



# Q1 FY16 FINANCIAL RESULTS CONFERENCE CALL

October 29, 2015 at 5:00 pm ET





# 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, costs 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, 2015, 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 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 FY16

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- Record net sales of \$871 million, up 10% Y/Y, and non-GAAP diluted EPS of \$0.68\*; within or above expected ranges
- Gross profit margin of 10.1%; non-GAAP operating margin of 3.3%\*
- Acquisition of KBZ completed September 4, 2015
- Three acquisitions during the past year – Imago, Network1 and KBZ – contributed positively to our growth and strong operating performance
- Implementation of SAP ERP system in North America in early July 2015
- Returned cash to shareholders through share repurchases
- First quarter 2016 return on invested capital of 14.6%\*

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

# HIGHLIGHTS – Q1 FY16

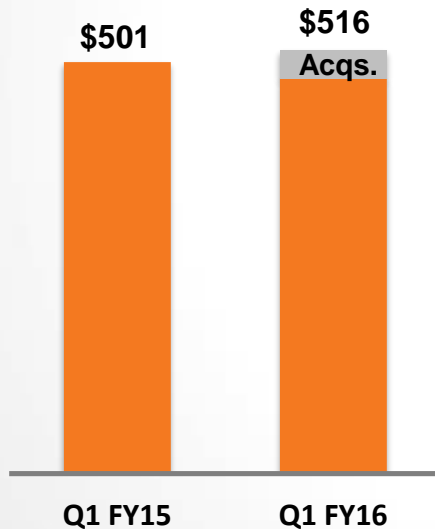
<i>In millions, except EPS</i>	Non-GAAP*		Y/Y Change:
	Q1 FY16	Q1 FY15	
Net sales	\$870.8	\$791.7	+10%;+15% constant currency
Gross profit	87.6	77.6	+13%
Gross profit margin %	10.1%	9.8%	+25 bps
SG&A expenses	56.8	45.8	+24%
SAP-related ERP costs	2.4	--	
Non-GAAP operating income	28.4	31.8	-11%
Non-GAAP operating income %	3.3%	4.0%	-76 bps
Non-GAAP net income	\$18.9	\$21.6	-12%
Non-GAAP diluted EPS	\$0.68	\$0.75	-9%

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

# WW BARCODE & SECURITY

## Net Sales, \$ in millions

Up 3%  
Constant Currency, Up 10%



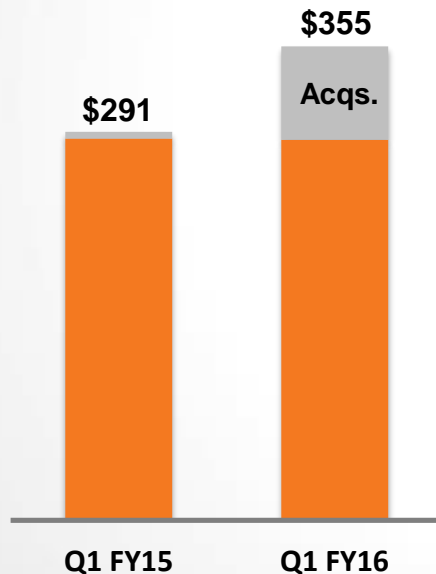
\$ in millions	Q1 FY16	Q4 FY15	Q1 FY15
Net sales	\$515.7	\$489.6	\$501.0
Gross profit	\$44.7	\$44.4	\$43.0
Gross margin	8.7%	9.1%	8.6%
Operating income	\$13.1	\$12.2	\$12.5
Operating income %	2.5%	2.5%	2.5%
Non-GAAP operating income	\$13.8	\$13.4	\$13.6
Non-GAAP operating income %	2.7%	2.7%	2.7%

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 22%  
Constant Currency, Up 23%



\$ in millions	Q1 FY16	Q4 FY15	Q1 FY15
Net sales	\$355.2	\$367.1	\$290.8
Gross profit	\$42.9	\$46.9	\$34.6
Gross margin	12.1%	12.8%	11.9%
Operating income	\$11.6	\$12.9	\$17.8
Operating income %	3.3%	3.5%	6.1%
Non-GAAP operating income	\$14.6	\$15.2	\$18.2
Non-GAAP operating income %	4.1%	4.1%	6.3%

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.

# WORKING CAPITAL MEASURES

<i>\$ in millions</i>	Q1 FY16	Q4 FY15	Q1 FY15
Accounts receivable (Q/E)	\$588.0	\$522.5	\$500.0
Days sales outstanding in receivables	56*	55	55**
Inventory (Q/E)	\$588.2	\$553.1	\$495.1
Inventory turns	5.3*	5.9	5.7**
Accounts payable (Q/E)	\$516.1	\$501.3	\$423.5
Paid for inventory days	13.0*	6.1	9.7**

\* Excludes the impact of KBZ, which was completed September 4, 2015

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

# CASH FLOW AND BALANCE SHEET HIGHLIGHTS

<i>\$ in millions</i>	Q1 FY16	Q4 FY15	Q1 FY15
Return on invested capital ("ROIC")*	14.6%	15.2%	16.2%
Operating cash flow, trailing 12-months	\$17.1	\$75.5	\$2.7
Cash and cash equivalents (Q/E)	\$41.2	\$121.6	\$139.9
Debt (Q/E)	\$94.5	\$8.8	\$5.4
Net debt to EBITDA, trailing 12-months	0.46x	--	--
Shares repurchased – # of shares (QTR)	1,149,103	409,860	--
Shares repurchased – dollars (QTR)	\$41.9	\$16.1	
Cum. repurchases under plan – # shares (as of Q/E)	1,628,928	479,825	
Cum. repurchases under plan – # shares (as of Q/E)	\$60.7	\$18.8	
Remaining authorization under plan (as of Q/E)	\$59.3	\$101.2	--

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



# Q2 FY16 OUTLOOK\*

For the quarter ending December 31, 2015, excluding amortization of intangible assets, change in fair value of contingent consideration, and acquisition costs:

## Net Sales

- Range from \$900 million to \$980 million

## Non-GAAP Diluted Earnings Per Share

- Range from \$0.72 to \$0.80 per share

\* Outlook as of October 29, 2015. Non-GAAP diluted EPS excludes amortization of intangible assets, change in fair value of contingent consideration, and acquisition costs. Reflects the following FX rates: \$1.12 to EUR 1.00 for the Euro, \$0.256 to R\$1.00 for the Brazilian real (R\$3.91 to \$1), and \$1.53 to GBP 1.00 for the British pound.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Income Statement Highlights

(\$ in thousands)

	Q1 FY16		Q4 FY15		Q1 FY15	
	GAAP	Non-GAAP	GAAP	Non-GAAP	GAAP	Non-GAAP
Net sales	\$870,829	\$870,829	\$856,685	\$856,685	\$791,720	\$791,720
Gross profit	87,552	87,552	91,318	91,318	77,645	77,645
Gross profit margin % (of net sales)	10.1%	10.1%	10.7%	10.7%	9.8%	9.8%
SG&A expenses	56,750	56,750	60,403	60,403	45,813	45,813
SAP-related ERP costs	2,392	2,392	2,303	2,303	-	-
Amortization of intangible assets	2,185	-	2,091	-	992	-
Change, FV contingent consideration	1,564	-	1,406	-	513	-
Acquisition costs	220	-	138	-	1,350	-
Operating income	24,441	28,410	24,977	28,612	28,977	31,832
Operating income % (of net sales)	2.8%	3.3%	2.9%	3.3%	3.7%	4.0%
Net income	\$ 15,996	\$ 18,893	\$ 16,447	\$ 18,990	\$ 19,208	\$ 21,559
Diluted EPS	\$ 0.57	\$ 0.68	\$ 0.57	\$ 0.66	\$ 0.67	\$ 0.75

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Operating Income, Net Income & EPS

(\$ in thousands)

	Quarter Ended September 30, 2015			
	Operating Income	Pre-tax income	Net income	Diluted EPS
GAAP measure	\$ 24,441	\$ 24,422	\$ 15,996	\$ 0.57
Adjustment:				
Amortization of intangible assets	2,185	2,185	1,597	0.06
Change in fair value of contingent consideration	1,564	1,564	1,080	0.04
Acquisition costs (a)	220	220	220	0.01
Non-GAAP measure	<u>\$ 28,410</u>	<u>\$ 28,391</u>	<u>\$ 18,893</u>	<u>\$ 0.68</u>

	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>

(a) Acquisition costs are nondeductible for tax purposes.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment

(\$ in thousands)

	Quarter Ended September 30, 2015			
	WW Barcode & Security	WW Comms. & Services	Corporate	Consolidated
Net sales	\$ 515,669	\$ 355,160	\$ -	\$ 870,829
GAAP operating income	\$ 13,082	\$ 11,579	\$ (220)	\$ 24,441
Adjustments:				
Amortization of intangible assets	610	1,575	-	2,185
Change in fair value of contingent consideration	126	1,438	-	1,564
Acquisition costs	-	-	220	220
Non-GAAP operating income	<u>\$ 13,818</u>	<u>\$ 14,592</u>	<u>\$ -</u>	<u>\$ 28,410</u>
GAAP operating income % (of net sales)	2.5%	3.3%	n/m	2.8%
Non-GAAP operating income % (of net sales)	2.7%	4.1%	n/m	3.3%

	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%

n/m = not meaningful



# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Return on Invested Capital

(\$ in thousands)

	Q1 FY16	Q4 FY15	Q1 FY15
<b>Return on invested capital (ROIC), annualized (a)</b>	<b>14.6%</b>	<b>15.2%</b>	<b>16.2%</b>
<u>Reconciliation of Net Income to EBITDA</u>			
Net income - GAAP	\$ 15,996	\$ 16,447	\$ 19,208
Plus: Income taxes	8,426	8,464	10,028
Plus: Interest expense	281	509	190
Plus: Depreciation and amortization	3,938	3,947	1,897
EBITDA	28,641	29,367	31,323
Change in fair value of contingent consideration	1,564	1,406	513
Acquisition costs	220	138	1,350
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 30,425</u>	<u>\$ 30,911</u>	<u>\$ 33,186</u>
<u>Invested Capital Calculation</u>			
Equity - beginning of the quarter	\$ 808,985	\$ 799,051	\$ 802,643
Equity - end of quarter	764,693	808,985	810,265
Add: Change in fair value of contingent consideration, net of tax	1,080	955	341
Add: Acquisition costs, net of tax	220	138	1,350
Average equity	787,489	804,565	807,300
Average funded debt (b)	39,124	10,377	6,205
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 826,613</u>	<u>\$ 814,942</u>	<u>\$ 813,505</u>

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

## Net Sales, Constant Currency and Excluding Acquisitions

(\$ in thousands)

	Q1 FY16	Q1 FY15	Y/Y % Change
<b>Worldwide Barcode &amp; Security:</b>			
Net sales, as reported	\$ 515,669	\$ 500,960	2.9%
Foreign exchange impact (a)	34,260	-	
Net sales, constant currency	<u>\$ 549,929</u>	<u>\$ 500,960</u>	9.8%
<b>Worldwide Communications &amp; Services:</b>			
Net sales, as reported	\$ 355,160	\$ 290,760	22.1%
Foreign exchange impact (a)	2,857	-	
Net sales, constant currency	<u>\$ 358,017</u>	<u>\$ 290,760</u>	23.1%
<b>Consolidated:</b>			
Net sales, as reported	\$ 870,829	\$ 791,720	10.0%
Foreign exchange impact	37,117	-	
Net sales, constant currency	907,946	791,720	14.7%
Less: Acquisitions	(104,505)	(4,686)	
Net sales, constant currency excluding acquisitions	<u>\$ 803,441</u>	<u>\$ 787,034</u>	2.1%

(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 ended September 30, 2015 into U.S. dollars using the weighted average foreign exchange rates for the quarter ended September 30, 2014.