



# INVESTOR PRESENTATION

NOVEMBER 2020



# SAFE HARBOR AND NON-GAAP

## Safe Harbor Statement

This presentation contains certain comments that 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. 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 impact of COVID-19 pandemic on our operations and financial conditions and the potential prolonged economic weakness brought on by COVID-19, the failure to manage and implement our organic growth strategy, credit risks involving our larger customers and suppliers, changes in interest and exchange rates and regulatory regimes impacting our international operations, risk to our business from a cyber-security attack, a failure of our IT systems, failure to hire and retain quality employees, 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, 2020, 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 net sales, non-GAAP gross profit, non-GAAP gross margin, non-GAAP SG&A expenses, 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.

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

# SCANSOURCE OVERVIEW

Mission:

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



MOBILITY  
AND BARCODE



POS AND  
PAYMENTS



UNIFIED COMMUNICATIONS  
AND COLLABORATION



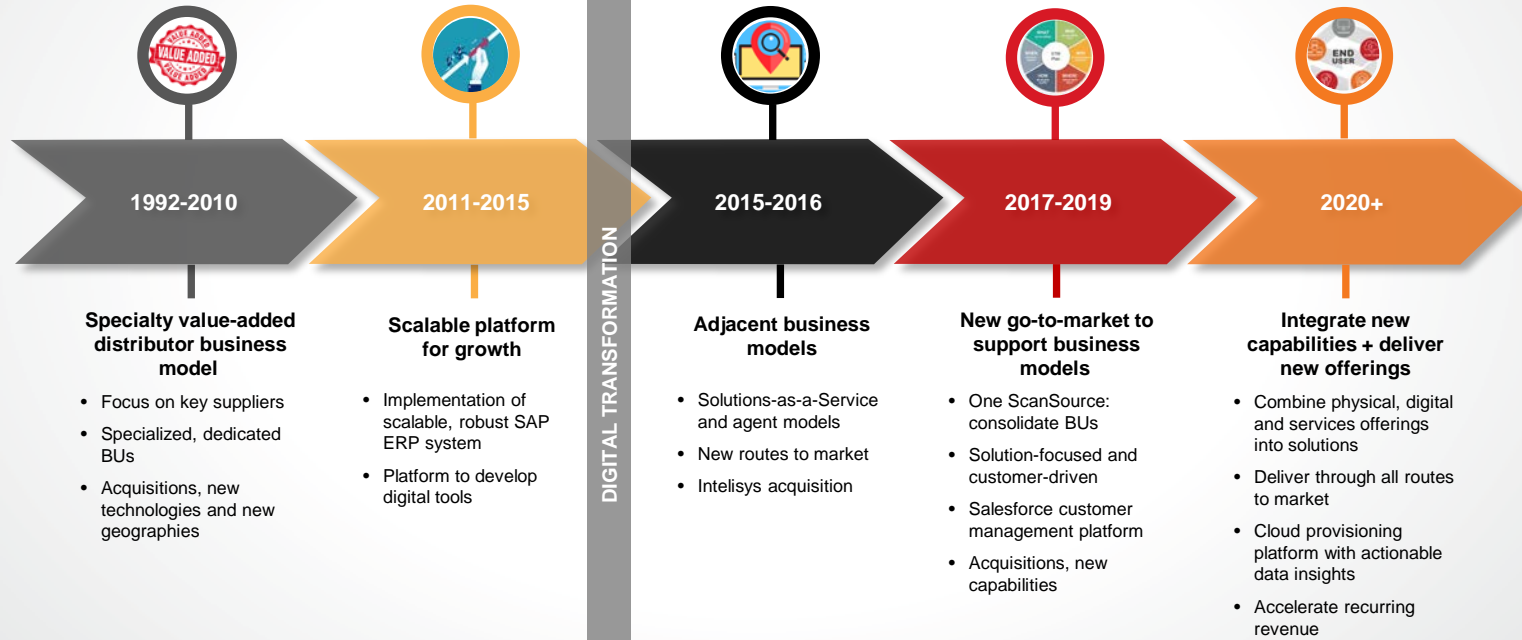
PHYSICAL SECURITY  
AND NETWORKING



TELECOM AND  
CLOUD SERVICES

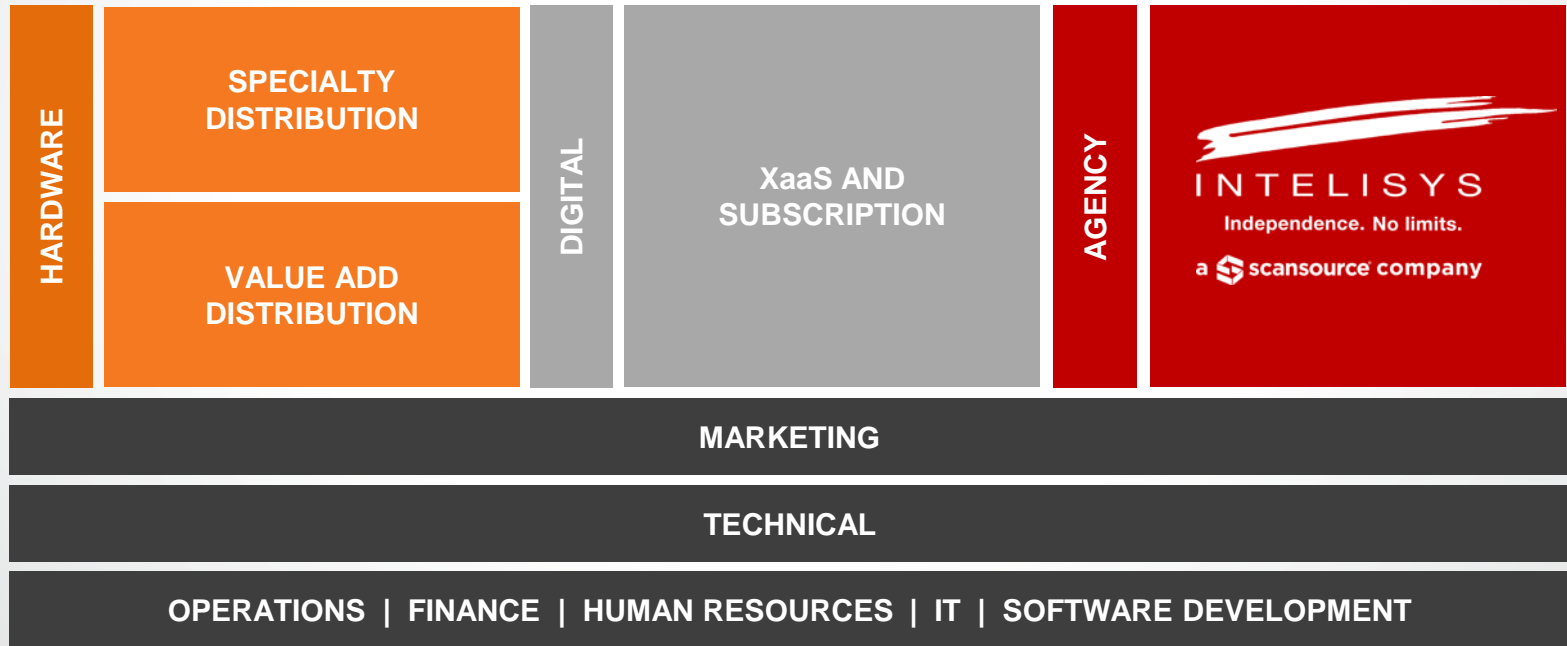
**NASDAQ: SCSC** • Headquarters: Greenville, SC • Founded in 1992 • Channel sales model • Multiple, specialized routes to market  
• 500+ Technology Suppliers • 30,000+ Sales Partners • ~2,200 Employees • US, Canada, Brazil, UK

# SCANSOURCE EVOLUTION



# SCANSOURCE GO-TO-MARKET

Focused sales teams to help sales partners deliver industry-leading endpoints and cloud solutions



# ROBUST VALUE PROPOSITION

## FOR SUPPLIERS



## FOR SALES PARTNERS



# KEY SUPPLIERS

## MOBILITY AND BARCODE



## POS AND PAYMENTS



## PHYSICAL SECURITY AND NETWORKING



## UNIFIED COMMUNICATIONS AND COLLABORATION

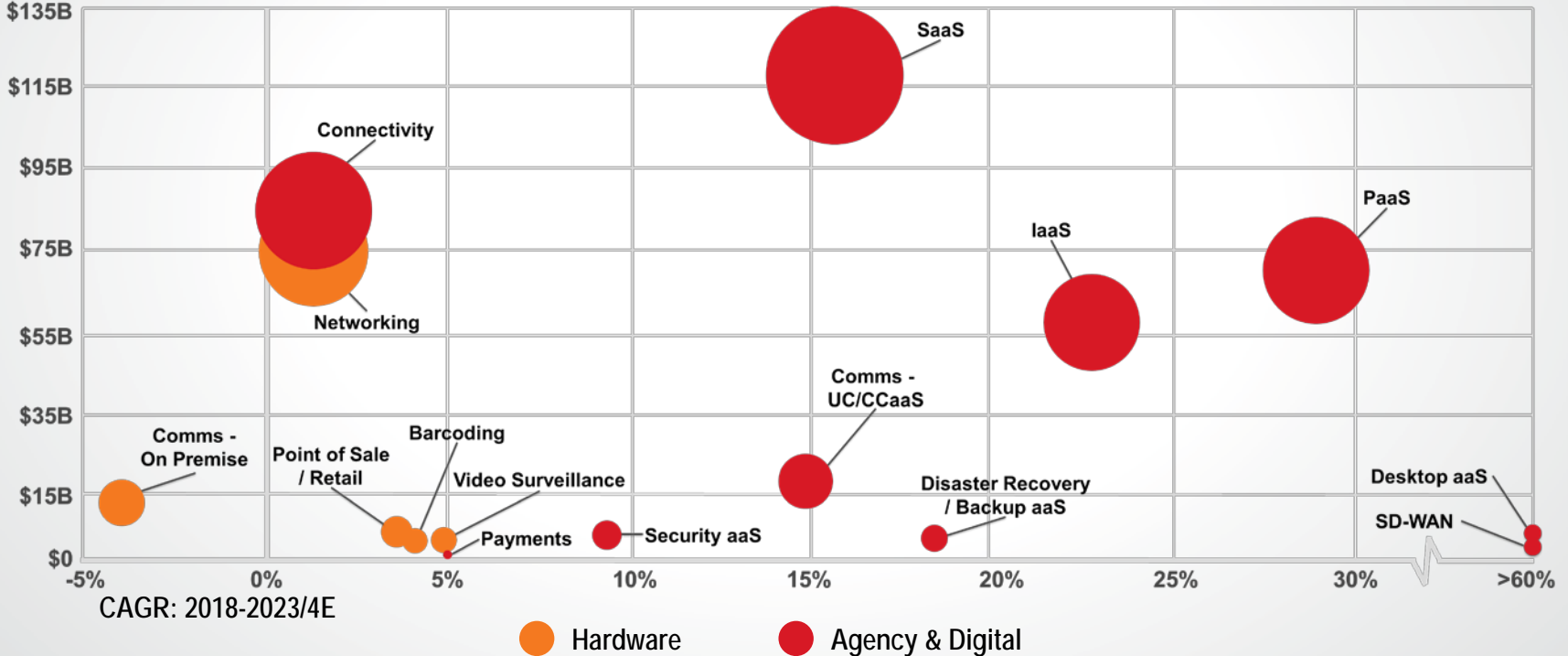


## TELECOM AND CLOUD SERVICES



# OUR LARGE AND GROWING MARKET OPPORTUNITY

TAM – 2023/4



For US and Canada. Source: Internal company estimates using market research from Gartner, IDC, VDC, and Omdia



# ROUTES TO MARKET



# SHIFTING HARDWARE MIX TO HIGHER-VALUE SOLUTIONS

Increase technology stack selling + recurring revenue and predictability

FROM

## HARDWARE-CENTRIC SALES



Barcoding



Communications



Physical Security



Point-of-Sale



Networking

TO

## SOLUTIONS (SOFTWARE+SERVICES) WITH HARDWARE

Connectivity

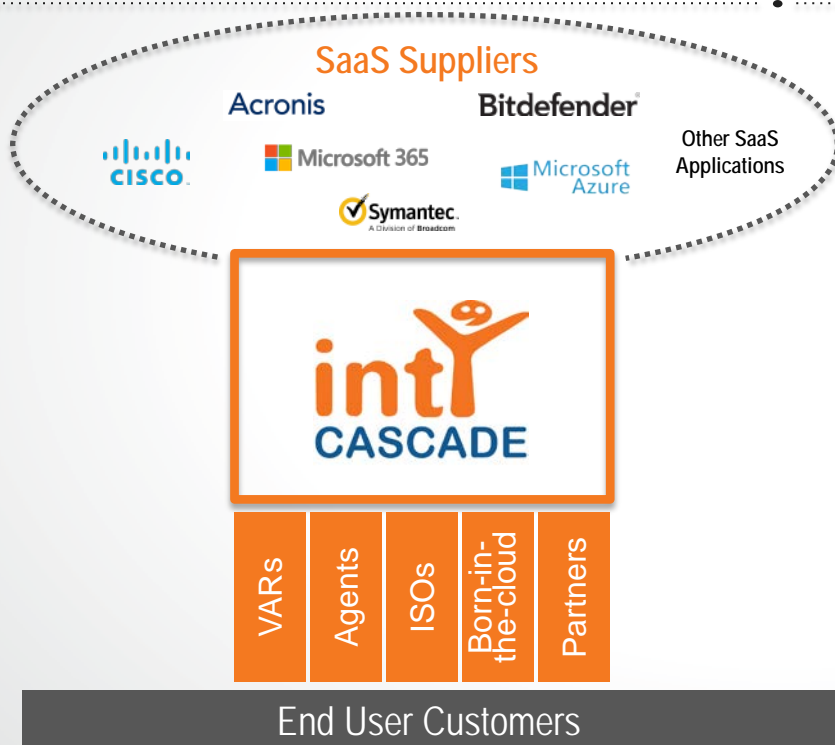
Managed Services  
Provisioning Services

Infrastructure as a Service | SD-WAN  
UCaaS & CCaaS | Platform as a Service  
Software as a Service | Cybersecurity



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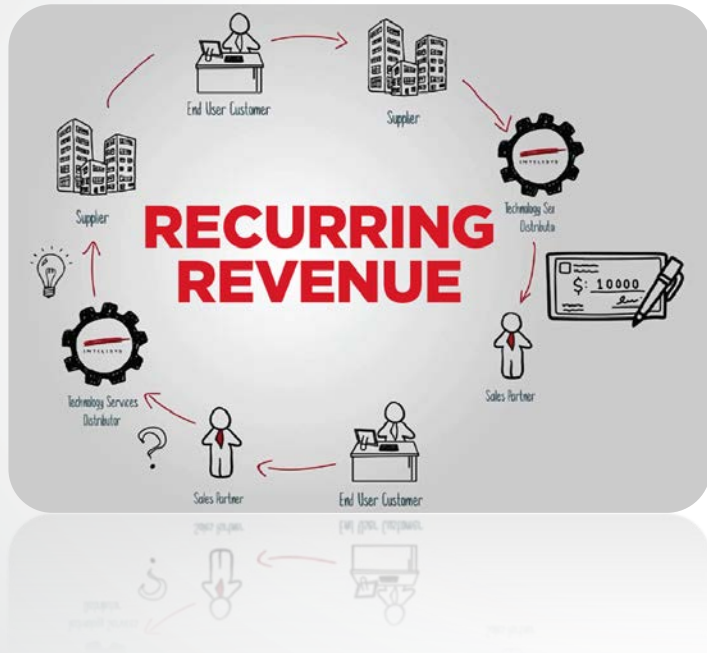
# SaaS PLATFORM



## Digital Distribution with CASCADE Cloud Platform

- CASCADE Capabilities:
  - ✓ Quote management
  - ✓ SaaS provisioning
  - ✓ Subscription billing and payment
  - ✓ Partner insights (analytics & lead referral)
- Scalable cloud provisioning platform
- Plan to add more SaaS suppliers to help sales partners sell strategic cloud solutions

# 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
- More than 125 leading cloud carriers and providers; top UCaaS and CCaaS
- Very low working capital requirements and no inventories
- FY20 total revenues of \$57 million, up 15% Y/Y



# FINANCIAL HIGHLIGHTS

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# LONGER-TERM OPERATING GOALS AND RECENT RESULTS

OPERATING GOALS



Q1 FY21  
Y/Y **-10.1%**  
Y/Y, organic\* **-7.1%**



Q1 FY21  
GAAP **10.7%**



Q1 FY21  
GAAP **0.2%**  
Non-GAAP\* **2.1%**



OPERATING GOALS

Q1 FY21  
8.4%

\* Organic growth, a non-GAAP measure, reflects reported sales growth less impacts from foreign currency translation and acquisitions. Non-GAAP operating income excludes amortization of intangibles, changes in fair value of contingent consideration, restructuring charges, acquisition/divestiture costs, and other non-GAAP items. ROIC, a non-GAAP measure, is calculated as adjusted 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 and strategic acquisitions
- Net leverage: target range of 1.5x to 2.5x EBITDA
- Completed sale of divestitures (Europe and UK closed November 12, 2020; Latin America outside of Brazil closed October 30, 2020)

## FY19 to Q1 FY21 CASH USES

FUNDED BY OPERATING CASH FLOW\* (+\$301 million) LESS DECREASE IN NET DEBT (-\$113 million)

### INVESTMENTS IN PROFITABLE GROWTH



ACQUISITIONS  
\$152 million



CAPEX  
\$13 million

### RETURN OF CASH TO SHAREHOLDERS



SHARE REPURCHASES  
\$16 million

\* For both continuing operations and discontinued operations

# STRONG FINANCIAL POSITION FOR GROWTH

## STRONG BALANCE SHEET AND FINANCIAL FLEXIBILITY

1.3x net debt to adjusted EBITDA, trailing 12-months\*

\$56 million in cash and \$169 million in debt\*

\$144 million term loan and \$350 million revolving credit facility

## WORKING CAPITAL MANAGEMENT

6.2 inventory turns (5-qtr range: 4.5 to 6.2)

Paid for inventory days of (7.2)\*\* (5-qtr range: (7.2) to 12.2)

61 days sales outstanding in receivables (5-qtr range: 56 to 63)

*Information as of 9/30/20, unless otherwise indicated*

*\* For both continuing operations and discontinued operations*

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



# INVESTMENT HIGHLIGHTS

## 1 MARKET LEADERSHIP

Leadership position in large, niche markets with continued growth from innovative, emerging technology offerings

## 2 DEEP PARTNERSHIPS

Multiple, specialized routes to market, deep supplier partnerships, and loyal and diverse customer base serve as strong competitive advantages

## 3 GROWTH OPPORTUNITIES

Capitalizing on expansion in higher margin and growth areas; opportunity for expansion in XaaS recurring revenue opportunities

## 4 OPERATING MARGIN EXPANSION

Expand margin profile with operational excellence supported by multiple technologies, services and solutions

## 5 ATTRACTIVE RETURN POTENTIAL

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](https://scansource.com)



# APPENDIX: SEGMENT FINANCIAL RESULTS

## WORLDWIDE BARCODE, NW AND SECURITY

<i>\$ in millions</i>	Q1 FY21	Q4 FY20	Q1 FY20
Net sales	\$523.6	\$447.8	\$581.2
Gross profit	\$41.1	\$37.3	\$50.3
Gross profit margin %	7.8%	8.3%	8.7%
Operating income	\$2.1	\$(112.7)	\$11.1
Operating income %	0.4%	(25.2)%	1.9%
Non-GAAP operating income	\$4.1	\$3.7	\$13.0
Non-GAAP operating income %	0.8%	0.8%	2.2%

## WORLDWIDE COMMUNICATIONS AND SERVICES

<i>\$ in millions</i>	Q1 FY21	Q4 FY20	Q1 FY20
Net sales	\$233.8	\$188.6	\$261.5
Gross profit	\$39.7	\$36.9	\$48.2
Gross profit margin %	17.0%	19.5%	18.4%
Operating income	\$8.3	\$0.5	\$9.2
Operating income %	3.5%	0.3%	3.5%
Non-GAAP operating income	\$11.7	\$4.5	\$14.4
Non-GAAP operating income %	5.0%	2.4%	5.5%

Non-GAAP operating income excludes amortization of intangibles, change in fair value of contingent consideration, impairment charges, and other non-GAAP items.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Y/Y Sales Growth – Organic and Reported

(\$ in thousands)

### For the quarter ended September 30, 2020:

Q1 FY21 net sales, including Divestitures	\$ 902,390
Divestitures	<u>(145,048)</u>
Q1 FY21 net sales, as reported	757,342
Foreign exchange impact <sup>(a)</sup>	<u>25,164</u>
Q1 FY21 net sales, constant currency excluding Divestitures (Non-GAAP)	<u><u>\$ 782,506</u></u>

### For the quarter ended September 30, 2019:

Q1 FY20 net sales, including Divestitures	\$ 998,418
Divestitures	<u>(155,717)</u>
Q1 FY20 net sales, as reported	<u><u>\$ 842,701</u></u>

### Y/Y% Change:

Including Divestitures	-9.6%
As reported	-10.1%
Constant currency excluding Divestitures and acquisitions (organic growth)	-7.1%

(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, 2020 into U.S. dollars using the weighted average foreign exchange rates for the fiscal year ended September 30, 2019.

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Operating Income -- QTR

(\$ in thousands)

	Quarter Ended September 30, 2020						
	Reported GAAP measure	Intangible amortization expense	Change in fair value of contingent consideration	Acquisition, Divestiture, & Restructuring Costs	Tax settlement	Impairment charges	Non-GAAP measure
<b>Consolidated:</b>							
Net sales	\$ 757,342	-	-	-	-	-	\$ 757,342
Gross Profit	\$ 80,779	-	-	-	-	-	\$ 80,779
Gross profit margin %	10.67%	-	-	-	-	-	10.67%
Operating income	\$ 1,634	\$ 4,853	\$ 516	\$ 8,766	\$ -	\$ -	\$ 15,769
Operating income margin %	0.22%	-	-	-	-	-	2.08%

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment – QTR

**Quarter Ended September 30, 2020**

*(\$ in thousands)*

	<b>Reported GAAP measure</b>	<b>Intangible amortization expense</b>	<b>Change in fair value of contingent consideration</b>	<b>Acquisition, Divestiture, &amp; restructuring costs</b>	<b>Tax settlement</b>	<b>Impairment charges</b>	<b>Non-GAAP measure</b>
<b>Worldwide Barcode, NW &amp; Security:</b>							
Net sales	\$ 523,577	-	-	-	-	-	\$ 523,577
Gross Profit	\$ 41,085	-	-	-	-	-	\$ 41,085
Gross profit margin %	7.85%	-	-	-	-	-	7.85%
Operating income	\$ 2,147	\$ 1,968	-	-	\$ -	\$ -	\$ 4,115
Operating income margin %	0.41%	-	-	-	-	-	0.79%
<b>Worldwide Communications &amp; Services:</b>							
Net sales	\$ 233,765	-	-	-	-	-	\$ 233,765
Gross Profit	\$ 39,694	-	-	-	-	-	\$ 39,694
Gross profit margin %	16.98%	-	-	-	-	-	16.98%
Operating Income	\$ 8,253	\$ 2,885	\$ 516	-	\$ -	\$ -	\$ 11,654
Operating income margin %	3.53%	-	-	-	-	-	4.99%

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment – QTR

**Quarter Ended June 30, 2020**

*(\$ in thousands)*

	<b>Reported GAAP measure</b>	<b>Intangible amortization expense</b>	<b>Change in fair value of contingent consideration</b>	<b>Acquisition, Divestiture, &amp; Restructuring Costs</b>	<b>Tax settlement</b>	<b>Impairment charges</b>	<b>Non-GAAP measure</b>
<b>Worldwide Barcode, NW &amp; Security:</b>							
Net sales	\$ 447,812	-	-	-	-	-	\$ 447,812
Gross Profit	\$ 37,289	-	-	-	-	-	\$ 37,289
Gross profit margin %	8.33%	-	-	-	-	-	8.33%
Operating income	\$(112,669)	\$ 1,968	-	-\$ (4,648)	\$ 119,037		\$ 3,688
Operating income margin %	(25.16)%	-	-	-	-	-	0.82%
<b>Worldwide Communications &amp; Services:</b>							
Net sales	\$ 188,638	-	-	-	-	-	\$ 188,638
Gross Profit	\$ 36,858	-	-	-	-	-	\$ 36,858
Gross profit margin %	19.54%	-	-	-	-	-	19.54%
Operating Income	\$ 540	\$ 2,978	\$ 674	-\$ (1,095)	\$ 1,433		\$ 4,530
Operating income margin %	0.29%	-	-	-	-	-	2.40%

# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Highlights by Segment – QTR

(\$ in thousands)

	Quarter Ended September 30, 2019						
	Reported GAAP measure	Intangible amortization expense	Change in fair value of contingent consideration	Acquisition, Divestiture, & Restructuring Costs	Tax settlement	Impairment charges	Non-GAAP measure
<b>Worldwide Barcode, NW &amp; Security:</b>							
Net sales	\$ 581,187	-	-	-	-	-	\$ 581,187
Gross Profit	\$ 50,289	-	-	-	-	-	\$ 50,289
Gross profit margin %	8.65%	-	-	-	-	-	8.65%
Operating income	\$ 11,071	\$ 1,968	-	-	-	-	\$ 13,039
Operating income margin %	1.90%	-	-	-	-	-	2.24%
<b>Worldwide Communications &amp; Services:</b>							
Net sales	\$ 261,514	-	-	-	-	-	\$ 261,514
Gross Profit	\$ 48,236	-	-	-	-	-	\$ 48,236
Gross profit margin %	18.44%	-	-	-	-	-	18.44%
Operating Income	\$ 9,199	\$ 2,570	\$ 2,472	\$ 169	-	-	\$ 14,410
Operating income margin %	3.52%	-	-	-	-	-	5.51%



# APPENDIX: NON-GAAP FINANCIAL INFORMATION

## Return on Invested Capital (ROIC)

(\$ in thousands)

Return on invested capital (ROIC), annualized <sup>(a)</sup>

Q1 FY21  
8.4%

### Reconciliation of Net Income to Adjusted EBITDA

Net income - GAAP	\$ (115)
Plus: Interest expense	1,913
Plus: Income taxes	(47)
Plus: Depreciation and amortization	8,710
EBITDA	<u>10,461</u>
Plus: Change in fair value of contingent consideration	516
Plus: Acquisition and divestiture costs	498
Plus: Restructuring costs	8,268
Adjusted EBITDA (numerator for ROIC)(non-GAAP)	<u>\$ 19,743</u>

### Invested Capital Calculation

Equity - beginning of the period	\$ 678,246
Equity - end of the period	671,227
Plus: Change in fair value of contingent consideration, net of tax	390
Plus: Acquisition and divestiture costs	498
Plus: Restructuring costs, net of tax	6,250
Plus: Impact of Divestitures, net of tax	<u>11,704</u>
Average equity	684,158
Average funded debt <sup>(b)</sup>	<u>243,268</u>
Invested capital (denominator for ROIC)(non-GAAP)	<u>\$ 927,426</u>

(a) Calculated as earnings before interest expense, income taxes, depreciation and amortization (EBITDA), plus change in fair value of contingent consideration and 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.