

Tech Data Corporation (TECD)

\$133.90 (As of 03/26/20)

Price Target (6-12 Months): **\$141.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Shares of Tech Data have outperformed the industry in the past six months. The company received a boost after it accepted the buyout offer of Apollo Global Management. Also, the company has been witnessing robust bottom-line growth, which continued in fourth-quarter fiscal 2020, courtesy of lower cost of products sold. Notably, this marked the sixth straight quarter of earnings beat. Tech Data is working toward being a more flexible and cost-effective organization with the Global Business Optimization Program. However, the company's top line has been a concern for a while. During the quarter, lower net sales in Europe hurt the overall performance. Also, concerns related to higher SG&A expenses and stiff competition cannot be ignored. Again, currency woes are likely to continue.

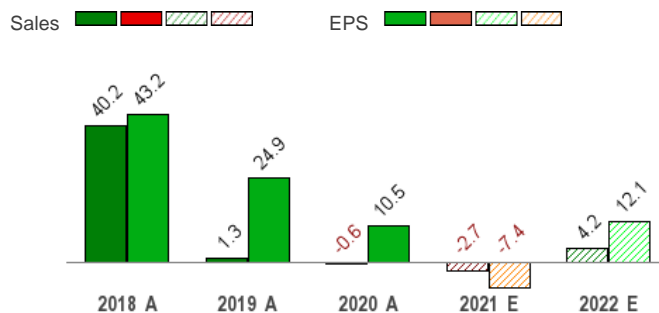
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$145.25 - \$80.20
20 Day Average Volume (sh)	1,297,807
Market Cap	\$4.7 B
YTD Price Change	-6.8%
Beta	1.08
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Computer Hardware
Zacks Industry Rank	Top 38% (97 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-11.6%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	10.6
P/E F1	11.5
PEG F1	3.8
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	8,437 E	9,208 E	9,473 E	10,908 E	37,487 E
2021	7,891 E	8,453 E	9,075 E	10,563 E	35,981 E
2020	8,406 A	9,092 A	9,119 A	10,381 A	36,998 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.28 E	\$2.86 E	\$3.31 E	\$5.23 E	\$13.06 E
2021	\$1.65 E	\$2.17 E	\$2.89 E	\$4.93 E	\$11.65 E
2020	\$2.04 A	\$2.69 A	\$3.02 A	\$4.88 A	\$12.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

Overview

Based in Clearwater, FL., Tech Data Corporation is one of the leading wholesale distributors of information technology (IT) products, logistics management and other value-added services. The company distributes and markets more than 150,000 products from more than 600 manufacturers and publishers.

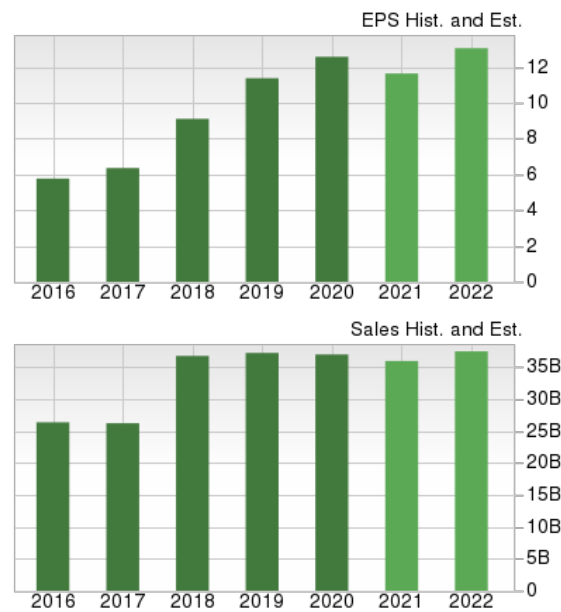
Tech Data reported revenues of \$37 billion in fiscal 2020. The company sells products in more than 100 countries and generates revenues primarily from three geographical segments: the Americas (including North and Latin America), Europe and Asia Pacific (APAC).

In fiscal 2020, the Americas segment reported sales of \$16.1 billion (43.5% of fiscal 2020 sales). Europe reported sales of \$19.7 billion (53.3% of fiscal 2020), while Asia-Pacific generated \$1.2 billion (3.2% of fiscal 2020 sales).

The company categorizes its offerings in two groups — Endpoint Solutions Portfolio and Advanced Solutions Portfolio. Endpoint Solutions Portfolio includes PC systems, mobile phones and accessories, printers, peripherals, supplies, endpoint technology software, and consumer electronics, while Advanced Solutions Portfolio consists of data center technologies such as storage, networking, servers, advanced technology software, and converged and hyper-converged infrastructure.

Tech Data purchases its products directly from vendors in bulk quantities and then markets them to an active reseller base of more than 125,000 VARs, direct marketers, retailers, corporate resellers and MSPs. These VAR customers mostly rely on Tech Data as their principal source of technology products and the related financing for the products.

Recently, the company entered a definitive agreement to be acquired by Tiger Midco, LLC, an affiliate of funds managed by affiliates of Apollo Global Management, a leading global alternative investment manager. The deal is valued at \$5.4 billion or \$130 per share. The transaction is likely to conclude in the first half of calendar 2020.



Reasons To Buy:

▲ **Stock Soars on Buyout Deal:** Shares of Tech Data have gained 28.4% in the past six months, outperforming the industry's growth of 22%. The stock received a boost, following the company's acceptance of the buyout proposal by Tiger Midco, LLC, an affiliate of funds managed by affiliates of Apollo Global Management. The deal is valued at \$145 per share. The transaction is likely to conclude in the first half of calendar year 2020. The stock's bullish run on the bourses can also be attributable to the company's bottom-line performance. Notably, its earnings surpassed the Zacks Consensus Estimate for the sixth successive quarter in fourth-quarter fiscal 2020.

Increasing demand for data center systems, cloud and mobility solutions is a key growth factor for Tech Data.

▲ **Global Business Optimization Program:** Tech Data has launched a Global Business Optimization Program (GBO Program) to become a more flexible and cost-effective organization. This will enable the company to work toward achieving sustainable long-term growth. The components of the program include improving its regional go-to-market models to deliver higher value to channel partners; developing digital processes to create a more responsive, empowered and agile work environment; improving productivity with the help of increased centralization and standardization throughout the organization.

▲ **Strengthening Technological Offerings:** We believe that Tech Data is well-positioned to achieve growth driven by rising demand for advanced technologies and models entailing data centric systems, cloud, analytics, internet of things as well as services that support these areas. In this regard, some of its notable partnerships include Keonn, Advantech and iPass. The company is focused on developing capabilities across such platforms through well-chalked investments. Further, it focuses on bolstering end-to-end portfolio through tailored solutions, which is likely to result in improved business outcomes for customers and their end-users. These endeavors are likely to aid the company in developing a robust portfolio that provides improved digital experiences as well as foray into building the required expertise for next generation technologies.

▲ **Acquisitions:** Acquisitions have been an integral part of the company's growth strategy. In this regard, Tech Data latest buyout include DLT Solutions, a premier software and cloud solutions aggregator. In 2017, Tech Data completed the acquisition of Technology Solutions unit from Avnet in a cash and stock deal worth \$2.6 billion. The transaction has given Tech Data access to the Asia-Pacific region. The buyout also strengthened Tech Data's distribution capabilities in Europe and the Americas. The acquisition helped the company to consolidate its position in Europe, particularly in the Nordic region and helped it to offset weakness in Western Europe and sluggish growth in the domestic market.

Prior to this, the acquisition of several distribution companies of Specialist Distribution Group (SDG) further boosted its presence in U.K., France and the Netherlands. The acquisitions also helped the company to diversify its presence in the domains of mobile technology (Triade, MCC & AKL) and data center (CDG Europe, Source NV). We believe that Tech Data will continue to pursue acquisitions that will expand its footprint in the long run.

▲ **Robust Margin Trend:** Tech Data's gross profit rose 3% to \$666.2 million in the fiscal fourth quarter. The company's gross margin expanded 22 basis points (bps) to 6.4%. Prior to this, gross margin expanded 19 bps and 25 bps in the fiscal third and second quarters. Persistence of this trend may drive the company's bottom line in the near term.

Reasons To Sell:

- ▼ **Higher SG&A Expenses:** Adjusted selling, general & administrative (SG&A) expenses increased 7% to \$414.2 million during the fourth quarter of fiscal 2020. As a percentage of sales, adjusted SG&A expenses expanded 28 bps to nearly 4%. This, in turn, hurt the company's adjusted operating income, which decreased 3% to \$252 million. Meanwhile, adjusted operating margin contracted 6 bps to 2.4%. Segment-wise, adjusted operating margin contracted 32 bps to 2.6% in the Americas and 110 bps to 1.9% in the Asia Pacific. Prior to this, adjusted SG&A expenses increased 7% to \$394.1 million in third-quarter fiscal 2020. As a percentage of sales, adjusted SG&A expenses expanded 37 bps to 4.3%. Certainly, increased SG&A expenses may hurt the company's operating income, unless fully offset by substantial increase in net sales.
- ▼ **Dismal Sales Trend:** Tech Data has been witnessing sluggishness in its top line for the past few quarters. Although net sales of \$10,380.8 million exceeded the consensus mark of \$10,346 million, the metric declined 1% year over year in fourth-quarter fiscal 2020. Moreover, net sales were flat on a constant-currency (cc) basis. Prior to this, sales of \$9,118.9 million missed the consensus mark of \$9,343 million and decreased 2% year over year during the fiscal third quarter. Region-wise, sales in Europe continued to remain drab. Sales from Europe (56% of global net sales) declined 2% to \$5,760.6 million, while it remained flat at cc.
- ▼ **Currency Headwinds:** Owing to its extensive exposure to international markets, Tech Data faces various risks associated with international operations, especially in terms of unfavorable currency fluctuations. Again, currency woes are likely to linger.
- ▼ **Competitive Pressure:** The IT distribution industry is mature and the fiercely competitive scenario for technology distribution companies creates headwinds for all firms in the space. Tech Data faces intense competition from several distributors in the Americas as well as several regional and local distributors. We believe that such competition might inhibit Tech Data from executing and implementing new business strategies.
- ▼ **Concerns With Data Security:** Tech Data depends on digital information systems for data transmission and storage. Any breach in the system or cyber-attacks may result in loss of data and put its operations at risk along with dampening vendors' trust. Additionally, such security breaches may lead to information misuse and thereby hurt the reputation of the company.

Intense competition combined with increasing SG&A expenses may weigh on the company's margin. Also, a soft top-line performance for the past few quarters remains a concern.

Last Earnings Report

Tech Data's Q4 Earnings Beat Estimates, Sales Down Y/Y

Tech Data reported better-than-expected earnings and sales for fourth-quarter fiscal 2020. Also, the bottom line grew year over year and marked the sixth straight quarter of beat. However, the company's top line decreased on a year-over-year basis.

The company is on track with its definitive agreement to be acquired by Tiger Midco, LLC, an affiliate of funds managed by affiliates of Apollo Global Management, which is a leading global alternative investment manager. The deal is valued at \$145 per share. The transaction is likely to conclude in the first half of calendar year 2020.

Quarter Ending **01/2020**

Report Date	Mar 05, 2020
Sales Surprise	0.34%
EPS Surprise	1.88%
Quarterly EPS	4.88
Annual EPS (TTM)	12.63

Q4 Details

Tech Data's fourth-quarter adjusted earnings came in at \$4.88 per share that surpassed the Zacks Consensus Estimate of \$4.79. Further, the metric rose 7% year over year in the reported quarter.

Net sales of \$10,380.8 million exceeded the consensus mark of \$10,346 million but declined 1% year over year. Moreover, net sales were flat on a constant-currency (cc) basis.

Net sales from the Americas (41% of global net sales) rose 1% to \$4,291.8 million. Sales from Europe (56% of global net sales) declined 2% to \$5,760.6 million. Sales from the Asia Pacific (3% of global net sales) remained almost flat at \$328.4 million. On a cc basis, net sales rose 1% in the Americas but remained flat in the Asia Pacific and Europe.

Margins

The company's gross profit rose 3% to \$666.2 million in the reported quarter. Gross margin expanded 22 basis points (bps) to 6.4%. Adjusted selling, general & administrative (SG&A) expenses increased 7% to \$414.2 million. As a percentage of sales, adjusted SG&A expenses expanded 28 bps to nearly 4%.

The company's adjusted operating income of \$252 million decreased 3% from \$260.9 million in the year-ago quarter. Meanwhile, adjusted operating margin contracted 6 bps to 2.4%. Segment-wise, adjusted operating margin contracted 32 bps to 2.6% in the Americas and 110 bps to 1.9% in the Asia Pacific. Nevertheless, adjusted operating margin expanded 18 bps to 2.4% in Europe.

Balance Sheet and Cash Flow

As of Jan 31, 2020, Tech Data had cash and cash equivalents of \$841.4 million, long-term debt, less current maturities, of \$1,338.1 million, and total stockholders' equity of \$3,119.5 million.

The company generated net operating cash flow of \$180 million during the fiscal fourth quarter. Cash from operations totaled \$593.1 million in fiscal 2020.

Recent News

On **Feb 19, 2020**, Tech Data partnered with nOps in order to provide Amazon web services to its partners across United States.

On **Feb 13, 2020**, Tech Data has joined hands with Software AG in a bid to drive innovation. Further, the latter's offerings will help customers to connect and integrate everything from applications and devices to data and clouds.

On **Feb 10, 2020**, Tech Data announced that its buyout deal with Inflow Technologies has been terminated.

On **Dec 2, 2019**, Tech Data announced that has completed the acquisition of DLT Solutions, the premier government solutions aggregator. DLT will become a wholly owned subsidiary of Tech Data.

Valuation

Tech Data shares are down 6.8% in the year-to-date period but up 33.86% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 9.9% and 11% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 27.2% but the sector is down 2.6%.

The S&P 500 index is down 18.4% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 10.07X forward 12-month earnings, which compares to 11.3X for the Zacks sub-industry, 23.01X for the Zacks sector and 15.91X for the S&P 500 index.

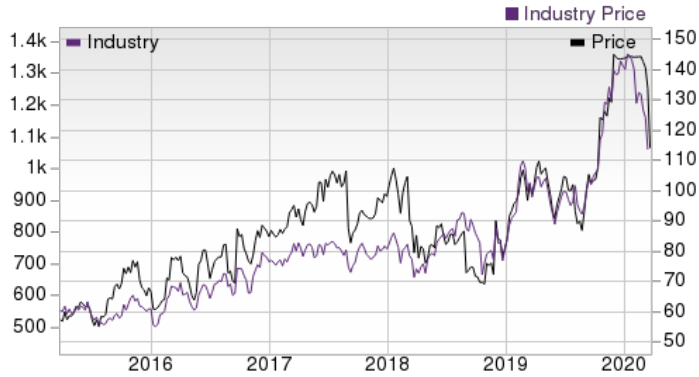
Over the past five years, the stock has traded as high as 14.83X and as low as 6.44, with a 5-year median of 10.01X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$141 price target reflects 10.6X F12M earnings.

The table below shows summary valuation data for TECD

Valuation Multiples - TECD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.07	11.3	23.01	15.91
	5-Year High	14.83	14.91	26.19	19.34
	5-Year Low	6.44	7.62	19.06	15.18
	5-Year Median	10.01	11.06	23.01	17.42
P/S F12M	Current	0.13	0.13	0.91	2.85
	5-Year High	0.14	0.14	1.11	3.43
	5-Year Low	0.07	0.08	0.8	2.54
	5-Year Median	0.1	0.1	0.92	3
EV/EBITDA TTM	Current	6.39	5.73	13.79	9.74
	5-Year High	11.03	10.21	16.22	12.88
	5-Year Low	4.06	4.15	10.88	8.27
	5-Year Median	5.63	5.59	12.51	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



Top Peers

Insight Enterprises, Inc. (NSIT)	Outperform
ePlus inc. (PLUS)	Outperform
CDW Corporation (CDW)	Neutral
PC Connection, Inc. (CNXN)	Neutral
Stitch Fix, Inc. (SFIX)	Neutral
SYNNEX Corporation (SNX)	Neutral
Arrow Electronics, Inc. (ARW)	Underperform
Avnet, Inc. (AVT)	Underperform

Industry Comparison Industry: Retail - Computer Hardware				Industry Peers		
	TECD Neutral	X Industry	S&P 500	AVT Underperform	CDW Neutral	SNX Neutral
VGM Score	C	-	-	A	A	A
Market Cap	4.74 B	2.88 B	18.50 B	2.68 B	14.43 B	4.00 B
# of Analysts	3	2	13	4	7	4
Dividend Yield	0.00%	0.00%	2.35%	3.13%	1.50%	2.06%
Value Score	B	-	-	A	B	A
Cash/Price	0.21	0.15	0.07	0.21	0.01	0.06
EV/EBITDA	7.24	7.36	11.16	5.22	12.85	5.30
PEG Ratio	3.79	NA	1.74	1.56	1.23	0.57
Price/Book (P/B)	1.52	1.62	2.44	0.68	15.12	1.04
Price/Cash Flow (P/CF)	7.75	9.20	9.87	3.60	12.55	3.77
P/E (F1)	11.32	11.87	15.29	16.19	16.09	5.89
Price/Sales (P/S)	0.13	0.25	1.93	0.14	0.80	0.17
Earnings Yield	8.70%	8.44%	6.47%	6.18%	6.21%	16.98%
Debt/Equity	0.43	0.22	0.70	0.36	3.56	0.70
Cash Flow (\$/share)	17.27	10.46	7.01	7.46	8.05	20.63
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	23.42%	17.91%	10.85%	-4.91%	22.23%	19.05%
Proj. EPS Growth (F1/F0)	-7.42%	-2.10%	2.89%	-59.61%	2.97%	-0.49%
Curr. Cash Flow Growth	-4.74%	9.35%	5.93%	-8.48%	10.39%	54.78%
Hist. Cash Flow Growth (3-5 yrs)	18.72%	16.14%	8.55%	1.13%	13.51%	25.83%
Current Ratio	1.23	1.87	1.23	2.38	1.24	1.64
Debt/Capital	30.02%	15.86%	42.57%	26.66%	78.05%	41.03%
Net Margin	1.01%	1.96%	11.64%	0.55%	4.09%	2.26%
Return on Equity	15.43%	14.97%	16.74%	7.86%	94.72%	19.04%
Sales/Assets	2.94	3.06	0.54	2.11	2.30	2.06
Proj. Sales Growth (F1/F0)	-2.75%	0.37%	2.37%	-11.70%	0.35%	-5.35%
Momentum Score	F	-	-	D	D	D
Daily Price Chg	5.26%	5.09%	6.21%	6.71%	9.96%	4.96%
1 Week Price Chg	-14.76%	-7.73%	-16.96%	-13.67%	-21.46%	-18.90%
4 Week Price Chg	-6.33%	-4.20%	-15.70%	-13.60%	-12.94%	-38.62%
12 Week Price Chg	-6.98%	-14.55%	-23.67%	-37.10%	-29.76%	-40.43%
52 Week Price Chg	33.61%	20.78%	-13.99%	-36.95%	6.26%	-16.41%
20 Day Average Volume	1,297,807	714,654	4,286,768	1,385,099	2,112,926	486,011
(F1) EPS Est 1 week change	-8.49%	-4.24%	-0.15%	-6.74%	-4.14%	-5.56%
(F1) EPS Est 4 week change	-11.63%	-5.82%	-2.28%	-14.98%	-4.14%	-5.56%
(F1) EPS Est 12 week change	-11.63%	-5.66%	-3.22%	-20.48%	-1.15%	0.00%
(Q1) EPS Est Mthly Chg	-30.18%	-15.09%	-1.60%	-24.71%	-4.26%	-62.42%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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