



# Investor Presentation

November 2022

# SAFE HARBOR AND NON-GAAP

## Safe Harbor Statement

This presentation contains certain comments that are “forward-looking” statements about our FY23 outlook, mid-term goals and our operating strategies 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, the failure to hire and retain quality employees, risk to our business from a cyber-security attack, supply chain challenges, the failure to manage and implement our organic growth strategy, economic weakness and inflation, a failure of our IT systems, credit risks involving our larger customers and suppliers, changes in interest and exchange rates and regulatory regimes impacting our international operations, loss of our major customers, termination of our relationship with key suppliers or a significant modification of the terms under which we operate with a key supplier, changes in our operating strategy, and other factors set forth in the “Risk Factors” contained in our annual report on Form 10-K for the year ended June 30, 2022, and subsequent reports 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, non-GAAP SG&A expenses, adjusted EBITDA, adjusted 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.

Unless otherwise noted, our business descriptions and results in this presentation reflect continuing operations only.

# The New ScanSource – A Transformed Company

**From:** A traditional hardware distributor



**To:** Innovative hybrid distributor

-  Orchestration of hybrid solutions
-  Intelisys, largest technology services distributor of telecom and cloud
-  Rapidly growing recurring revenue
-  Deep specialization
-  Expanding margins

## AGENDA

# Leading Specialty Technology Distributor. Momentum Building.



**1**

**A repositioned  
company**

**2**

**Building on  
specialized  
technologies**

**3**

**Differentiated  
market position**

**4**

**Attractive  
financial profile**

**5**

**Delivering long-term  
sustainable growth**



# ScanSource At-a-Glance – Leading Hybrid Distributor

Specialty Technology  
Distributor

**#1**

Sales Partner Customers

**30,000+**

Technology Suppliers

**500+**

Total Employees

**2,300+**

## Two Segments – Net Sales

### Specialty Technology Solutions



Mobility and  
Barcode



Security and  
Networking



Point of Sale (POS)  
and Payments

**~59%**

### Modern Communications & Cloud



Communications  
and Collaboration



Connectivity



Cloud  
Services

**~41%**

Channel Play

**100%**

Recurring Revenue %  
of Gross Profit

**~24%**



WHAT IS HYBRID DISTRIBUTION?

# Example of a Hybrid Solution for the Modern Enterprise

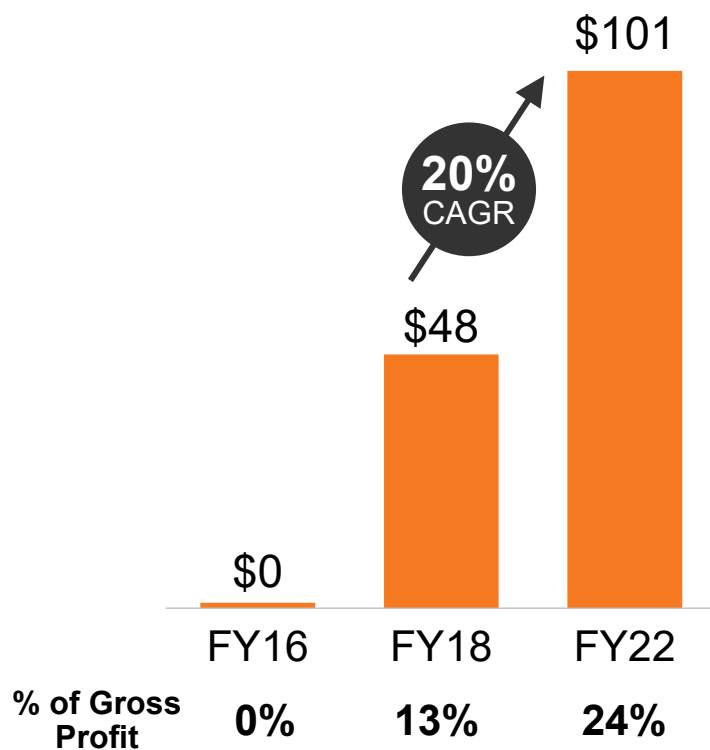
Hybrid combines hardware devices and cloud applications

○ Hardware    ○ SaaS / Cloud

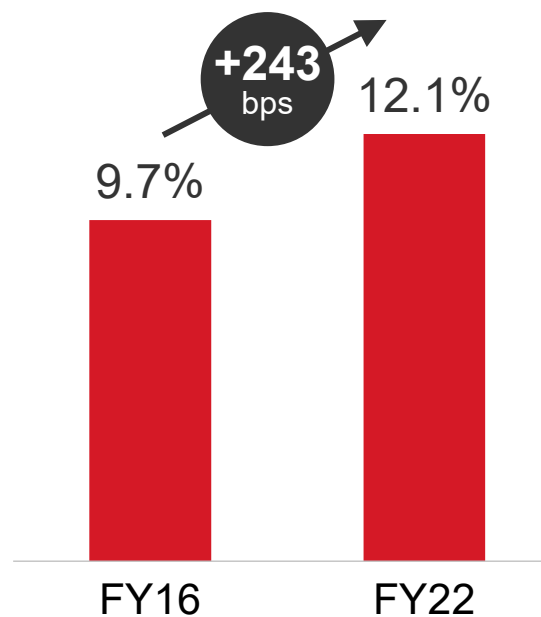


# Clear Evidence of a Transformed Business Model

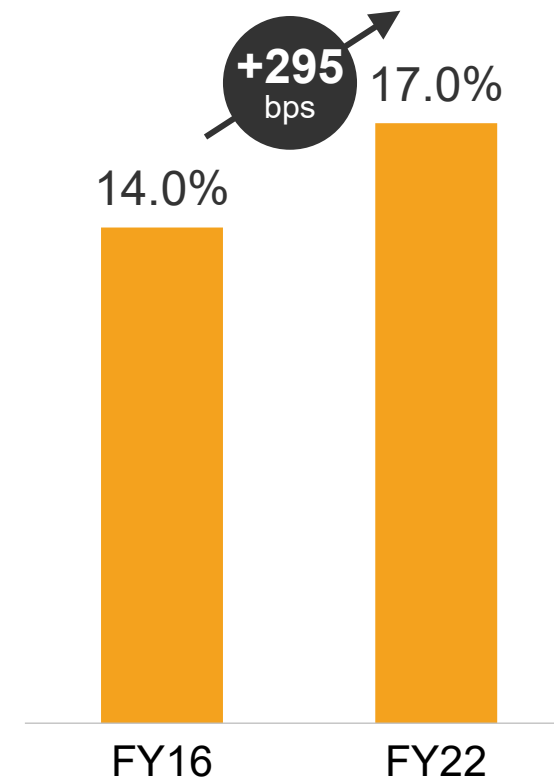
**Rapidly Growing  
Recurring Revenue**  
(\$M)



**Expanding  
Gross Profit Margin**



**Higher Adj. ROIC**



# ScanSource Plays a Pivotal Role Accelerating Growth for Our Partners: #1 or #2 Channel Partner for Our Key Suppliers

## TECHNOLOGY SUPPLIERS (500+)

### ScanSource Value Proposition for Suppliers



### ScanSource Value Proposition for Sales Partners

## SALES PARTNERS (30,000+)



## OUR MISSION ➤

Drive sustainable, profitable growth by orchestrating hybrid technology solutions through a rapidly growing ecosystem of partners leveraging our people, processes, and tools.

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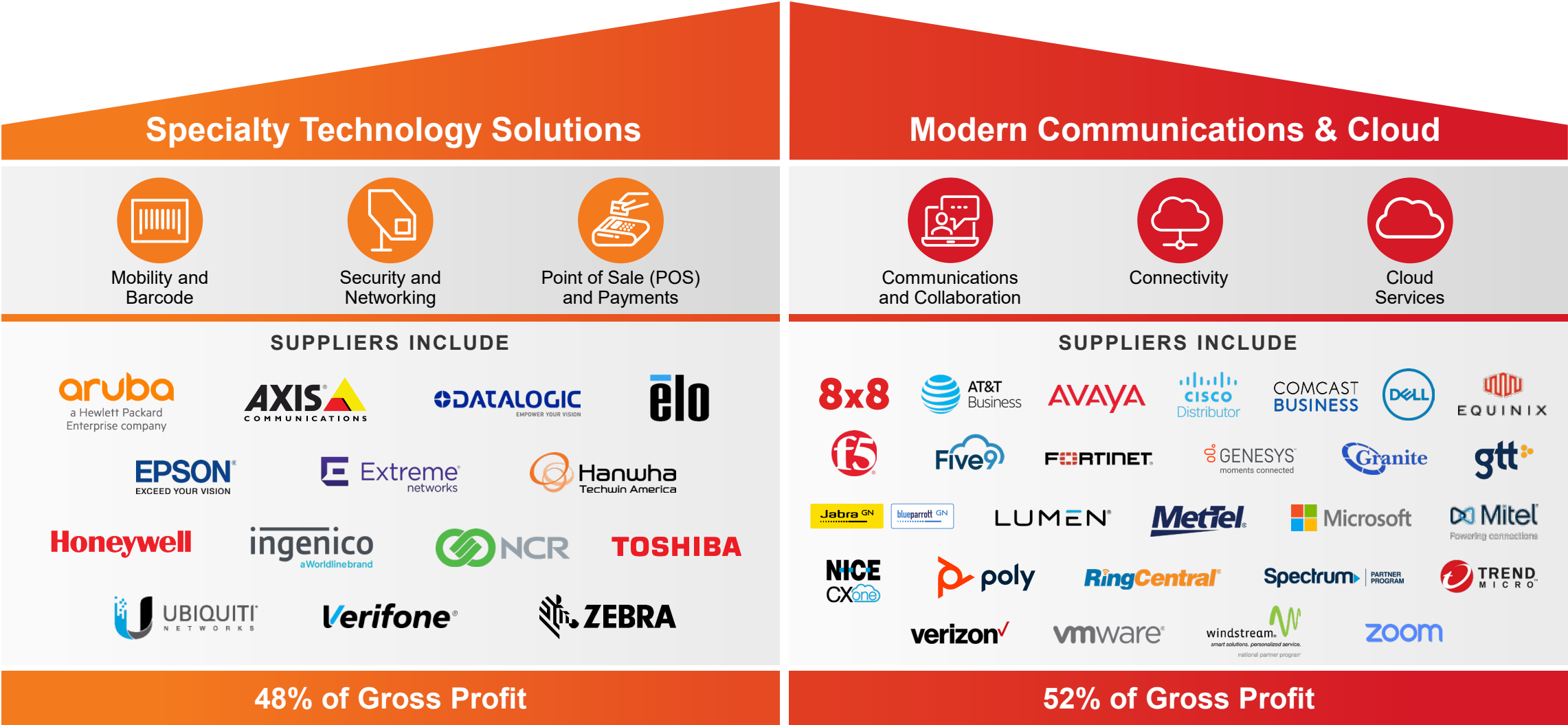
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# Building On Specialized Technologies – Two Segments



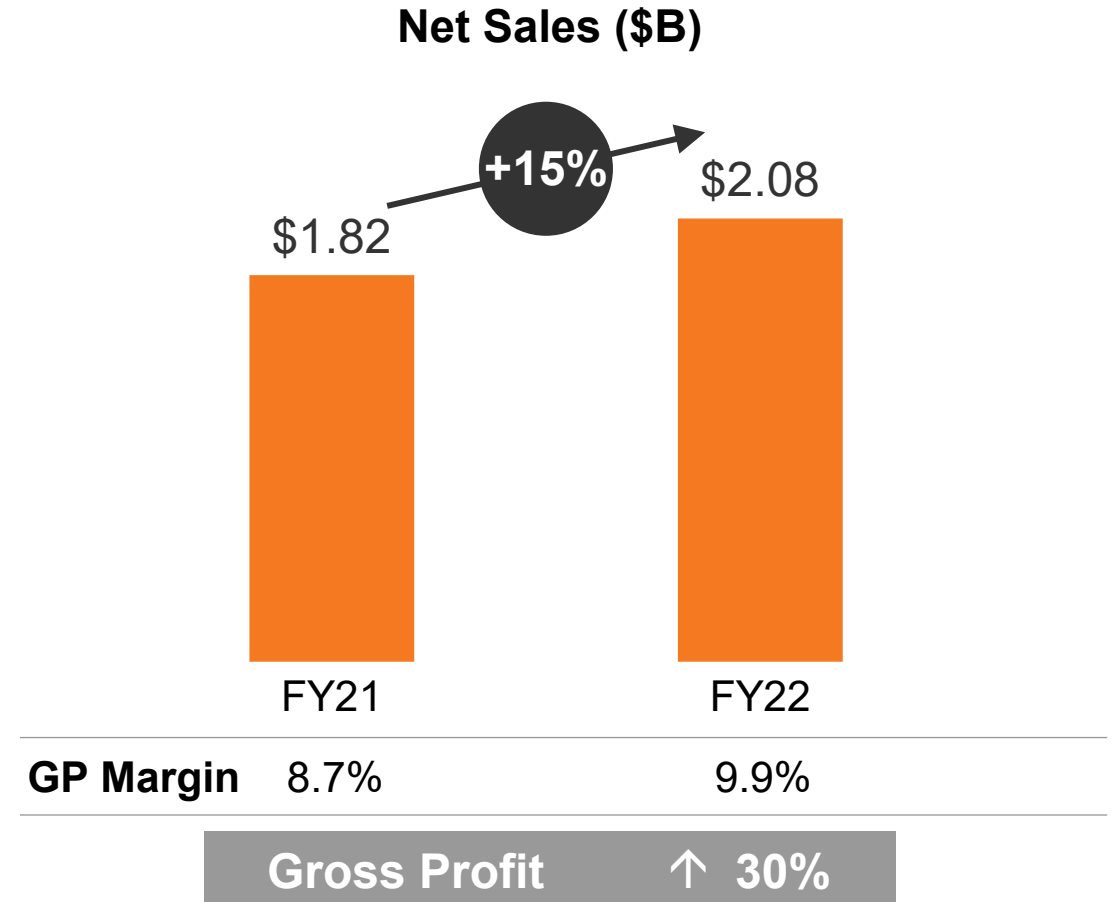
# Specialty Technology – Growing Steadily

## Key Growth Drivers

- ✓ Mobile computing devices enabling automation and worker productivity
- ✓ On-line ordering and self-checkout
- ✓ Payments and retail customer experience
- ✓ IP video surveillance protecting people and assets
- ✓ Remote work and wireless access points

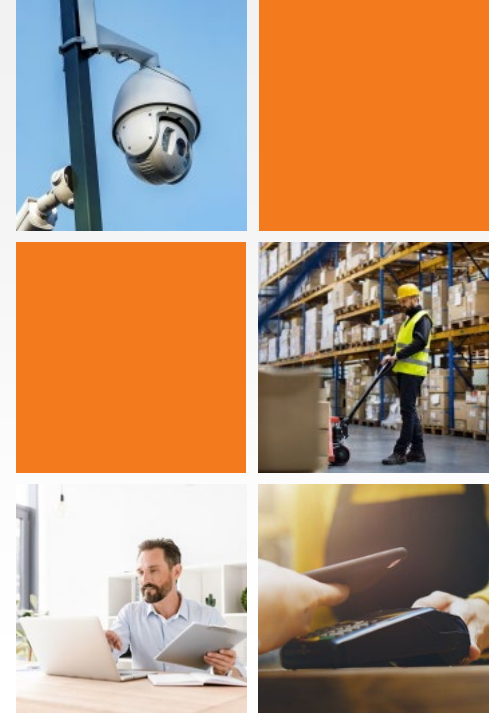
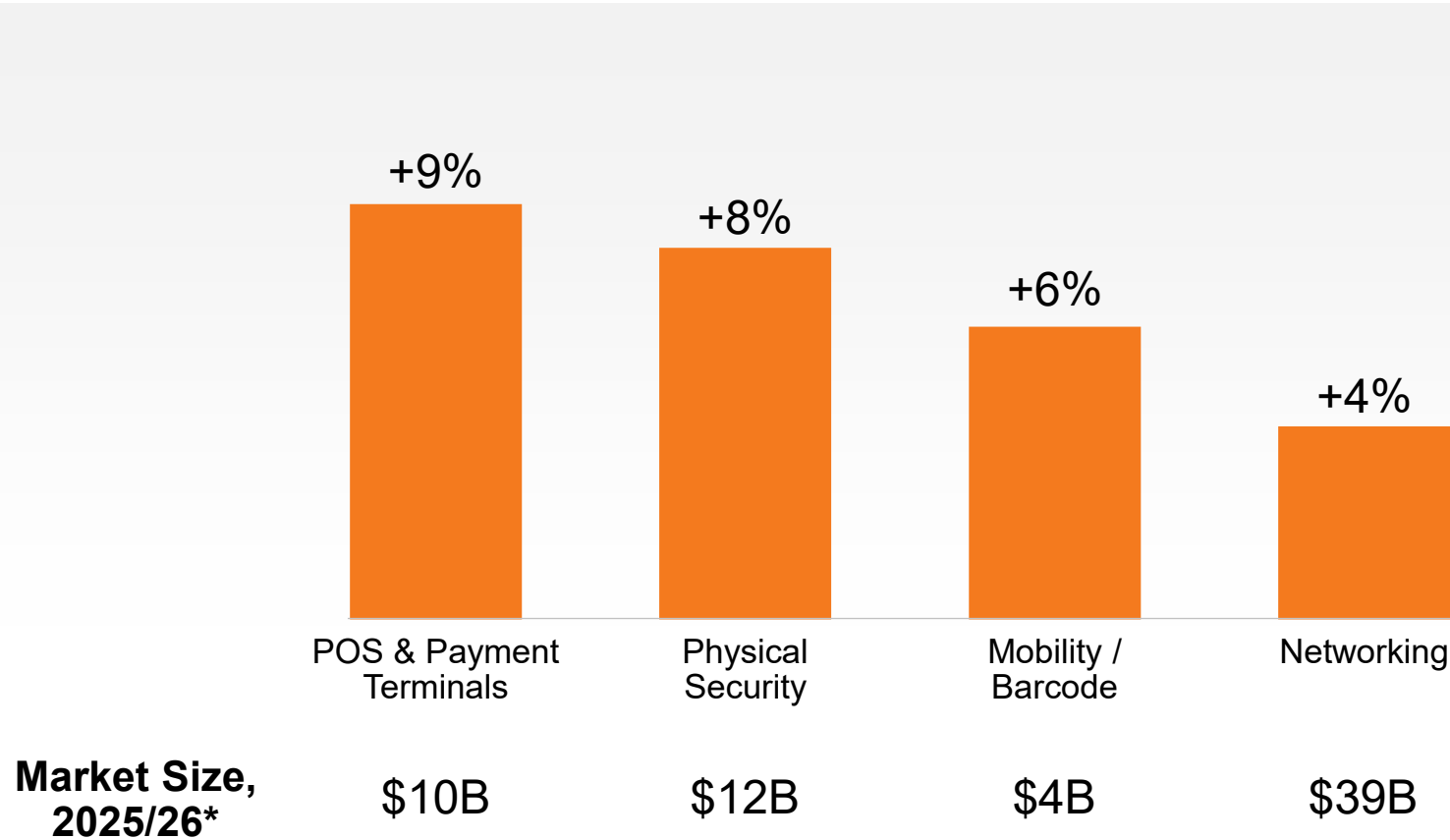


## Growth in FY22



# Positioned in Large Growing Markets

## Growth Rates – CAGR % 2021/22 to 2025/26\*



For US and Canada based on end-user spending (reflects direct and indirect sales); ScanSource's market opportunity is in indirect sales.  
 Source: ScanSource estimates using market research from Gartner, IDC, and VDC.  
 \* Estimates for 2021 to 2025 for Mobility/Barcode and POS & Payment Terminals and for 2022 to 2026 for Physical Security and Networking.

# Cloud Growth Set to Accelerate

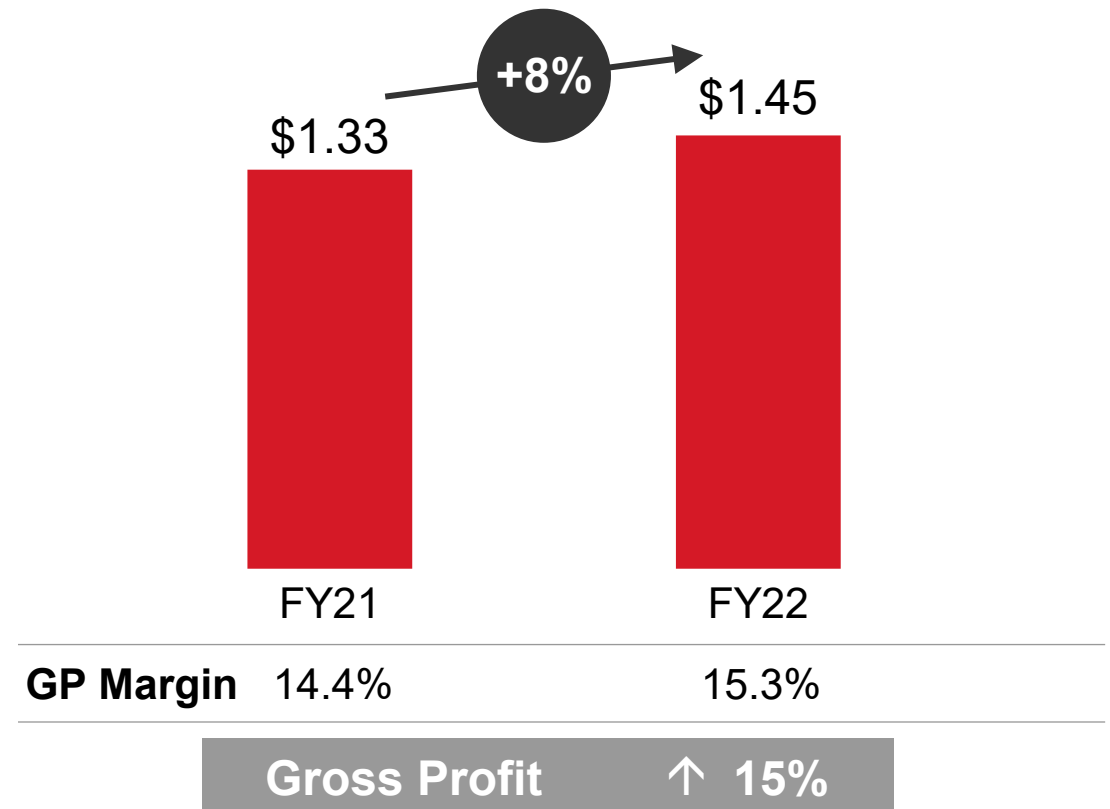
## Key Growth Drivers

- ✓ Hybrid work creates opportunity for cloud-based unified communications & collaboration solutions
- ✓ Cloud-enabled endpoints and video conference rooms
- ✓ Growing need for easily maintainable cloud-based contact centers
- ✓ Heightened emphasis on security for cloud



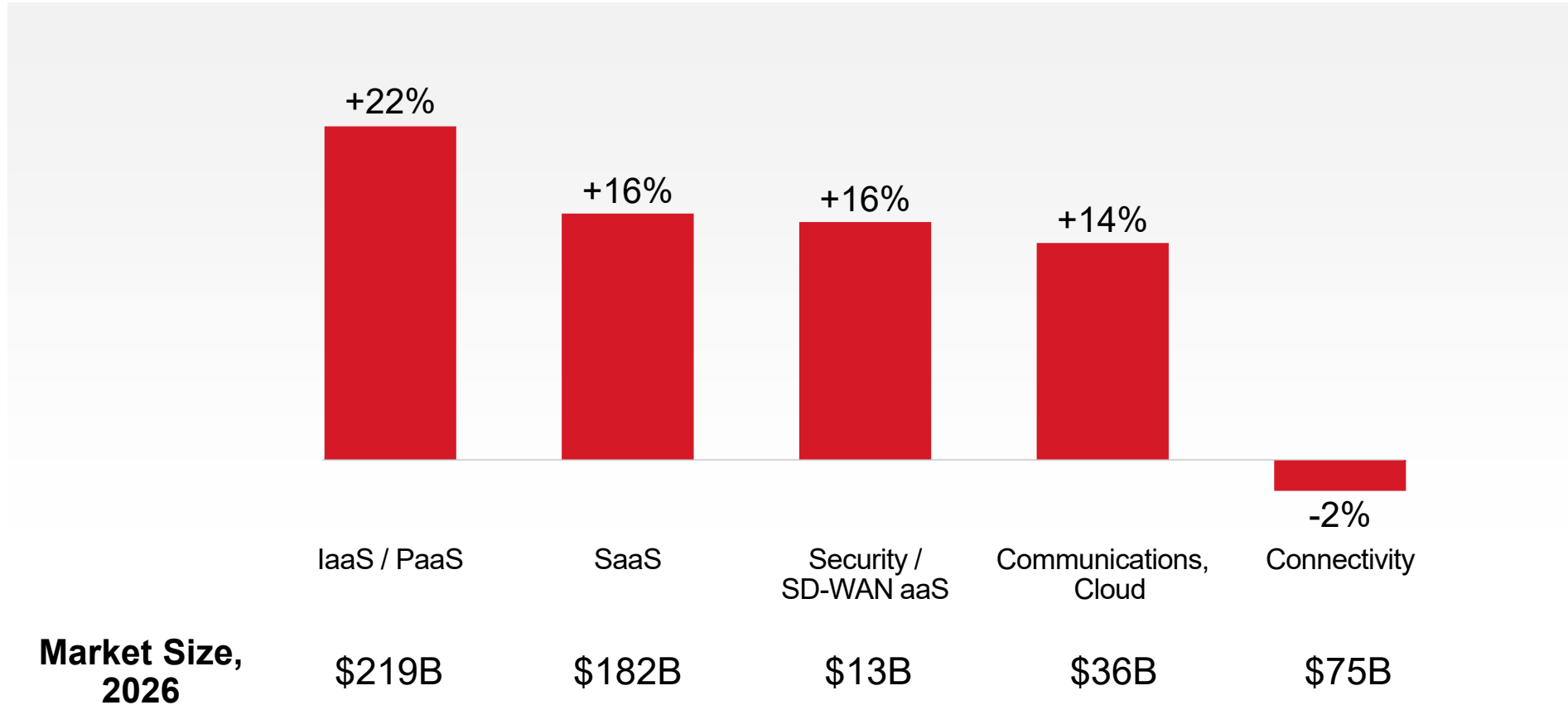
## Growth in FY22

### Net Sales (\$B)



# Positioned in High Growth Cloud Markets – Generates 43% of Segment Gross Profit

**Growth Rates – CAGR % 2021 to 2026**



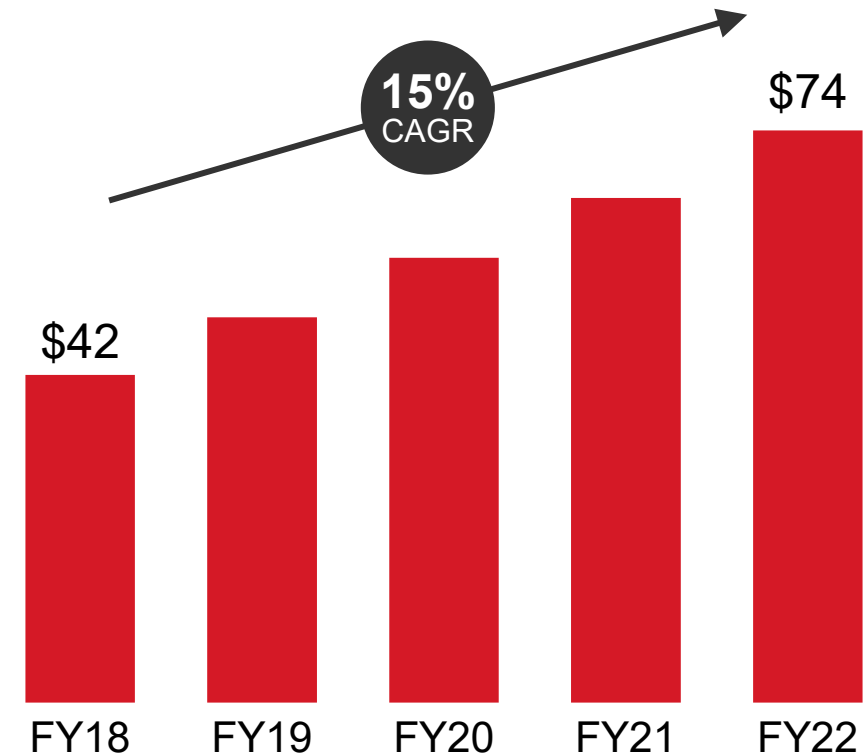
For US and Canada based on end-user spending (reflects direct and indirect sales); ScanSource's market opportunity is in indirect sales.  
Source: ScanSource estimates using market research from Gartner.

# Intelisys A Key Driver of Gross Profit Growth – Net Billings, \$2.25B<sup>(1)</sup>

## Key Growth Drivers

- Earns percentage of commissions, building recurring revenues from multi-year contracts
- Very low working capital requirements and no inventories
- Intelisys value-adds:
  - Trusted relationships
  - Strong supplier contracts and choice (200+)
  - Strong cloud supplier offerings; top UCaaS and CCaaS
  - Commission management tool and accuracy
  - Education, training, and certifications
  - Financial strength of ScanSource; advanced commissions

## Intelisys Revenues (\$M)



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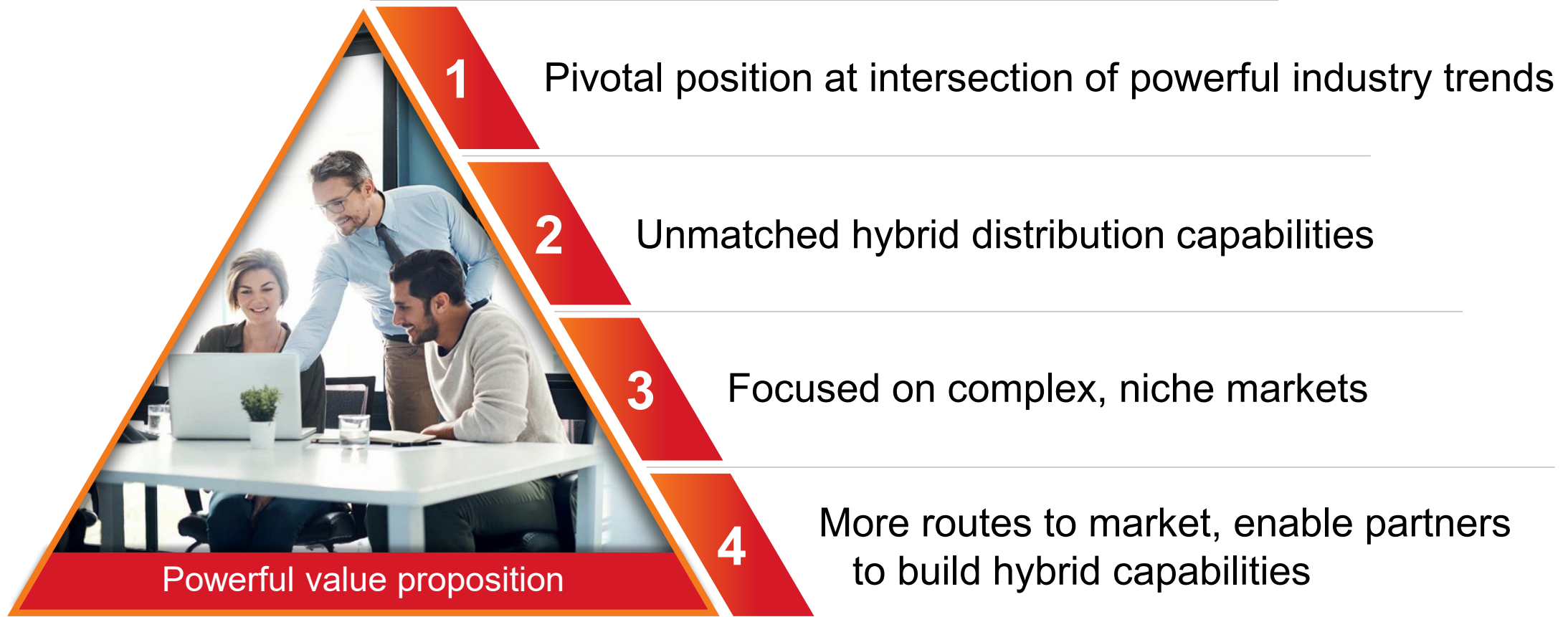
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# A Differentiated Market Position



# ScanSource is Positioned in a Pivotal Position to Capitalize on Powerful Technology Distribution Trends

## Suppliers Seeking New Routes to Market (500+)

- Need distributors who can support diverse routes and end-user preferences



## Pivotal Position



Value-added partner  
for BOTH:






















- Suppliers
- Sales partners

## Sales Partners Need Expanded Capabilities (30,000+)

- Hardware +
- Software +
- Services +
- Support



# Unmatched Hybrid Distribution Capabilities

Capability		Competitors		
		Broadline IT	Speciality IT	Agency
Portfolio in Specialty Technologies:				
• Hardware				
• Agency model for selling cloud services				
Multiple, specialized routes to market				
Deep specialization				
Orchestrate hybrid solutions				

# Focused on Complex, Niche Markets

## Key Capabilities

### Scale of a Market Leader

Deep sales partner and supplier relationships  
– #1 or #2 for our key suppliers



### Delivery Model for Hybrid Distribution

Agency model makes it easy for  
sales partners to sell cloud



### Enable Partners to Win

Hardware+ to deliver technology  
solutions stack



### Innovative Financial Solutions

Versatile financial solutions for sales  
partner community



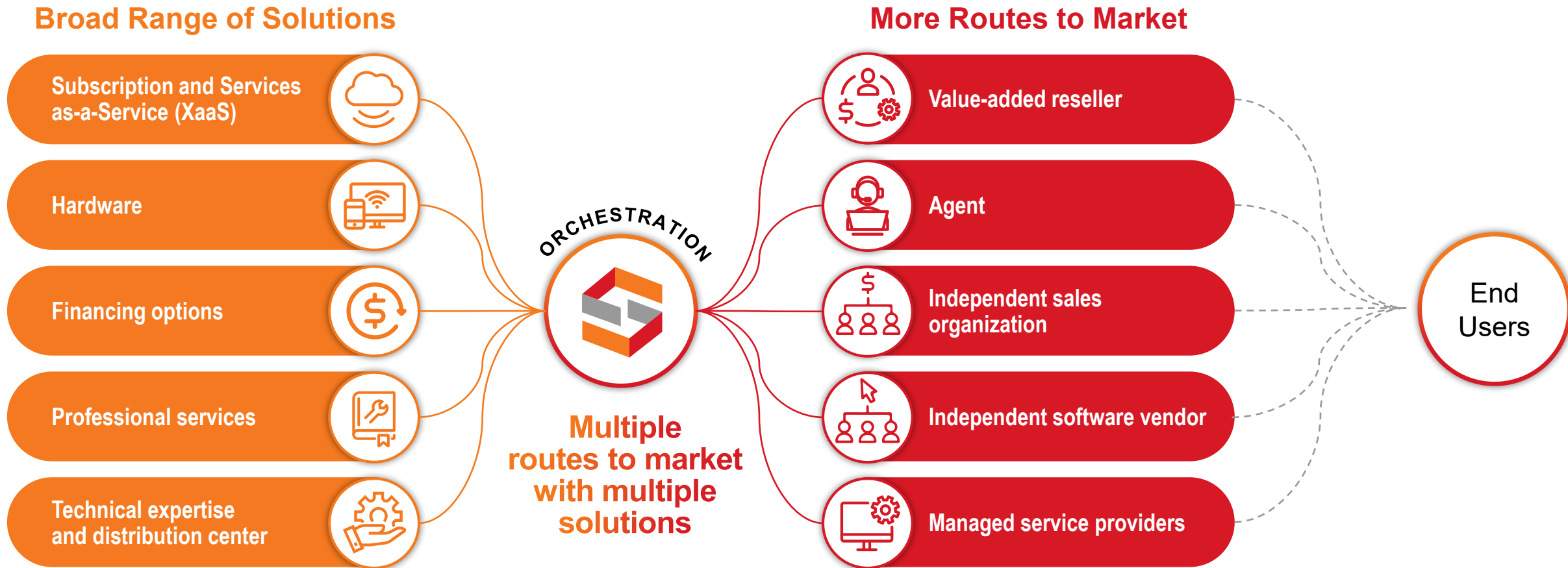
## Advantages



**Well-positioned  
to meet  
complex needs**



# Our Hybrid Model Orchestrates the Best Client Solutions, Plus We are a 100% Pure Channel Player = Trust



# VARs Selling Hardware and Recurring Revenue

## Communications VAR

### Situation

- Retailer moving from premise-based communications to cloud at its 2,200 locations

### Sales Partner

- Communications VAR

### Solution

- ScanSource provided:
  - Engineering support
  - Modern communication solution, including hardware, software, and cloud connectivity



## Mobility / Barcode VAR

### Situation

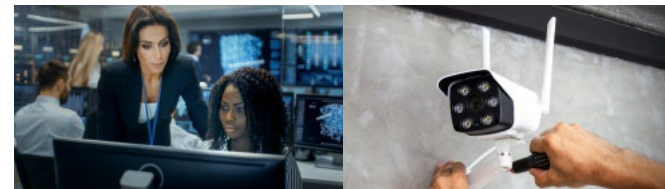
- Construction company implementing an outdoor video surveillance solution at over 3,000 sites

### Sales Partner

- Mobility and Barcoding VAR

### Solution

- ScanSource provided:
  - Wireless surveillance solution
  - Included surveillance cameras, cellular SIM cards, connectivity, and remote monitoring



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# Attractive Financial Profile

1. Sustainable top-line growth
  - fast growing recurring revenue

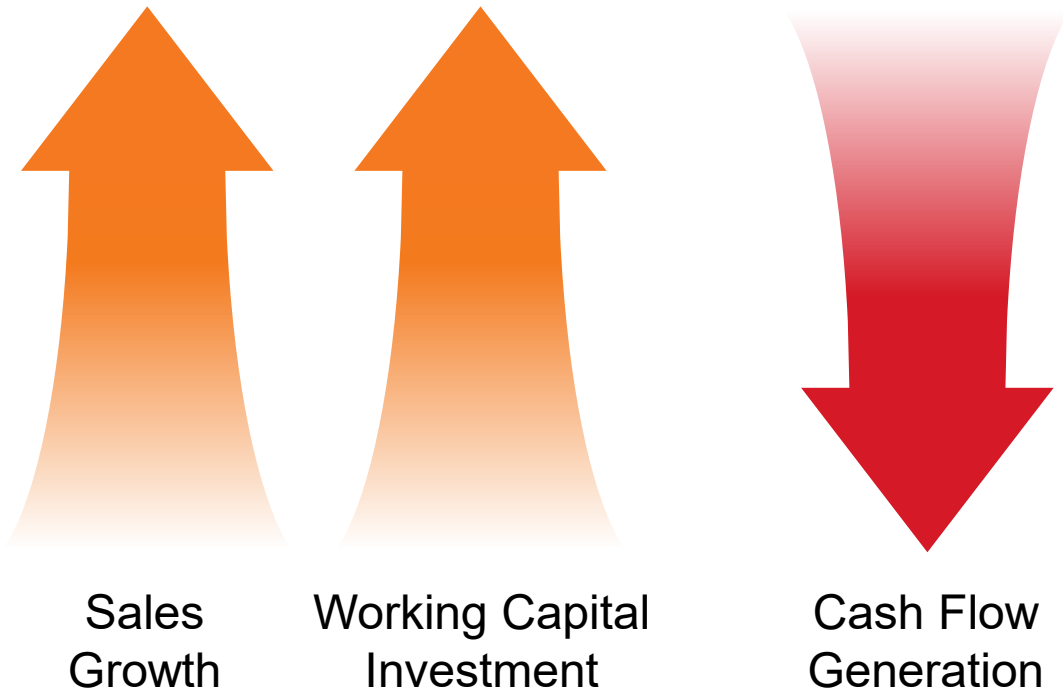
2. Margin expansion opportunity
  - gross profit margin up 243 bps since FY16 (vs. FY22)



4. Strong balance sheet
  - disciplined capital allocation

3. FCF generation
  - reflects working capital for growth

# Working Capital Investment to Support Higher Sales Growth



## Inventory Safeguards:

- ✓ Stock rotation rights
- ✓ Price protection

## Cash Conversion Cycle:

- ✓ 78 days for QE 9/30/22  
*5-qtr range: 59 days to 78 days*

# Strong Balance Sheet and Disciplined Capital Allocation

## Priorities

### 1. Reinvestment for growth

- Organic growth
- Strategic acquisitions

### 2. Share repurchases

- Announced \$100M authorization in Aug.'21
- \$18.2M repurchased under plan in FY22
- No repurchases in Q1 FY23

### 3. Maintain targeted net leverage ratio

- Target range of 1x to 2x adjusted EBITDA

## Key Metrics QE 9/30/22

Net leverage ratio

1.7

Cash

\$40M

Borrowing availability

\$177M

Debt

\$326M

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# A New ScanSource Enables Partners to Build Hybrid Capabilities

	From		Add
<b>Delivery</b>	On premise	→	Cloud
<b>Products</b>	Hardware & software	→	“X” as a Service
<b>Revenue</b>	Upfront	→	Recurring
<b>Licenses</b>	Perpetual	→	Subscription
<b>Sales</b>	Order entry	→	Self-service automation
<b>Solutions</b>	Single-point products	→	Multi-purpose

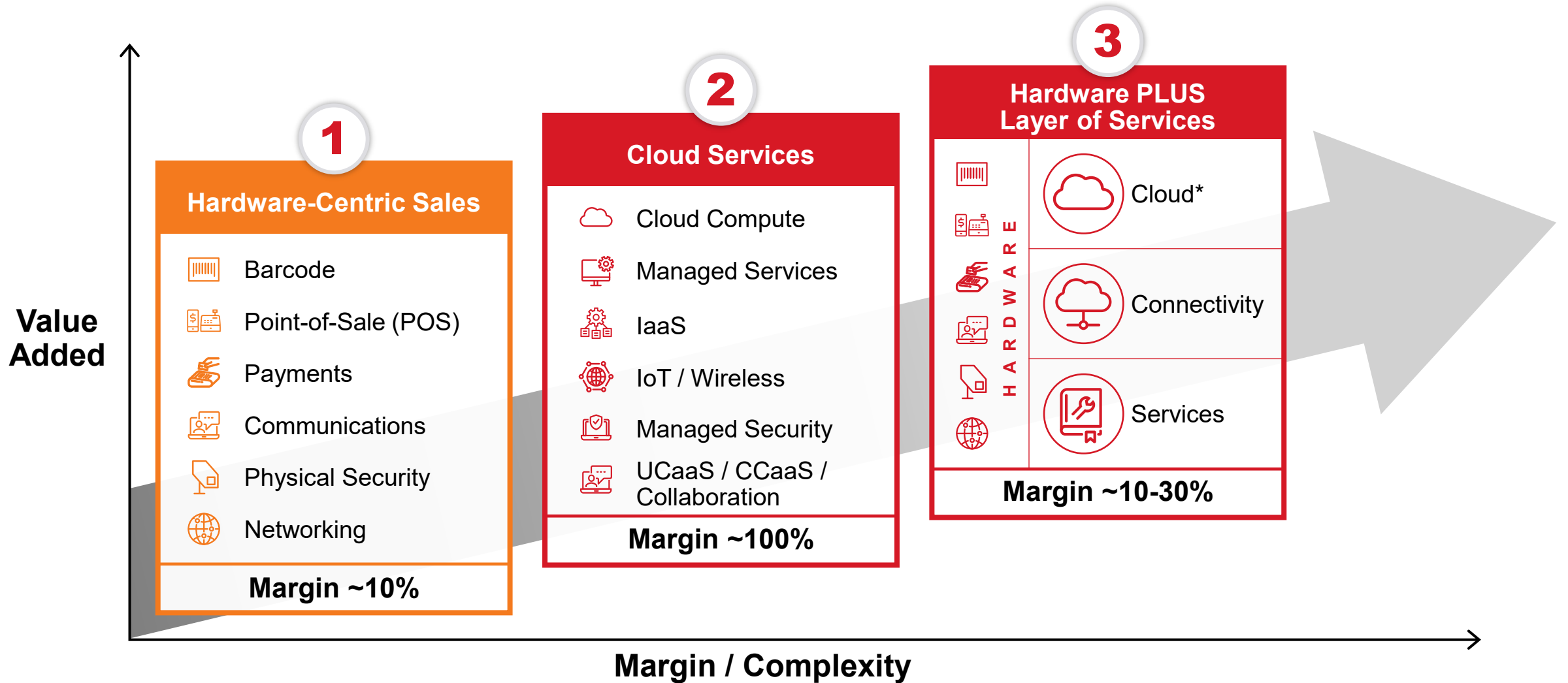


# Multiple Growth Drivers Going Forward

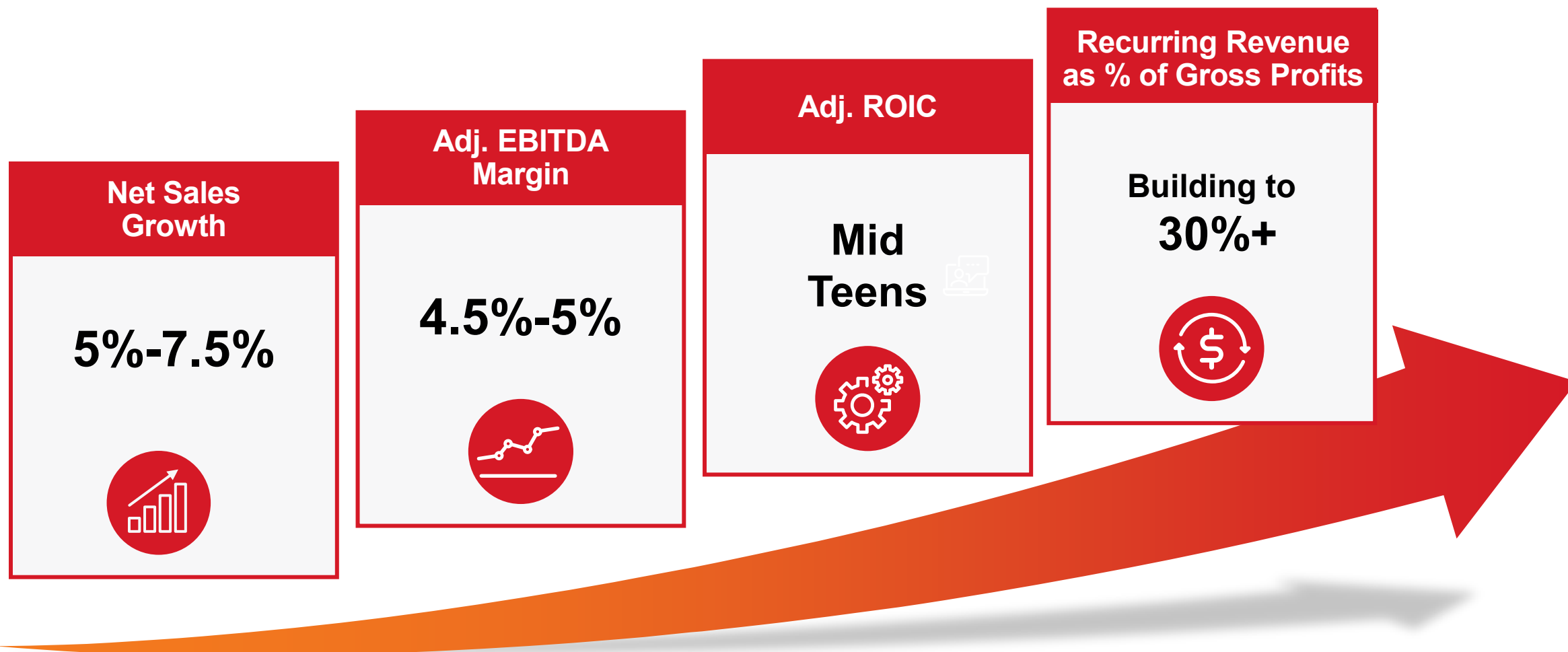
- 1.** Grow hybrid offerings across all routes to market
- 2.** Broaden technology portfolio
- 3.** Enter new markets, target new customer needs
- 4.** Digital expansion
- 5.** Build technology capabilities



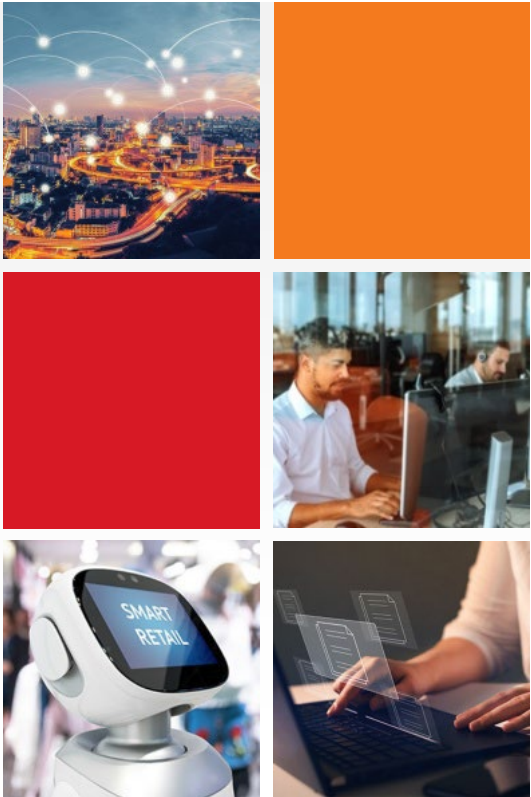
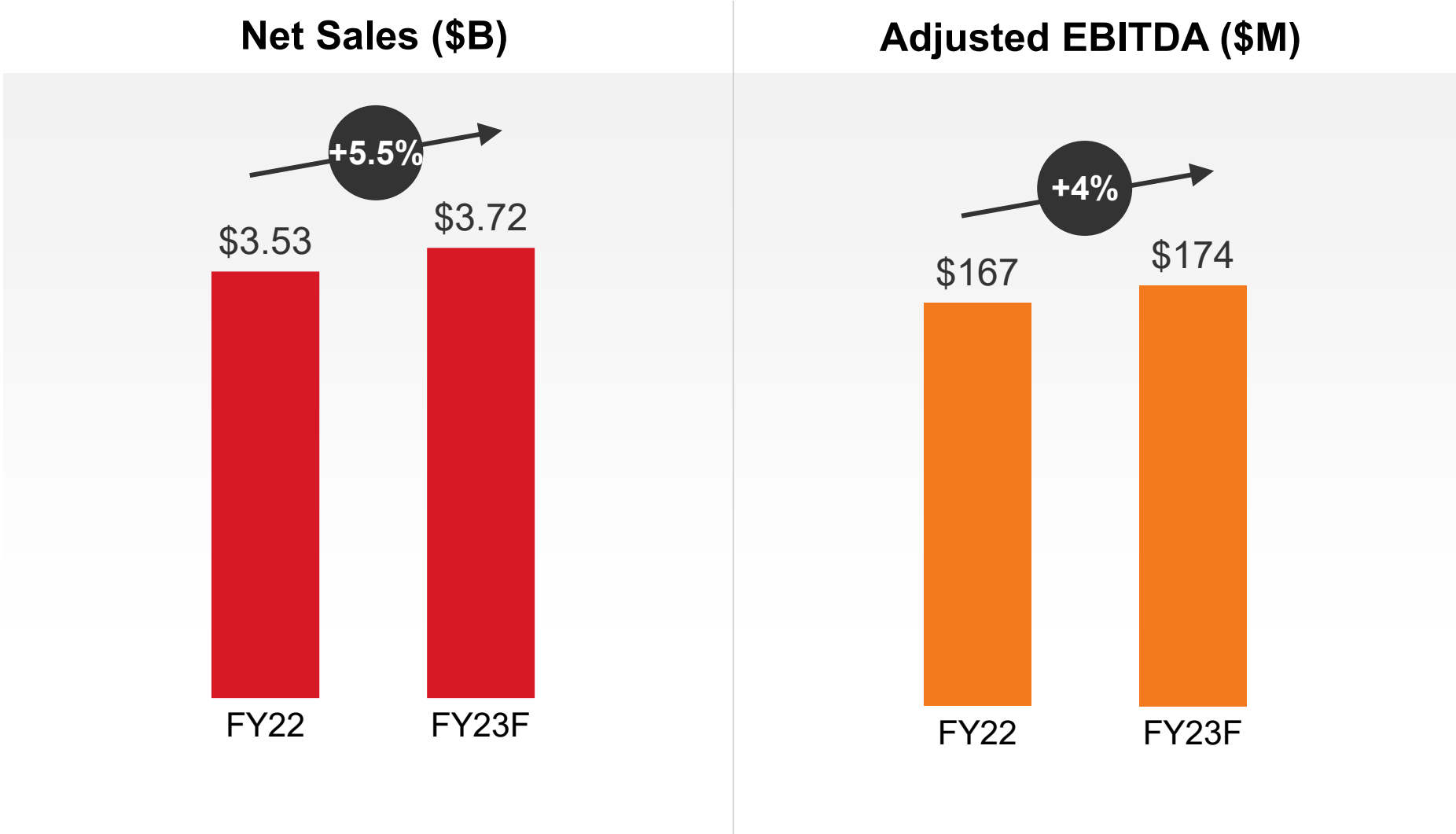
# Evolving to Higher Value-Added Solutions



# Clear Mid-Term Goals



# Outlook FY23 – Performance Continues to Accelerate



IN SUMMARY

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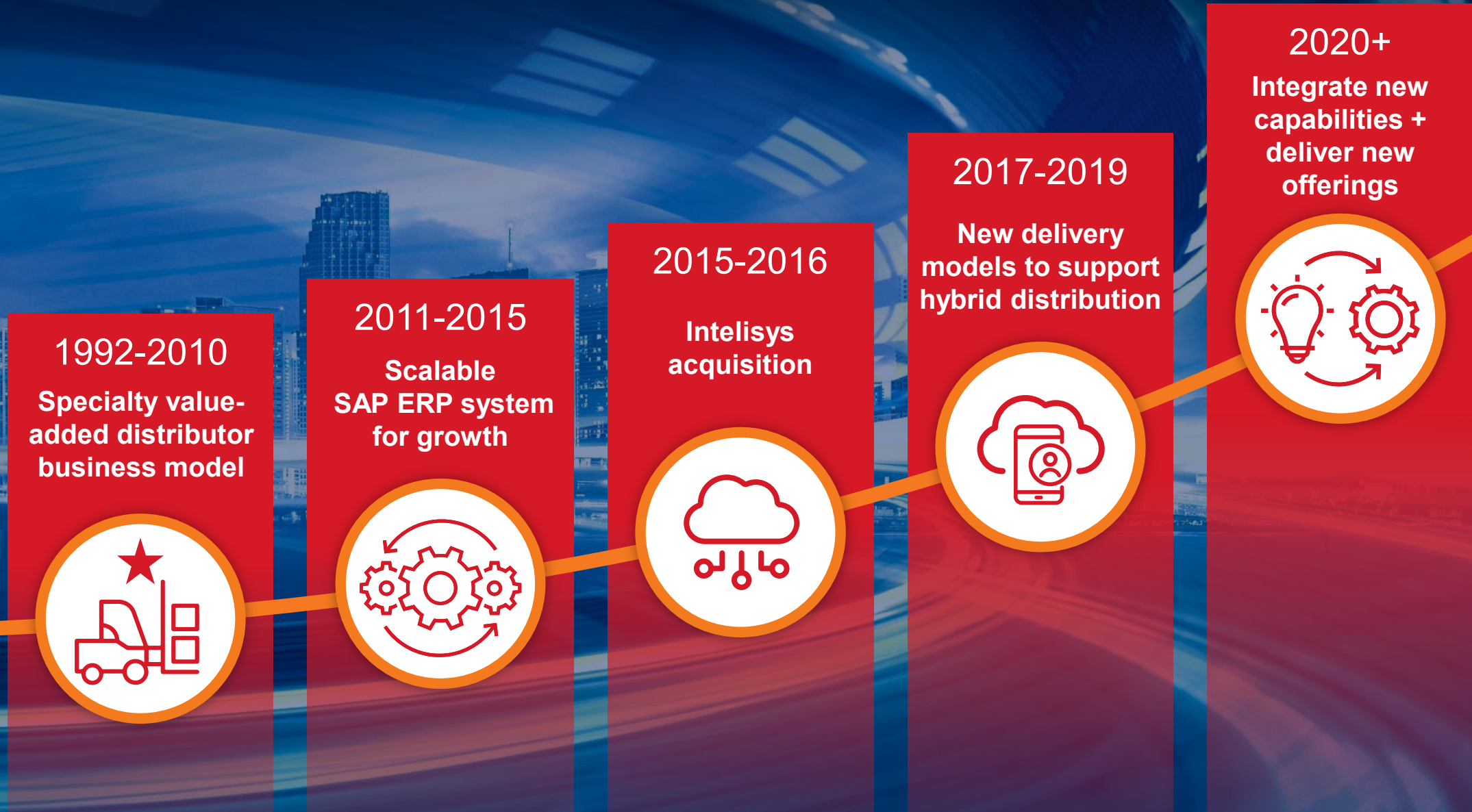
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# Appendix

# ScanSource Evolution to Leading Hybrid Technology Distribution



# Working Capital, 8-Quarter Summary

<i>(\$ in thousands)</i>	<b>Q1 FY23</b>	<b>Q4 FY22</b>	<b>Q3 FY22</b>	<b>Q2 FY22</b>	<b>Q1 FY22</b>	<b>Q4 FY21</b>	<b>Q3 FY21</b>	<b>Q2 FY21</b>
Accounts receivable (Q/E)	\$ 744,946	\$ 729,442	\$642,384	\$613,186	\$ 589,532	\$568,984	\$509,404	\$534,583
Days sales outstanding in receivables	71	68	69	64	62	60	63	60
Inventory (Q/E)	\$ 675,798	\$ 614,814	\$591,396	\$562,397	\$ 493,541	\$470,081	\$459,652	\$421,003
Inventory turns	5.1	5.6	5.1	5.7	6.3	6.5	5.8	6.9
Accounts payable (Q/E)	\$ 710,919	\$ 714,177	\$706,359	\$653,190	\$ 602,229	\$634,805	\$521,552	\$589,292
Paid for inventory days*	7.2	(0.8)	(2.9)	(0.5)	(3.2)	(9.4)	2.2	(11.8)
<b>Working capital (Q/E) (AR+INV-AP)</b>	<b>\$ 709,825</b>	<b>\$ 630,079</b>	<b>\$527,421</b>	<b>\$522,393</b>	<b>\$ 480,844</b>	<b>\$404,260</b>	<b>\$447,504</b>	<b>\$366,294</b>
<b>Cash conversion cycle</b>	<b>78</b>	<b>68</b>	<b>66</b>	<b>64</b>	<b>59</b>	<b>51</b>	<b>65</b>	<b>48</b>

\* Paid for inventory days represent Q/E inventory days less Q/E accounts payable days

# Non-GAAP Financial Information – Adjusted ROIC

(\$ in thousands)		
	<b>FY22</b>	<b>FY16*</b>
<b>Adjusted Return on invested capital (ROIC), annualized <sup>(a)</sup></b>	<b>17.0%</b>	<b>14.0%</b>
<u>Reconciliation of Net Income to Adjusted EBITDA</u>		
Net income from continuing operations - GAAP	\$ 88,698	\$ 63,619
Plus: Interest expense	6,523	2,124
Plus: Income taxes	29,925	32,391
Plus: Depreciation and amortization	29,884	17,154
EBITDA	155,030	115,288
Plus: Share-based compensation	11,663	7,093
Plus: Acquisition and divestiture costs	30	863
Plus: Change in fair value of contingent consideration	--	1,294
<b>Adjusted EBITDA (numerator for ROIC) (non-GAAP)</b>	<b>\$ 166,723</b>	<b>\$ 124,538</b>
<u>Invested Capital Calculation</u>		
Equity - beginning of the period	\$ 731,191	\$ 808,985
Equity - end of the period	806,528	774,496
Plus: Share-based compensation, net	8,709	4,752
Plus: Acquisition and divestiture costs	30	863
Plus: Change in fair value of contingent consideration, net	--	977
Plus: Discontinued operations net loss	(100)	--
Average equity	773,179	795,037
Average funded debt <sup>(b)</sup>	209,114	93,500
<b>Invested capital (denominator for Adjusted ROIC) (non-GAAP)</b>	<b>\$ 982,293</b>	<b>\$ 888,537</b>

\* As reported in FY16 adjusted for change in calculation to exclude share-based compensation; includes discontinued operations.

(a) Calculated as net income plus interest expense, income taxes, depreciation and amortization (EBITDA), plus other adjustments for non-GAAP measures, annualized and divided by invested capital for the period. Invested capital is defined as average equity plus average daily funded interest-bearing debt for the period.

(b) Average funded debt, which includes both continuing and discontinued operations, is calculated as the average daily amounts outstanding on short-term and long-term interest-bearing debt.

# Non-GAAP Financial Information – Net Leverage Ratio

(\$ in thousands)

Consolidated debt (Q/E)  
Less: Consolidated cash and cash equivalents (Q/E)  
**Net debt (Q/E)**

Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
\$ 197,356	\$ 196,866	\$181,500	\$271,170	\$326,435
(55,491)	(34,123)	(43,539)	(37,987)	(40,472)
<b>\$ 141,865</b>	<b>\$ 162,743</b>	<b>\$137,961</b>	<b>\$233,183</b>	<b>\$285,963</b>

## Reconciliation of Net Income to Adjusted EBITDA

Net income from continuing operations - GAAP

Plus: Interest expense

Plus: Income taxes

Plus: Depreciation and amortization

EBITDA

Adjustments:

Share-based compensation

Acquisition and divestiture costs

Restructuring costs

**Adjusted EBITDA (non-GAAP)**

**Adjusted EBITDA, Trailing 12-Months (TTM)**

**Net Debt/Adjusted EBITDA, TTM**

\$ 22,073	\$ 23,152	\$ 23,526	\$ 19,947	\$ 24,042
1,660	1,493	1,483	1,886	3,448
7,358	7,257	9,044	6,267	8,241
7,650	7,229	7,305	7,700	7,228
38,741	39,131	41,358	35,800	42,959
2,570	3,464	2,757	2,872	2,316
83	(53)	-	-	-
-	-	-	-	-
<b>\$ 41,394</b>	<b>\$ 42,542</b>	<b>\$ 44,115</b>	<b>\$ 38,672</b>	<b>\$ 45,275</b>
				<b>\$170,604</b>
				<b>1.7X</b>

# Non-GAAP Financial Information – FY23 Annual Financial Outlook

	<b>FY23 Outlook</b>
<b>GAAP, operating income</b>	<b>At least \$132 million</b>
Intangible amortization	\$17 million
Depreciation expense	\$12 million
Share-based compensation expense	\$12 million
Interest income and other income (expense), net	\$1 million
<b>Adjusted EBITDA (non-GAAP)</b>	<b>At least \$174 million</b>