

Tech Data Corporation (TECD)

\$139.06 (As of 06/05/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

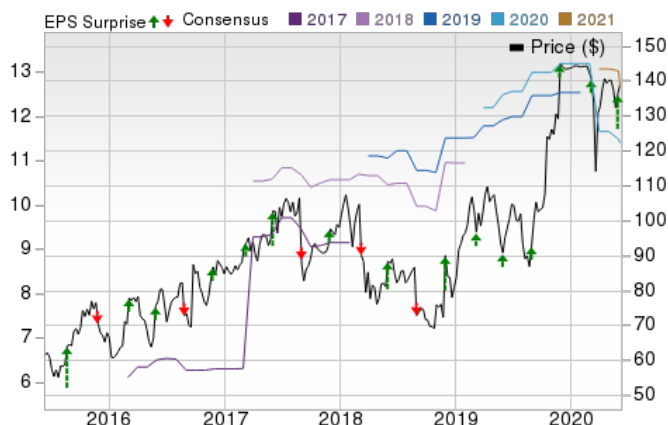
Growth: B

Momentum: B

Summary

Shares of Tech Data have risen and outperformed the industry in the past year. The company received a boost after the company accepted the buyout offer of Apollo Global Management. Also, the company has been witnessing robust bottom-line performance, which continued in first-quarter fiscal 2021, thanks to robust margins. Notably, this marked the seventh 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 now. During the fiscal first quarter, lower sales in Europe and Asia Pacific hurt the overall performance. Also, concerns related to higher SG&A expenses and stiff competition cannot be ignored. Again, foreign currency translations woes are likely to continue.

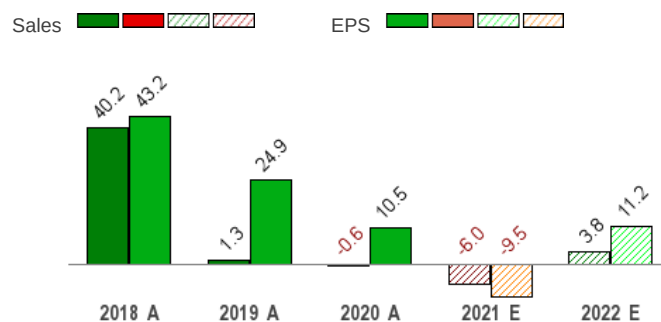
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$145.25 - \$80.20
20 Day Average Volume (sh)	611,719
Market Cap	\$5.0 B
YTD Price Change	-3.2%
Beta	0.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Computer Hardware
Zacks Industry Rank	Top 34% (87 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.6%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.9
P/E F1	12.2
PEG F1	4.1
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	8,304 E	8,724 E	8,889 E	10,265 E	36,104 E
2021	8,175 A	8,250 E	8,489 E	9,875 E	34,790 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	\$2.41 E	\$2.57 E	\$2.80 E	\$5.07 E	\$12.66 E
2021	\$2.22 A	\$2.22 E	\$2.54 E	\$4.40 E	\$11.39 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 06/05/2020. The reports text is as of 06/08/2020.

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.

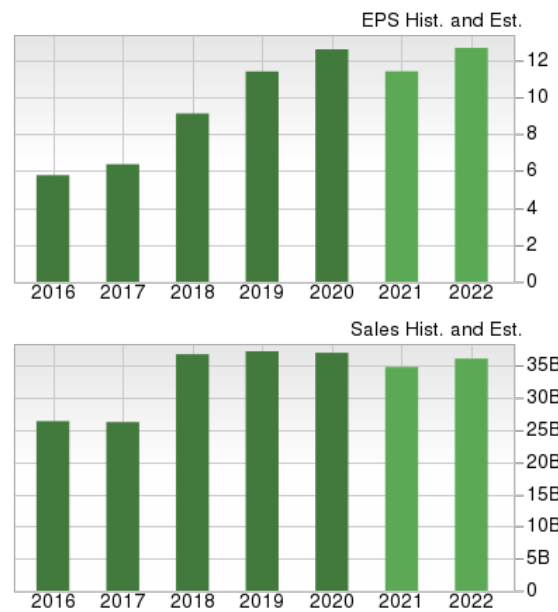
Tech Data reported revenues of \$37 billion in fiscal 2020. The company sells products in more than 100 countries and generates revenues primarily from three geographical segments: the Americas (including North and Latin America), Europe and Asia Pacific (APAC).

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 42.7% compared with the industry's growth of 40% in a year. 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. On Feb 12, 2020, the company's shareholders approved the merger agreement. Notably, the company has obtained all regulatory approvals with respect to the completion of the merger deal, except the Australian Foreign Investment Review Board's approval. The deal is likely to be concluded in the first half of 2020. In addition, the company has a robust earnings surprise streak. Notably, the metric surpassed the Zacks Consensus Estimate for the seventh successive time in first-quarter fiscal 2021.

Tech Data delivered the seventh successive earnings beat during first-quarter fiscal 2021. Also, the company reported robust margins in the quarter.

▲ **Robust Margins:** Tech Data's gross profit rose 4% to \$531.7 million in the fiscal first quarter. Also, the company's gross margin expanded 44 basis points (bps) to 6.45%. Prior to this, gross margin expanded 22 bps, 19 bps and 25 bps in the fourth, third and second quarter of fiscal 2020, respectively. Furthermore, adjusted operating income of \$128.9 million increased 3.3% from the year-ago quarter. Meanwhile, adjusted operating margin expanded 10 bps to 1.6% in the first quarter of fiscal 2021.

▲ **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).

Reasons To Sell:

- ▼ **Higher SG&A Expenses:** Adjusted selling, general & administrative (SG&A) expenses increased 4.7% to \$402.8 million during the first quarter of fiscal 2021. As a percentage of sales, adjusted SG&A expenses expanded 35 bps to nearly 4.9%. Segment-wise, adjusted operating margin contracted 12 bps to 2.1% in the Americas and 110 bps in the Asia Pacific in the reported quarter. Prior to this, adjusted SG&A expenses increased 7% for both the fourth and third quarter of fiscal 2020. As a percentage of sales, adjusted SG&A expenses expanded 28 bps and 37 bps, respectively, in the preceding quarters. Certainly, increased SG&A expenses may hurt the company's operating income.
- ▼ **Dismal Sales Trend:** Tech Data has been witnessing sluggishness in its top line for the past few quarters. Although net sales of \$8,175.2 million exceeded the consensus mark of \$7,891 million, the metric declined 3% year over year in first-quarter fiscal 2021. This was mainly because of portfolio optimization actions. Moreover, net sales dropped 1% on a constant-currency (cc) basis. Prior to this, the metric saw a year-over-year decline of 1% and 2%, respectively, during the fourth and third quarter of fiscal 2020. Region-wise, sales in Europe continued to be drab. Sales from Europe (49% of global net sales) declined 8% to \$3,971.1 million, while it fell 5% 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 margins. Also, the top-line performance has been soft for a while now.

Last Earnings Report

Tech Data Beats Earnings and Sales Estimates in Q1

Tech Data reported better-than-expected earnings and sales for first-quarter fiscal 2021. Also, the bottom line grew year over year and marked the seventh straight quarter of a beat. However, the company's top line declined on a year-over-year basis.

Moreover, the company is on track with its definitive agreement to be acquired by the affiliates of Apollo Funds. The latter will acquire Tech Data's entire outstanding shares for \$145 a share in cash. On Feb 12, 2020, the company's shareholders approved the merger agreement. Moreover, the company has obtained all regulatory approvals with respect to the completion of the merger deal, except the Australian Foreign Investment Review Board's approval. The deal is likely to be concluded in the first half of 2020.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	3.61%
EPS Surprise	34.55%
Quarterly EPS	2.22
Annual EPS (TTM)	12.81

Q1 Details

Tech Data's first-quarter adjusted earnings came in at \$2.22 per share that surpassed the Zacks Consensus Estimate of \$1.65. Further, the metric rose 8.8% year over year in the reported quarter.

Net sales of \$8,175.2 million exceeded the consensus mark of \$7,891 million but declined 3% year over year, mainly because of portfolio optimization actions. Moreover, net sales dropped 1% on a constant-currency (cc) basis.

Net sales from the Americas (48% of global net sales) rose 4% to \$3,944.8 million. Sales from Europe (49% of global net sales) declined 8% to \$3,971.1 million. Sales from the Asia Pacific (3% of global net sales) plunged 16% to \$259.3 million. On a cc basis, net sales rose 5% in the Americas, while the same declined 5% and 12% in Europe and Asia Pacific, respectively.

Margins

The company's gross profit rose 4% to \$531.7 million in the reported quarter. Gross margin expanded 44 basis points (bps) to 6.5%.

Adjusted selling, general & administrative (SG&A) expenses increased 4.7% to \$402.8 million. As a percentage of sales, adjusted SG&A expenses expanded 35 bps to nearly 4.9%. However, adjusted operating income of \$128.9 million increased 3.3% from the year-ago quarter. Meanwhile, adjusted operating margin expanded 10 bps to 1.6%. Segment-wise, adjusted operating margin contracted 12 bps to 2.1% in the Americas and 110 bps in the Asia Pacific. Nevertheless, adjusted operating margin expanded 25 bps to 1.3% in Europe.

Balance Sheet and Cash Flow

As of Apr 30, 2020, Tech Data had cash and cash equivalents of \$828.9 million, long-term debt, less current maturities, of \$1,337.5 million, and total stockholders' equity of \$3,106.5 million. During the reported quarter, net cash used by operating activities was \$7.7 million.

Moreover, adjusted return on invested capital for the trailing 12 months came in at 15% versus 14% in the prior-year period.

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.

Valuation

Tech Data shares are down 2.5% in the year-to-date period but up 42.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.2% but those in the Zacks Retail-Wholesale sector are up 11.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 40% and 21.3%, respectively.

The S&P 500 index is down 1% in the year-to-date period but up 10.5% in the past year.

The stock is currently trading at 11.75X forward 12-month earnings, which compares to 12.19X for the Zacks sub-industry, 32.99X for the Zacks sector and 23.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.83X and as low as 6.44X, with a 5-year median of 10X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 12.34X 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	11.75	12.19	32.99	23.07
	5-Year High	14.83	14.91	32.99	23.07
	5-Year Low	6.44	7.62	19.07	15.23
	5-Year Median	10	11.06	23.38	17.49
P/S F12M	Current	0.14	0.15	1.11	3.59
	5-Year High	0.14	0.16	1.12	3.59
	5-Year Low	0.07	0.08	0.81	2.53
	5-Year Median	0.1	0.1	0.94	3.02
EV/EBITDA TTM	Current	6.63	6.42	17.34	11.82
	5-Year High	11.03	10.21	17.34	12.85
	5-Year Low	4.06	4.15	10.97	8.25
	5-Year Median	5.63	5.6	12.68	10.8

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arrow Electronics, Inc. (ARW)	Neutral	3
CDW Corporation (CDW)	Neutral	3
PC Connection, Inc. (CNXN)	Neutral	4
ePlus inc. (PLUS)	Neutral	4
Stitch Fix, Inc. (SFI)	Neutral	3
SYNNEX Corporation (SNX)	Neutral	1
Avnet, Inc. (AVT)	Underperform	5
Insight Enterprises, Inc. (NSIT)	Underperform	4

Industry Comparison Industry: Retail - Computer Hardware				Industry Peers		
	TECD	X Industry	S&P 500	AVT	CDW	SNX
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	1
VGM Score	A	-	-	A	A	A
Market Cap	4.96 B	3.08 B	23.09 B	2.97 B	17.83 B	5.90 B
# of Analysts	3	2	14	4	6	2
Dividend Yield	0.00%	0.00%	1.82%	2.80%	1.21%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.17	0.13	0.06	0.15	0.01	0.05
EV/EBITDA	7.56	8.15	13.17	5.76	15.39	6.81
PEG Ratio	4.08	NA	3.13	2.07	1.76	1.35
Price/Book (P/B)	1.60	1.80	3.15	0.81	20.04	1.53
Price/Cash Flow (P/CF)	8.05	10.33	12.43	4.03	15.56	5.56
P/E (F1)	12.21	13.84	22.80	21.46	23.01	12.67
Price/Sales (P/S)	0.13	0.27	2.52	0.16	0.97	0.25
Earnings Yield	8.19%	7.33%	4.19%	4.66%	4.35%	7.89%
Debt/Equity	0.43	0.23	0.76	0.39	4.01	0.70
Cash Flow (\$/share)	17.27	10.46	7.01	7.46	8.05	20.63
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	23.20%	18.52%	10.87%	-6.71%	22.51%	20.43%
Proj. EPS Growth (F1/F0)	-9.46%	-6.36%	-10.79%	-65.94%	-10.71%	-31.75%
Curr. Cash Flow Growth	-4.74%	9.35%	5.48%	-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	1.27	1.99	1.29	2.42	1.28	1.64
Debt/Capital	30.10%	16.07%	44.75%	28.17%	80.04%	41.03%
Net Margin	1.00%	1.96%	10.59%	-0.63%	4.07%	2.26%
Return on Equity	15.32%	14.86%	16.26%	6.14%	97.93%	19.04%
Sales/Assets	2.92	3.06	0.55	2.13	2.32	2.06
Proj. Sales Growth (F1/F0)	-5.97%	-1.84%	-2.61%	-10.92%	-2.65%	-8.26%
Momentum Score	B	-	-	A	C	C
Daily Price Chg	0.20%	0.20%	2.89%	0.57%	7.36%	2.89%
1 Week Price Chg	3.02%	3.02%	4.60%	-0.47%	4.89%	6.02%
4 Week Price Chg	-0.33%	9.33%	15.60%	6.48%	17.50%	32.04%
12 Week Price Chg	5.96%	24.11%	29.34%	28.20%	37.03%	33.17%
52 Week Price Chg	47.18%	42.90%	2.76%	-29.89%	20.27%	28.18%
20 Day Average Volume	611,719	68,569	2,537,324	1,051,785	878,912	356,221
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.20%	-1.10%	-0.08%	0.00%	-3.01%	177.61%
(F1) EPS Est 12 week change	-14.10%	-10.21%	-16.19%	-26.89%	-19.11%	-35.23%
(Q1) EPS Est Mthly Chg	2.31%	1.15%	0.00%	0.00%	-3.29%	244.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	B
Momentum Score	B
VGM Score	A

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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