP operating income % (of net sales)	4.15%	3.68%	4.35%	3.98%	3.78%	3.86%	3.54%	3.08%	3.09%	3.22%