

March 17, 2017

NASDAQ- Tech Data Corporation

Analyst: Joseph Nastasi

Sector: Information Technology

Industry: Electronic Equipment, Instruments and Components

Company Description:

Tech Data Corporation is one of the world's largest wholesale distributors of technology products. It provides thousands of different items to more than 105,000 resellers in 100-plus countries. Its diverse range of products includes computer components, networking equipment, peripherals, systems, and software. Tech Data helps companies like Apple, Cisco, Microsoft, and hundreds of others, bring their products to market. Tech Data was incorporated in 1974.

BUY

Current Price:	\$94.81
Target Price:	\$122.17
Market Cap:	3.60B
Volume:	404,587
S&P Debt Rating:	BBB-
Ke:	13.0%
ROE:	9.30%
Net Income Margin:	1.01
Total Asset Turnover:	3.70
Equity Multiplier	3.66
Cash/ Total Assets:	8.4%

Catalysts:

- **Short Term(within the year):** Q1 2017 Earnings
- **Mid Term(1-2 years):** Synergies obtained from implementing the acquisition of Avnet's Technology Solutions Business into operations
- **Long Term (3+):** Pivoting to distributing 3rd Platform Technologies like cloud services, information security, and data analytics

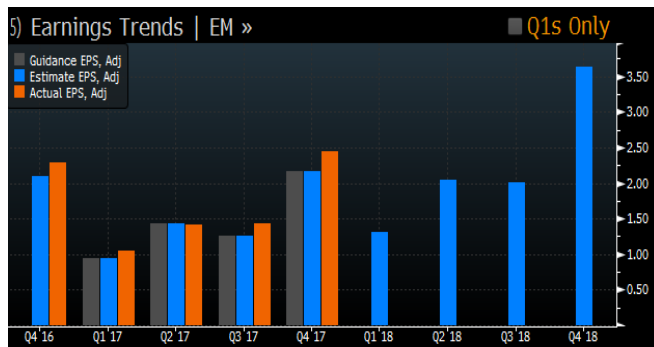


Thesis:

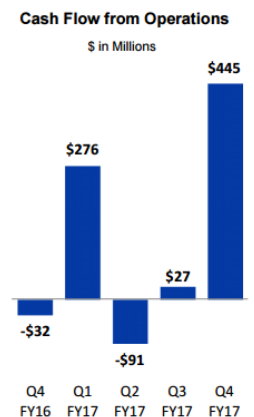
Tech Data Corporation is the largest and most efficiently run distributor in the information technology industry. Tech Data had a solid 4th quarter earnings performance by drastically decreasing its cash conversion cycle to 15 days and generating \$657 million in operating cash flow for the fiscal year. The acquisition of Avnet's Technology Solutions Business will provide Tech Data with increased capabilities and expanded reach across technologies and geographies, especially in Asia-Pacific. Tech Data is able to pivot in a disruptive technology industry from unsuccessful to successful products. The acquisition also gives Tech Data an advantage into third platform products compared to its competitors. Tech Data has low profitability margins compared to its competitors. Tech Data is underpriced right now and has strong fundamentals for its stock price to continue increasing

4th Quarter Earnings Performance:

Tech Data reported strong 4th Quarter earnings with CFO Chuck Dannewitz stating, "Despite a muted demand environment, disruptive technologies, and various external factors. In fiscal 2017, Tech Data was able to deliver double-digit growth in non-GAAP earnings per share, generate excellent operating cash flow, and earn an industry-leading return on invested capital."



	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17
Days of Sales Outstanding	37	39	39	40	37
Days of Supply	27	34	32	33	27
Days of Purchases Outstanding	(44)	(51)	(49)	(51)	(49)
Cash Conversion Cycle	20	22	22	22	15



Net sales were reported at \$7.4 billion declining 1% from the previous year, but increasing 14% from the previous quarter. The decline from the previous year is due to currency exchange impacts, especially a decline of 16% in the British pound to the U.S. dollar average exchange rate from the year-ago quarter. Gross profit was reported at \$371 million and gross margin was reported at 5%. Gross profit increased by 4.6% from the previous year and gross margin increased by 5.5% from the previous year. Operating income was reported at \$122.1 million for the quarter with a margin of 1.64%. This is a 4.5% increase from the previous year and a 5% increase in operating margin. The most impressive results were the cash conversion cycle and cash flow from operations. Tech Data's cash conversion cycle was reported at 15 days for the quarter. This is a decrease of 7 days compared to Q3 and 5 days from the prior year quarter. The cash conversion cycle is crucial for a distribution company leading to the huge jump in operating cash flow to \$445 million. This brings year-to-date operating cash flow to \$657 million. This amount of cash flow is important regarding Tech Data's acquisition of Avnet's Technology Solutions Business. After the 4Q earnings report on March 8th, the stock slid down 5% from 93.8 to 89.1 due to the lack of guidance for the next quarter and fiscal year. This lack of guidance was due to only closing the acquisition of Avnet's Technology Solutions Business last week. Guidance will resume when Q1 earnings are reported. On March 9th the stock rallied to 94.8 following the

analyst at Needham & Company (who follows Tech Data) upgrading the stock to a buy stating how the company has impressive execution and the lack of guidance is not a concern.

Industry Outlook:

Investors see Tech Data Corporation as a proxy of the Technology Industry. This is due to that Tech Data represents all fractions of the industry with its vendor partners of Apple, HP, Cisco, IBM, Intel, Microsoft, Xerox, Dell, and hundreds of others. Tech Data's growth is very dependent on the demand for its vendor partner's products. Tech Data is able to be competitive as a distributor in this challenging industry due to its breadth of products offered and the ability to pivot from products not performing well to hot product segments. This allows Tech Data to be able to meet the constantly changing demand of technology consumers. The Wholesale Distribution Industry is characterized by intense competition based on factors such as product availability, credit terms, price, speed of delivery, effectiveness of information system, quality and depth of product lines, and ability to tailor solutions to customers' needs. Tech Data's main competitors in America are Ingram Micro Inc, Synnex Corp, Arrow Electronics, and Avnet. While European competitors are more fragmented. Competition is also from vendors who enter or expand into the logistics and e-commerce supply chain services market. Vendors will continue to rely on distributors, like Tech Data, due to its capabilities to manage multiple products, provide access to fragmented markets, and deliver products in a cost-efficient and efficient matter due to its economies of scale and global reach.

Business Model:

Tech Data has the slogan, "From the Data Center to the Living Room." The mix of products distributed provides an end-to-end portfolio of IT solutions. Tech Data distributes products like servers, networking, and servers (Data Center) to products like TVs, tablets, mobile phones (Living Room). The breakdown of their product segments as a % of net sales is shown below along with the numerous products they offer.

	Products	FY17 (% of total net sales)
Broadline	Notebooks, Tablets, Desktops, Printers & Supplies Components	47%
Data Center	Industry Standard Servers, Proprietary Servers, Networking, Storage	21%
Software	Virtualization, Cloud, Security, Desktop Applications, Operating Systems, Utilities Software	17%
Mobility	Mobile Phones, Accessories	11%
Consumer Electronics	TVs, Digital Displays, Consumer A/V Devices Network-Attached Consumer Devices	3%
Services		Less than 1%

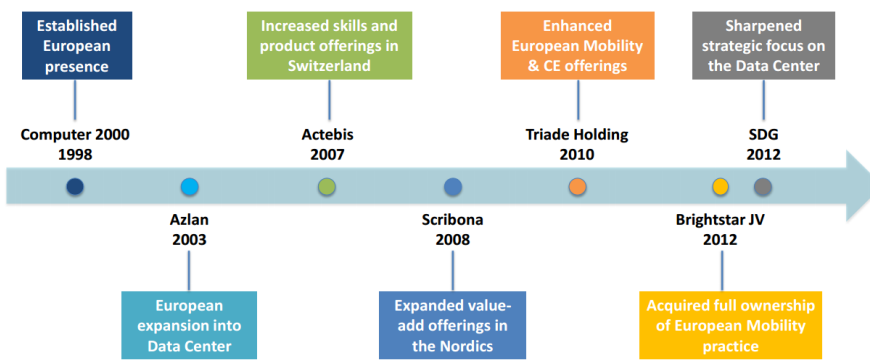
Net sales were about \$12 billion for broadline, \$6 billion for data center, \$5 billion for software, \$3 billion for mobility, and \$1 billion for consumer electronics. Tech Data is very adaptive to disruptive change in the technology industry. For example, in 2006 broadline was 70% of total net sales, while now it is 47% of net sales. Tech Data's mix of products always them to pivot from unsuccessful products to successful products that are the new trend.

The 2016 net sales by geography are 60% Europe and 40% Americas. Tech Data Corporation distributes and markets hundreds of thousands of products from more than 1,200 of the world's leading technology companies. These products are usually purchased directly from vendors with no contract restriction from selling similar products from competitors. This allows Tech Data to have the flexibility to terminate or continue to sell one product line in favor of another. Apple represents 24% and HP Inc. represents 12% of net sales. This is due to Apple and HP products are in high demand, so Tech Data pivots to these products. Also, Tech Data is the world's leading company distributing the Microsoft Surface Tech Data distributes and markets its vendor's products to an active reseller base of approximately 105,000 value-added resellers

(VARs), direct marketers, retailers and corporate resellers. Tech Data is the largest wholesaler of technology products due to it being the industry leader in finding the most efficient and least expensive routes to market for its vendor partners. This is done by having 22 logistics centers where each day, tens of millions of technology products are received from vendors, picked and packaged and shipped to customers. The strategy of Tech data is to continuously remix their product portfolios towards higher growth and higher return segments. This is best shown with their focus on Third Platform Technologies (discussed in section labeled Third Platform Technologies).

Acquisitions:

Tech Data has numerous strategic key acquisitions that have been key to their increased capabilities and global reach. These acquisitions are shown below:



Tech Data recently completed acquisition of the Technology Solutions Business from Avnet on February 27th, 2017. The agreement is a stock and cash transaction valued at approximately \$2.6 billion. Avnet will receive \$2.4 billion in cash and 2.785 million shares of Tech Data common stock, valued at

approximately \$200 million. Before the acquisition, Tech Data and Avnet’s Technology Solutions Business competed on 20,000 clients. The acquisition allows Tech Data to better balance its geographic business between North America and Europe. Also, expand reach into the Asia-Pacific due to the Technology Solutions Business presence there. Tech Data is expected to generate 3% of its net sales in Asia Pacific compared to having no presence there now. Tech Data’s datacenter will expand with greater storage and servers capabilities. Establish vendor relationships from Avnet with companies like Oracle and Amazon Web Services along with 40 other top IT vendors. This will add to Tech Data’s already 400 vendor relationships. Estimated \$100 million in cost savings within the first two years. This savings comes from the combination of duplicated activities and functions. Tech Data’s new projected revenue mix and pro-forma revenue from the acquisition is shown below.



Most importantly, this acquisition will allow Tech Data to be better positioned to facilitate the move to the cloud, Internet of Things (IoT), and other 3rd Platform and innovation accelerator technologies. CEO Bob Dutkowsky stated about the acquisition, “Tech Data will be even better positioned to capture opportunities

in next-generation technologies, deliver differentiated value to our customers and vendor partners, and generate strong returns for our shareholders.”

Ownership/Management:

54) Ownership Type	03/12/17	Curr	Change
41) Investment Advisor	86.14	86.20	+0.06
42) Hedge Fund Manager	6.60	6.58	-0.02
43) Individual	2.02	1.99	-0.03
44) Pension Fund	1.49	1.49	0.00
45) Sovereign Wealth Fund	1.22	1.21	-0.01
46) Insurance Company	1.09	1.09	0.00
47) Bank	0.80	0.80	0.00
48) Brokerage	0.20	0.19	-0.01
49) Government	0.18	0.18	0.00

The ownership type graph is shown to the left.

Investment advisors hold a majority of the ownership type with 86.2% of the shares outstanding. Second are hedge fund managers with holdings of 6.58%. Third are individuals with holdings of 1.99%. There has not been much change in the ownership type.

The short interest for Tech Data and its competitors are shown in the graph below.

Name (BICS Best Fit)	Short Interest (M shrs)	SI 1 Mo Change	SI (% of avg. daily vol.)	SI (% of float)	SI % Change	Last Px (USD)	30 Day Avg Volume
Median	1.73M	118.75k	3.92	2.53	-0.99	85.17	489.37k
100) TECH DATA CORP	1.46M	-97.17k	8.36	3.92	-2.38	94.99	268.55k
101) AVNET INC	3.58M	1.18M	3.18	2.80	10.04	46.05	1.07M
102) ARROW ELECTRONICS INC	1.99M	135.01k	3.50	2.26	-5.55	75.35	710.19k
103) SYNEX CORP	593.10k	102.49k	4.35	2.02	0.40	119.90	140.82k

The amount of short interest is much higher for Tech Data (3.92%) compared to its competitors of Avnet, Arrow Electronics, and Synnex Corp. However, Tech Data has had a 2.38% decrease in short interest. This high amount of short interest compared to its competitors means that these shorts will have to cover and will bring the stock price up. The decreasing amount of short interest is showing this trend. The Chief Executive Officer of Tech Data is Robert Dutkowsky. He was appointed Chief Executive Officer in October 2006. Dutkowsky's career began with IBM where, during his 20-year tenure, he served in several senior management positions. The Executive Vice President and Chief Financial Officer is Charles Dannewitz. He joined the company in February 1995 as Vice President of Taxes. He assumed responsibility for worldwide treasury operations in July 2003. Dannewitz was appointed CFO in June 2015. The following compensation of senior management is shown below.

Name	Title Sort by Rank	FY 2013 (USD)	FY 2014 (USD)	FY 2015 (USD)	FY 2016 (USD)
Dutkowsky, Robert M.	Chief Executive Officer and Executive Director	1,821,718	1,743,484	2,778,359	3,413,430
Cano, Néstor (Prior)	Former President of Europe	1,273,591	1,180,984	2,345,090	2,214,105
Hovells, Jeffery P. (Prior)	Former Chief Financial Officer and Executive Vice President	1,174,490	1,163,314	1,680,012	1,502,584
Dannewitz, Charles V.	Chief Financial Officer and Executive Vice President	-	-	-	1,062,561
Tonnison, John A.	Chief Information Officer and Executive Vice President of Cloud Computing	590,198	585,586	806,734	1,031,601
Quaglia, Joseph H.	President of the Americas	-	-	843,923	873,139
Raymund, Stephen A.	Chairman	350,132	354,922	350,867	358,202

Robert Dutkowsky total compensation increased from about \$2.8M to \$3.4M from FY 2015 to FY 2016. This is about a 42% increase. Tech Data Corporation's stock price has increased by about 40% from FY 2015 to FY 2016. This makes the compensation increase for the CEO reasonable.

Capital Allocation Comparison:

Tech Data had very little debt compared to its competitors, but increased recently due to the acquisition of the Technology Solutions Business from Avnet. Due to the acquisition, Tech Data added a combination of \$1

billion of new term loans, upsized their revolving credit facility by \$500 million, and issued \$1 billion of public bonds. Tech Data's total debt, capitalization, cost of debt, WACC, and ROC/WACC are shown below.

Capitalization (Debt/Equity)			Kd		WACC		ROC /WACC	
	History	LFY	History	LFY	History	LFY	History	LFY
TECD	0.17	0.45	7.0%	4.3%	13.5%	11.5%	0.59	0.79
Competitors	0.46	0.38	5.7%	4.6%	12.4%	11.2%	0.86	0.96

In Millions of USD	FY 2014	FY 2015	FY 2016	FY 2017	Current/LTM
12 Months Ending	01/31/2014	01/31/2015	01/31/2016	01/31/2017	01/31/2017
Market Capitalization	2,052.3	2,134.4	2,189.1	3,014.0	3,610.2
- Cash & Equivalents	570.1	543.0	531.2	2,125.6	2,125.6
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0
+ Total Debt	397.6	364.9	366.7	1,363.0	1,363.0
Enterprise Value	1,879.8	1,956.3	2,024.6	2,251.4	2,847.7

Tech Data has a history of debt to equity of 0.17, but for its last fiscal year it was 0.45. This was above its competitors. Tech Data's cost of debt decreased from 7% to 4.3% this is due to receiving better debt terms for its most recent new loans. Considering the lower cost of debt, Tech Data's WACC also decreased to being very close to its competitors. Its return on capital to WACC is at 0.79, which is lower than its competitors at 0.96. With this new acquisition, Tech Data will be more efficient in its cost and operations, which will lead to ROC/WACC trending closer to its competitors. Total debt increased from \$366.7 million in FY 2016 to \$1,363 million in FY 2017. CEO Bob Dutkowsky stated, "In terms of capital allocation, our first priority is debt reduction. Our principal focus for the next 18 to 24 months will be to deleverage our balance sheet in order to retain our investment-grade ratings. Tech Data had year to date operating cash flow of \$657 million. Operating cash flow will be used to pay off the debt with no new equity offerings. Tech Data was financially well positioned to take on debt for its acquisition.

Profitability Comparison:

Tech Data's revenue, gross profit, EBITDA, and EPS are shown below.

In Millions of USD	FY 2014	FY 2015	FY 2016	FY 2017
12 Months Ending	01/31/2014	01/31/2015	01/31/2016	01/31/2017
Revenue, Adj	26,821.9	27,670.6	26,379.8	26,234.9
Growth %, YoY	5.8	3.2	-4.7	-0.5
Gross Profit, Adj	1,362.3	1,394.0	1,286.7	1,301.9
Margin %	5.1	5.0	4.9	5.0
EBITDA, Adj	320.1	326.4	353.0	-
Margin %	1.2	1.2	1.3	-
Net Income, Adj	197.8	153.5	191.0	213.7
Margin %	0.7	0.6	0.7	0.8
EPS, Adj	5.18	4.01	5.29	6.04
Growth %, YoY	-3.6	-22.6	32.1	14.1

Revenue remained flat decreasing by 0.5% from FY 2016 to FY2017. This was due to currency exchange impacts, specifically a decline of 16% in the British pound to the U.S. dollar average exchange rate from the year-ago quarter. Gross profit increased

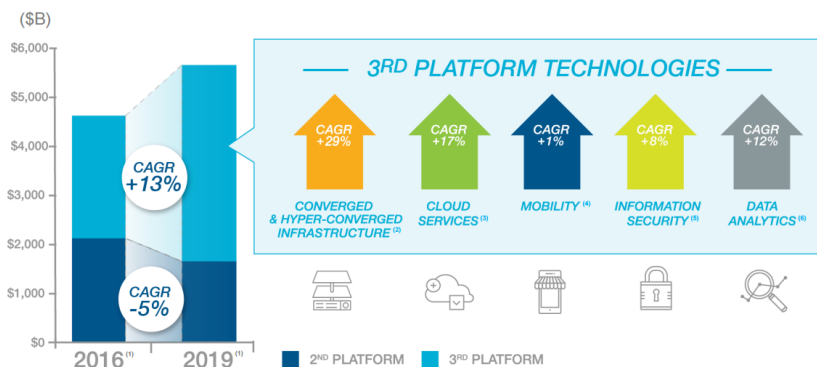
by 5%, net income increased by 0.8%, and EPS increased by 14.1%. The chart also shows how gross profit margin increased from 4.9% to 5% from FY 2016 to FY2017. Also, net income margin increased from 0.7% to 0.8%. Tech Data's financial was better despite the tough environment, explained by the CFO Chuck Dannewitz, in the technology sector. Below shows numerous profitability ratios along with activity ratios for Tech Data and its competitors (Arrow Electronics, Synnex Corp, and Avnet).

Name (BICS Best Fit)	ROE	ROA:Y	GM:Y	PM:Y	OPM:Y	Ast TO:Y	Inv Turnover:Y
Median	11.53%	4.56%	10.35%	1.90%	3.06%	2.64	8.50
100) TECH DATA CORP	10.22%	2.99%	4.96%	0.81%	1.21%	3.67	11.77
101) ARROW ELECTRONICS INC	13.41%	4.21%	13.20%	2.41%	3.91%	1.75	7.77
102) SYNnex CORP	12.84%	5.06%	9.12%	1.74%	2.80%	2.91	8.32
103) AVNET INC	9.05%	4.91%	11.59%	2.07%	3.31%	2.38	8.68

Tech Data has lower profitability ratios compared to its competitors. Its return on assets, gross margin, profit margin, and operating margin are much lower than its competition. Management has been generating less profits out of every dollar of revenue. This is due to the lower price Tech Data offers compared to its competitors. This is part of Tech Data's strategy to let smaller vendor partners, not just the large vendor partners, benefit from the distribution service. This is a value opportunity for Tech Data to increase its margins to a range closer to its competitors. However, Tech Data has greater activity ratios compared to its competitors. With its asset turnover and inventory turnover being much greater. This shows the efficiency of Tech Data's operations and how they are able to charge lower prices compared to its competitors.

Third Platform Technologies:

Tech Data sees third platform technologies as the next disruptive change in the technology industry. This includes products like cloud, big data and analytics, social, innovation technologies including the Internet of Things (IoT), cognitive computing, virtual reality, and next generation security. Tech Data projects the constant annual growth rate for these third platform technologies below.



Third platform technologies are growing at 13% compared to second platform products growing at negative 5%. Second platform products are client and server systems like tablets, desktops, printers, etc. Some specific third platform products include cloud services growing at 17%, information security growing at 8%, and data

analytics growing at 12%. Tech Data's competitive advantage comes from taking advantage of disruptive technological changes pivoting, for example, from second platform technologies to third platform technologies. The acquisition of the Technology Solutions Business from Avnet gives Tech Data the capabilities to pivot to third platform technologies with the pooling of both company's resources. Tech Data being able to capture the huge expected returns of third platform technologies is a catalyst to make the company more profitable for its shareholders.

Summary:

In conclusion, Tech Data Corporation is a buy at its current price due to its upward growth potential. Tech Data is vendor partners with the largest companies in the technology industry including Apple, HP, Cisco, IBM, Microsoft, Xerox, and Dell. Tech Data represents all fractions of the technology industry. Tech Data has an competitive advantage due to its distribution centers that provide the least expensive routes to market for its vendors' products. The acquisition of Avnet's Technology Solutions Business allows Tech Data to have access in Asia-Pacific, add new vendor relationships, and increase the capabilities of the operations to be prepared for the disruptive change to third platform technologies. Tech Data Corporation's one-year target price of \$122.17 is reasonable due to their upward growth potential

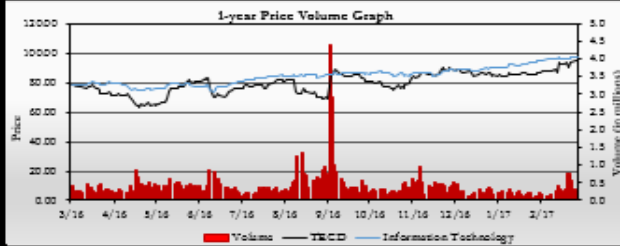
TECH DATA CORPORATION (TECD) **CENTER FOR GLOBAL FINANCIAL STUDIES** **BULLISH**

Analysis by Joseph Nastasi
3/17/2017

Current Price: \$94.99
Dividend Yield: 0.0%

Intrinsic Value: \$90.97
Target Price: \$116.81

Target 1 year Return: 22.97%
Probability of Price Increase: 66.6%



Description
Tech Data Corporation engages in the wholesale distribution of technology products.

General Information

Sector	Information Technology
Industry	Electronic Equipment, Instruments and Comp
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	8.72%
Effective Tax rate	31%
Effective Operating Tax rate	31%

Market Data

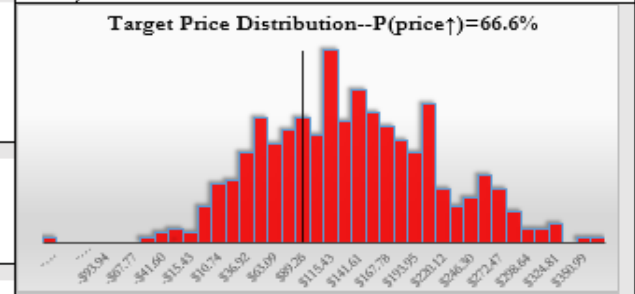
Market Capitalization	\$3,610.24
Unit volume (mil)	0.33
Shares outstanding (mil)	38.01
Diluted shares outstanding (mil)	35.43
% shares held by institutions	39%
% shares held by investments Managers	86%
% shares held by hedge funds	8%
% shares held by insiders	1.45%
Short interest	3.84%
Days to cover short interest	5.77
52 week high	\$96.14
52-week low	\$61.39
Levered Beta	0.89
Volatility	26.38%

Past Earning Surprises

Quarter ending	Revenue
1/31/2016	4.50%
4/30/2016	-1.24%
7/31/2016	-4.61%
10/31/2016	1.40%
1/31/2017	-1.58%
Mean	-0.30%
Standard error	1.5%

EBITDA

Avnet, Inc.	1.74%
Arrow Electronics, Inc.	-7.40%
SYNNEX Corporation	-9.66%
CDW Corporation	1.74%
Anixter International Inc.	-2.80%
ScanSource, Inc.	-3.27%
Insight Enterprises, Inc.	2.3%

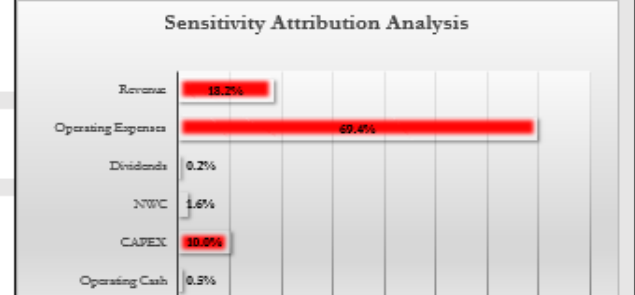


Management

Dutkowsky, Robert	Chief Executive Officer and
Dannewitz, Charles	Chief Financial Officer and
Tonnison, John	Chief Information Officer and
Guaglia, Joseph	President of the Americas
Dow, Andy	Member of Executive Board
Hume, Richard	Chief Operating Officer and

Total compensation growth

3.53% per annum over 5y	2.17% per annum over 5y
N/M	0% per annum over 0y
10.94% per annum over 3y	4.45% per annum over 3y
-6.59% per annum over 1y	3.28% per annum over 1y
N/M	N/M
N/M	N/M



Profitability

TECD (LTM)	8.7%
ROIC	1%
NOPAT Margin	3.04
Revenue/Invested Capital	3.0%
Adjusted net margin	1%
Revenue/Adjusted Book Value	11.36

TECD (5 years historical average)

8.56%	3.42%
1.17%	12.4%
7.32	0.76
3.31%	10.33%
1.06%	11.4%
8.80	0.31

Valuation

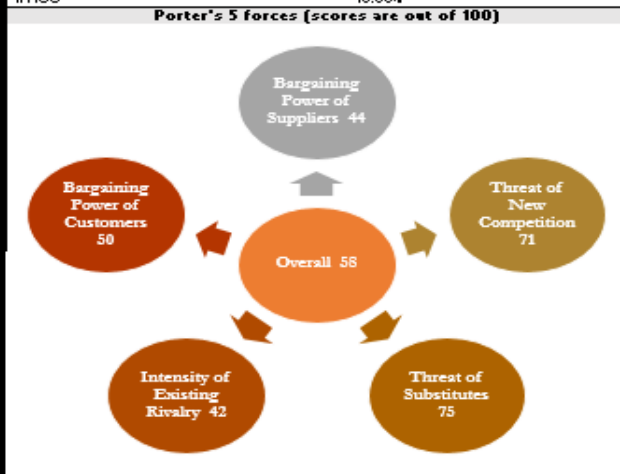
NOPAT margin	1.0%	0.85
	1.6%	2.12
	0.8%	0.55
	1.5%	0.77
	2.2%	0.85
	3.0%	0.92
	3.8%	0.96
	4.6%	1.00
	5.4%	1.04
	6.3%	1.07
	7.2%	1.10
	8.1%	1.12

Invested Funds

TECD (LTM)	43.3%
Total Cash/Total Capital	11.4%
Estimated Operating Cash/Total Capital	22.0%
Non-cash working Capital/Total Capital	54.5%
Invested Capital/Total Capital	

TECD (5 years historical average)

23.5%	16%
13.4%	N/A
37.1%	14%
78.3%	84%



Revenue growth

Base Year	-0.5%
1/31/2018	27.1%
1/31/2019	0.7%
1/31/2020	1.0%
1/31/2021	1.4%
1/31/2022	1.8%
1/31/2023	2.1%
1/31/2024	2.5%
1/31/2025	2.9%
1/31/2026	3.2%
1/31/2027	3.6%
Continuing Period	4.0%

Invested Capital

Base Year	\$2,535.97
1/31/2018	\$2,734.81
1/31/2019	\$2,843.78
1/31/2020	\$2,858.23
1/31/2021	\$2,902.07
1/31/2022	\$2,350.30
1/31/2023	\$4,608.97
1/31/2024	\$6,214.64
1/31/2025	\$8,338.52
1/31/2026	\$10,436.66
1/31/2027	\$12,654.12
Continuing Period	

Net Claims

Price per share	-\$62.36	\$115.48
	\$1,583.78	\$129.95
	\$3,037.56	\$145.16
	\$4,823.38	\$164.94
	\$6,400.83	\$190.62
	\$7,866.77	\$222.95
	\$9,184.24	\$262.51
	\$10,365.44	\$303.94
	\$11,408.38	\$366.14
	\$12,282.21	\$431.93
	\$12,984.41	\$508.22