

November 17, 2018

Tech Data : (TECD)

Zachary Girvin

Sector: Information Technology

Industry: Electronic Equipment

Current Price: \$74.79

Target Price: \$59.25

Company Description:

Tech Data Corporation distributes technology products. They provide logistical services for companies worldwide. As one of the largest wholesale distributors of technology products, TECD has large distribution channels set up over the globe, and although US based, Europe is their primary market with 61% of sales.



SHORT

Current Price: \$74.79

Target Price: \$59.25

Market Cap: 2.89 B

Key LTM Data		
	TECD	Peers
NOPAT Margin	0.4%	1.1%
Adj. NI Margin	0.4%	0.9%
ROIC	3.75%	4.2%
ROE	4.90%	5.2%
Total Debt/Capital	34.42%	30.3%
Kd	5.60%	6.16%
Credit Quality Rating	BBB-	BBB-
Ke	15.60%	14.17%
WACC	11.80%	11.23%

Thesis:

TECD is in a unique situation. They seem to be a good company in a positive industry, but they may have come across some bad luck with their business. Looking at Balance Sheet items like inventories and a freshly declining cash balance, the short term outlook is quite negative. I believe that TECD can turn this around, but the market is currently overvaluing this stock given its recent volatility.

*This will improve the value of the company in the long run which I believe will happen, but there is a short term opportunity to sell short TECD stock

Catalysts:

- Short Term:
- Consumer Uncertainty
- *Long Term: Balance Sheet items improve, showing a stronger business

Earnings Performance:

TECD grew revenues in 2017 by 40.2%. This was after two poor years of performance. So far TCD has not kept up with projected earnings and this has accounted for part of their drop in market cap. Taking a closer look at the table below, you can see Cash from operations drop roughly 30%. This has shown how the first part of 2018 has been a poor showing for the company. Even more importantly their Net Income Margin has remained almost unchanged over 4 years. After researching the company, it seems as though their company is spread too far and is spending too much on their operations. Revenue for the twelve months ending on

TECD US Equity						96) Actions ▾	97) Export ▾	98) Settings	Financial Analysis				
ADJ Tech Data Corp		Periodicity Annuals								Cur USD ▾		🔍	
1) Key Stats		2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom				
11) Adj Highlights		12) GAAP Highlights		13) Earnings		14) Enterprise Value		15) Multiples		16) Per Share	17) Stock Value		
In Millions of USD		2015 Y		2016 Y		2017 Y		2018 Y		Current/LTM	2019 Y Est	2020 Y Est	
12 Months Ending		01/31/2015	01/31/2016	01/31/2017	01/31/2018	07/31/2018	01/31/2019	01/31/2020					
Market Capitalization		2,134.4	2,189.1	3,014.0	3,826.5	2,884.3							
- Cash & Equivalents		543.0	531.2	2,125.6	955.6	792.9							
+ Preferred & Other		0.0	0.0	0.0	0.0	0.0							
+ Total Debt		364.9	366.7	1,363.0	1,637.9	1,519.2							
Enterprise Value		1,956.3	2,024.6	2,251.4	4,508.7	3,610.6							
Revenue, Adj		27,670.6	26,379.8	26,234.9	36,775.0	37,662.7	36,668.0	37,480.4					
Growth %, YoY		3.2	-4.7	-0.5	40.2	29.7	-0.3	2.2					
Gross Profit, Adj		1,394.0	1,286.7	1,301.9	2,115.6	2,193.1	2,209.2	2,263.1					
Margin %		5.0	4.9	5.0	5.8	5.8	6.0	6.0					
EBITDA, Adj		326.4	353.0	372.2	655.4	667.9	748.8	781.2					
Margin %		1.2	1.3	1.4	1.8	1.8	2.0	2.1					
Net Income, Adj		153.5	191.0	201.3	278.9	295.3	378.7	410.7					
Margin %		0.6	0.7	0.8	0.8	0.8	1.0	1.1					
EPS, Adj		4.01	5.29	5.69	7.30	7.66	9.76	10.48					
Growth %, YoY		-22.6	32.1	7.5	28.3	26.2	33.8	7.4					
Cash from Operations		119.4	193.9	656.8	1,097.1	721.1							
Capital Expenditures		-18.6	-20.9	-25.0	-192.2	-193.8	-50.0	-52.0					
Free Cash Flow		100.7	173.0	631.9	904.8	527.3	510.5	418.5					

In Millions of USD except Per Share	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y	2018 Y
12 Months Ending	01/31/2013	01/31/2014	01/31/2015	01/31/2016	01/31/2017	01/31/2018
Total Assets						
+ Cash, Cash Equivalents & STI	340.6	570.1	543.0	531.2	2,125.6	955.6
+ Cash & Cash Equivalents	340.6	570.1	543.0	531.2	2,125.6	955.6
+ ST Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receiv	3,215.9	3,215.7	2,812.0	2,995.1	3,047.9	5,783.7
+ Accounts Receivable, Net	3,215.9	3,215.7	2,812.0	2,995.1	3,047.9	5,783.7
+ Notes Receivable, Net	0.0	0.0	0.0	0.0	0.0	0.0
+ Inventories	2,254.5	2,450.8	1,959.6	2,117.4	2,118.9	3,065.2

In addition to the cash issue inventory levels have increased dramatically. While this could be expected for a wholesale distributor growing in size, the growth in finished goods in inventory has seemed to be at a high rate, which may explain the decline in sales revenue. In my opinion, these factors seem to create doubt that TECD will show positive value creation, and therefore a increase in stock price in the short term. This doubt shows why I fee this stock should be shorted.

Cost of Capital:

From the first page of this analysis you saw my cost of capital for the company. In my opinion a cost of debt of 5.6% is too low. In my evaluation, assumed that given their declining cash reserve, their liquidity ratios would be sub-par, pushing there credit rating to even lower levels. This would have a tremendous impact on the company, due to their sensitivity to the discount rate used in a basic valuation of the company.

Kd	5.60%
Credit Quality Rating	BBB-
Ke	15.60%
WACC	11.80%

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Shown below is TECD's ROIC/WACC. This number has declined in the past 12 months due their sales revenue drop. This has further destroyed value for the company and needs to be reversed quickly if the company hopes to increase stock prices. Going off of the previous paragraph, if there WAC were to increase in the coming months, due to their declining financials, they may even destroy more value, which wouldn't be good after their large acquisition already stretching them thin.

ROIC /WACC		
	History	LTM
TECD	0.69	0.66
Competitors	0.68	0.56
Target	0.59	

Existing Short Interest:

Currently Short Interest has increased, which reflects the doubts that I have in the company. I think that this will continue in the coming weeks, due to the weakening of TECD's financials, and the market not properly adjusting for it. I feel that this firm has issues that will push the price down soon, and the outside macro factors will currently be of no help to TECD.



A Look at TECD's Investing:

First and foremost the company's goodwill has almost increased five-fold in the past year. I feel that their acquisition of Avnet's Tech solution has overpriced, which they are feeling now. As a result of the over payment, TECD wasted cash and stock, used to purchase this segment. As the initial surge helped them, they are now left trying to recoup their investment, which may not happen for some time. This is another uncertainty that raises the risk level of TECD.

In Millions of USD except Per Share		2015 Y		2016 Y		2017 Y		2018 Y	
12 Months Ending		01/31/2015		01/31/2016		01/31/2017		01/31/2018	
▼ Goodwill		318.0	100.0%	310.0	100.0%	199.0	100.0%	969.2	100.0%
Americas		8.8	2.8%	35.6	11.5%	19.6	9.8%	488.8	50.4%
Europe		309.2	97.2%	274.4	88.5%	179.5	90.2%	395.4	40.8%
APAC		—		—		—		85.0	8.8%
▼ Assets		6,136.7	100.0%	6,358.3	100.0%	7,931.9	100.0%	12,652.6	100.0%
Europe		4,187.3	68.2%	4,279.8	67.3%	4,693.7	59.2%	7,158.1	56.6%
Americas		1,949.4	31.8%	2,078.4	32.7%	3,238.2	40.8%	4,925.6	38.9%
APAC		—		—		—		569.0	4.5%
▼ Long-Term Assets		63.1	100.0%	66.0	100.0%	74.2	100.0%	—	
Europe		39.0	61.8%	36.6	55.5%	38.7	52.1%	—	
Americas		24.1	38.2%	29.4	44.5%	35.6	47.9%	—	
▼ Depreciation and Amortization		68.7	100.0%	57.3	100.0%	54.4	100.0%	150.0	100.0%
Americas		16.7	24.2%	18.2	31.9%	18.8	34.6%	84.3	56.2%
Europe		52.1	75.8%	39.0	68.1%	35.6	65.4%	57.8	38.5%
APAC		—		—		—		8.0	5.3%

We should also look into TECD's efficiency problem. Take it for what you will, but they have a leading revenue geographic segment in Europe. However, Revenue for the Americas was 43.4% of the company's

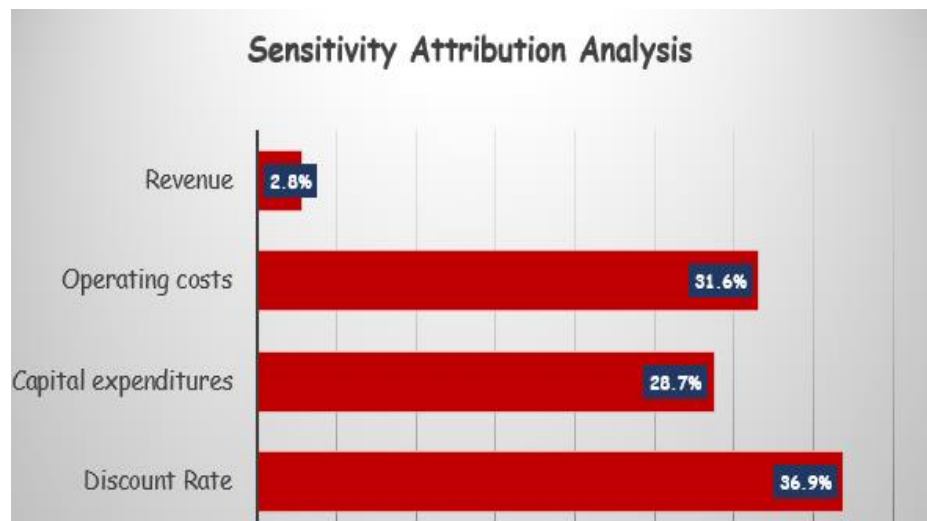
total, but America's Operating Income represented 56.5%. While they have increased their asset base in America more, They have also entered the speculative segment of APAC, which could be a large drain on their operating efficiency. There are many issue with TECD, from financials, to management and beyond.

▼ Revenue	27,670.6	100.0%	26,379.8	100.0%	26,234.9	100.0%	36,775.0	100.0%
Europe	17,264.4	62.4%	16,023.1	60.7%	15,850.4	60.4%	19,713.9	53.6%
Americas	10,406.2	37.6%	10,356.7	39.3%	10,384.5	39.6%	15,950.0	43.4%
APAC	—		—		—		1,111.1	3.0%
▼ Operating Income	267.6	100.0%	401.4	100.0%	291.9	100.0%	410.1	100.0%
Americas	145.1	51.6%	235.6	56.6%	144.2	47.2%	248.4	56.5%
Europe	136.2	48.4%	180.7	43.4%	161.6	52.8%	173.6	39.5%
APAC	—		—		—		17.5	4.0%
Stock-based compensation exp...	-13.7		-14.9		-13.9		-29.4	

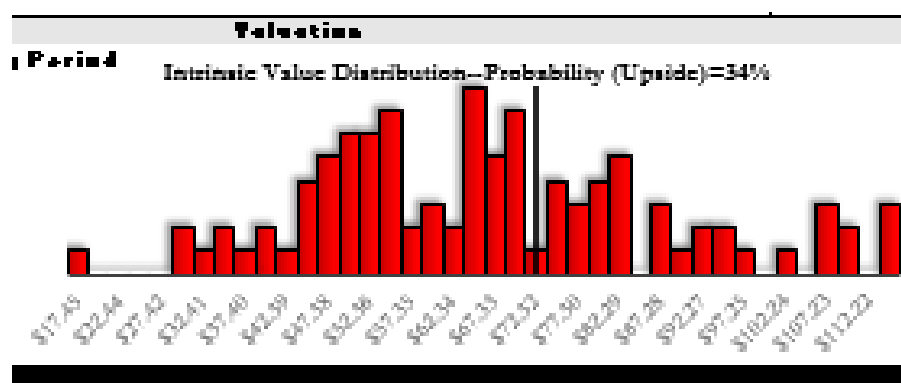
Conclusion:

TECD has a short term that seems pretty shaky and the market will soon react to their weakening financials. Whether through a hike in their cost of debt, or through investor panic, and a demand for a higher return for the added business risk.

For my alternative scenario, kept the cost of borrowing at its current level as given in the proforma. For my base case, I increased the cost of borrowing to 7%, which I feel more properly reflects the company. For keeping the Kd the same for the alternative case, I ended up with a upside of 34%, still a grim outlook on the stock moving forward.



TECD will drop in value in the ear future, and if able we need to closely look at shorting the wholesale distributor as it may be temporarily over valued by the greater part of the market. They still hold a bullish mentality given the previous years, but the time has come that speculative stock will drop due to lacking financials, just like TECD may.



Tech Data Corporation (TECD)

Analysis by Zach Girvin
11/16/2018

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BEARISH

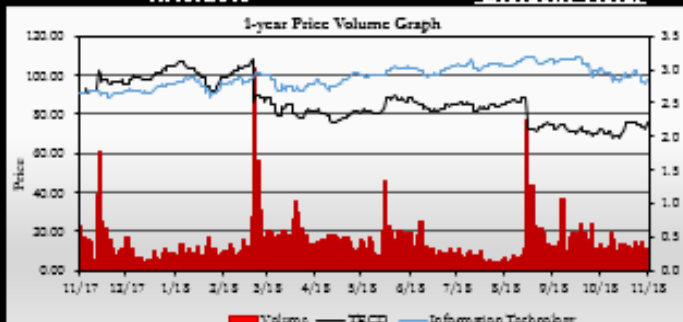
Current Price:
Dividend Yield:

\$74.79
0.0%

Intrinsic Value
Target Price:

\$46.86
\$59.25

Target 1 year Return: -20.78%
Probability of Price Increase: 10%



Description	
Tech Data Corporation engages in the wholesale distribution of technology products.	
General Information	
Sector	Information Technology
Industry	Electronic Equipment, Instruments and Components
Last Guidance	May 8, 2018
Next earnings date	November 29, 2018
Market Assumptions	
Estimated Equity Risk Premium	9.31%
Effective Tax Rate	26%

Market Data	
Market Capitalization	\$2,894.66
Daily volume (mil)	0.16
Shares outstanding (mil)	38.35
Diluted shares outstanding (mil)	38.53
% shares held by institutions	99%
% shares held by investment managers	92%
% shares held by hedge funds	2%
% shares held by insiders	1.49%
Short interest	4.34%
Days to cover short interest	3.91
52 week high	\$108.62
52 week low	\$66.93
Volatility	31.91%

Part Earning Surprises	
Quarter ending	Revenue
7/31/2017	-7.22%
10/31/2017	0.75%
1/31/2018	4.71%
4/30/2018	4.69%
7/31/2018	1.63%
Mean	0.91%
Standard error	1.0%

Market and Credit Scores	
Recommendation (STARS) Value--4	
Recommendation (STARS) Description--Buy	
Quality Ranking Value--B+	
Quality Ranking Description--Average	
Short Score--1	
Market Signal Probability of Default % (Non-Rating)--0.51%	
Credit Model Score (Non-Rating)--bbb-	

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segments
Europe--54%	Wholesale - Computer Peripherals--100%
Asia-Pacific--3%	--
Americas (Excluding United States)--5%	--
U.S.--39%	--

Management	
Hume, Richard	CEO & Director
Dannouits, Charles	CFO & Executive VP
Vetter, David	Chief Legal Officer & Executive VP
Zammit, Patrick	President of Europe
Dutkowsky, Robert	Executive Chairman of the Board
Dau, Andy	Group Marketing Director & Member of Execut

Total Compensation Growth	
CEO & Director	-5.59% per annum over 2y
CFO & Executive VP	18.67% per annum over 3y
Chief Legal Officer & Executive VP	-100% per annum over 3y
President of Europe	
Executive Chairman of the Board	-100% per annum over 4y
Group Marketing Director & Member of Execut	

Peers	
SYNNER Corporation	--
Arrau Electronic, Inc.	--
Avnet, Inc.	--
--	ScanSource, Inc.
Flex Ltd.	--

Profitability	
TECD (LTM)	TECD Historical
Return on Capital (GAAP)	7.6%
Operating Margin	1%
Revenue of Capital (GAAP)	9.30
ROE (GAAP)	6.4%
Net margin	0.5%
Revenue of Book Value (GAAP)	13.61219572

Peers' Median (LTM)	
Return on Capital (GAAP)	7.34%
Operating Margin	2.43%
Revenue of Capital (GAAP)	2.68
ROE (GAAP)	10.9%
Net margin	1.5%
Revenue of Book Value (GAAP)	7.05



Invested Funds	
TECD (LTM)	TECD Historical
Cash/Capital	32.0%
NWC/Capital	31.5%
Operating Assets/Capital	13.3%
Goodwill/Capital	23.2%

Peers' Median (LTM)	
Cash/Capital	18.4%
NWC/Capital	73.4%
Operating Assets/Capital	1.0%
Goodwill/Capital	7.1%

Capital Structure	
TECD (LTM)	TECD Historical
Total Debt/Market Capitalization	0.45
Cost of Debt	5.6%
CGFS Rating (F+care, 2+care, and default Probability)	BBB
WACC	11.9%

Peers' Median (LTM)	
Total Debt/Market Capitalization	0.23
Cost of Debt	6.4%
CGFS Rating (F+care, 2+care, and default Probability)	BBB
WACC	10.7%

Forecast Assumptions	
Explicit Period (10 years)	Continuing Period
Revenue Growth CAGR	9%
Average Operating Margin	11%
Average Net Margin	6%
Growth in Capital CAGR	25%
Growth in Claims CAGR	25%
Average Return on Capital	17%
Average Return on Equity	22%
Average Cost of Capital	12%
Average Cost of Equity	15%

