

## Tech Data Corporation (TECD)

**\$144.09** (As of 02/07/20)

Price Target (6-12 Months): **\$153.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

### Summary

Shares of Tech Data have risen and outperformed the industry in the past three months. The stock recently gained after the company accepted the buyout offer of Apollo Global Management. Notably, the company's third-quarter fiscal 2020 adjusted earnings surpassed the Zacks Consensus Estimate for the fifth straight quarter. Robust gross margin performance might have boosted the bottom line to some extent. The company's Global Business Optimization program aimed at sustainable long-term growth and cost-effectiveness bodes well. However, we note that the company's top line lagged the consensus mark as well as fell year over year in the quarter. Moreover, elevated SG&A expenses remain concerning. Management earlier anticipated that currency woes will linger through the rest of fiscal 2020.

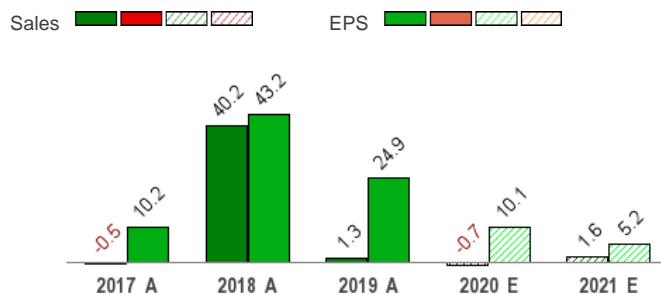
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$145.25 - \$80.20
20 Day Average Volume (sh)	484,589
Market Cap	\$5.1 B
YTD Price Change	0.3%
Beta	1.15
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Retail - Computer Hardware</a>
Zacks Industry Rank	Top 8% (20 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/05/2020
Earnings ESP	0.0%
P/E TTM	11.7
P/E F1	10.9
PEG F1	3.7
P/S TTM	0.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,493 E	9,090 E	9,316 E	10,663 E	37,563 E
2020	8,406 A	9,092 A	9,119 A	10,346 E	36,964 E
2019	8,548 A	8,886 A	9,340 A	10,465 A	37,239 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.36 E	\$2.74 E	\$3.14 E	\$4.94 E	\$13.18 E
2020	\$2.04 A	\$2.69 A	\$3.02 A	\$4.83 E	\$12.53 E
2019	\$1.84 A	\$2.01 A	\$3.02 A	\$4.55 A	\$11.38 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 02/07/2020. The reports text is as of 02/10/2020.

## 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.

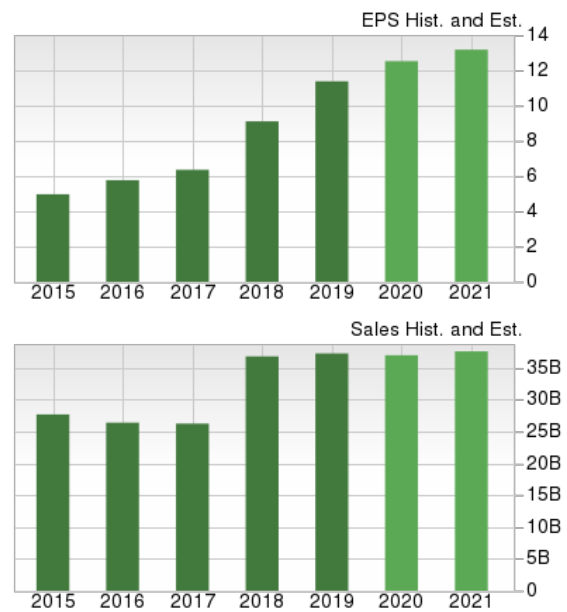
Tech Data reported revenues of \$37.2 billion in fiscal 2019. The company sells products in more than 100 countries and generates revenues primarily from three geographical segments: the Americas (including North and Latin America), Europe and Asia Pacific (APAC).

In fiscal 2019, the Americas segment reported sales of \$16 billion (43% of fiscal 2019 sales). Europe reported sales of \$20 billion (54% of fiscal 2019 sales), while Asia-Pacific generated \$1.2 billion (3% of fiscal 2019 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.



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## Reasons To Buy:

▲ **Stock Soars on Buyout Deal:** Shares of Tech Data have gained 15.9% in the past three months, outperforming the industry's growth of 9.3%. 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. Notably, Tech Data entered the definitive agreement, which was valued at \$5.4 billion or \$130 per share. The transaction is likely to conclude in the first half of calendar 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.

▲ **Decent Margin Trend:** Tech Data's gross profit rose 1% to \$560.4 million in the fiscal third quarter. The company's gross margin expanded 19 basis points (bps) to 6.2%. Prior to this, gross margin expanded 25 basis points (bps) to 6.2% in the preceding quarter. Persistence of this trend may drive the company's bottom line in the near term.

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## Reasons To Sell:

- ▼ **Higher SG&A Expenses:** Adjusted selling, general & administrative (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%. This in turn hurt the company's adjusted operating income, which decreased 12% to \$166.3 million in the fiscal third quarter. Meanwhile, adjusted operating margin contracted 19 bps to 1.8%. Segment-wise, adjusted operating margin contracted 64 bps to 2.4% in the Americas and 104 bps to 0.6% in the Asia Pacific. Certainly, increased SG&A expenses may hurt the company's operating income, unless fully offset by substantial increase in net sales.
- ▼ **Dismal Q3 Sales:** Tech Data witnessed sluggishness in its top line in the third quarter of fiscal 2020. Notably, net sales of \$9,118.9 million missed the consensus mark of \$9,343 million and decreased 2% year over year. Moreover, net sales remained flat on a constant-currency (cc) basis. Region-wise, sales in Europe remained drab in the said quarter. Sales from Europe (51% of global net sales) declined 6% to \$4,622.3 million, while it fell 2% 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. Additionally, the company had earlier expected that adverse currency rates will linger through the rest of the fiscal 2020.
- ▼ **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, it expects adverse currency rates to linger through the rest of the fiscal 2020.

## Last Earnings Report

Tech Data reported mixed third-quarter fiscal 2020 results. While the company's earnings surpassed the Zacks Consensus Estimate for the fifth straight quarter, revenues missed the same. We note that the company's top line decreased on a year-over-year basis, while the bottom line remained flat year over year.

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.

In the fiscal third quarter, Tech Data announced the plan to buy DLT Solutions, a premier software and cloud solutions aggregator. The buyout is expected to close in the fiscal fourth quarter.

### Q3 Details

Tech Data's third-quarter adjusted earnings were \$3.02 per share that surpassed the Zacks Consensus Estimate of \$3.01. Net sales of \$9,118.9 million missed the consensus mark of \$9,343 million and decreased 2% year over year. Moreover, net sales remained flat on a cc basis.

Net sales from the Americas (46% of global net sales) rose 2% to \$4,202.3 million. Sales from Europe (51% of global net sales) declined 6% to \$4,622.3 million. Sales from the Asia Pacific (3% of global net sales) grew 4% to \$294.4 million. On a cc basis, net sales rose 2% in the Americas and 4% in the Asia Pacific. However, sales declined 2% in Europe on a cc basis.

### Margins

The company's gross profit rose 1% to \$560.4 million in the reported quarter. Gross margin expanded 19 basis points (bps) to 6.2%. Adjusted SG&A expenses increased 7% to \$394.1 million. As a percentage of sales, adjusted SG&A expenses expanded 37 bps to 4.3%.

The company's adjusted operating income of \$166.3 million decreased 12% from \$188 million in the year-ago quarter. Meanwhile, adjusted operating margin contracted 19 bps to 1.8%. Segment-wise, adjusted operating margin contracted 64 bps to 2.4% in the Americas and 104 bps to 0.6% in the Asia Pacific. Nevertheless, adjusted operating margin expanded 23 bps to 1.6% in Europe.

### Balance Sheet and Cash Flow

As of Oct 31, 2019, Tech Data had cash and cash equivalents of \$964.1 million, long-term debt of \$1,294.2 million, and total stockholders' equity of \$2,968.3 million.

The company generated net operating cash flow of \$310 million in the fiscal third quarter. Cash from operations totaled \$412.6 million in the first nine months of fiscal 2020. In the fiscal third quarter, it bought back 518,433 shares for \$49 million.

**Quarter Ending** **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	-2.40%
EPS Surprise	0.33%
Quarterly EPS	3.02
Annual EPS (TTM)	12.30

## Recent News

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 up 0.3% in the year-to-date period and 44% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3% but the Zacks Retail-Wholesale sector is up 3.5% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 35% and 19.6%, respectively.

The S&P 500 index is up 3.2% in the year-to-date period and 21.9% in the past year.

The stock is currently trading at 10.93X forward 12-month earnings, which compares to 12.13X for the Zacks sub-industry, 25.43X for the Zacks sector and 19.12X 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 10.04X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$153 price target reflects 11.61X 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	10.93	12.13	25.43	19.12
	5-Year High	14.83	14.91	26.2	19.34
	5-Year Low	6.44	7.62	19.07	15.18
	5-Year Median	10.04	11.06	23	17.47
P/S F12M	Current	0.14	0.14	1.07	3.53
	5-Year High	0.14	0.15	1.1	3.53
	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	6.45	6.14	15.71	11.36
	5-Year High	11.03	10	15.71	12.85
	5-Year Low	4.13	4.15	10.79	8.47
	5-Year Median	5.63	5.61	12.39	10.7

As of 02/07/2020

## Industry Analysis Zacks Industry Rank: Top 8% (20 out of 254)



## Top Peers

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

Industry Comparison Industry: Retail - Computer Hardware				Industry Peers		
	TECD Neutral	X Industry	S&P 500	AVT Underperform	CDW Neutral	SNX Outperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	5.10 B	3.10 B	24.00 B	3.59 B	19.06 B	7.12 B
# of Analysts	3	2	13	4	7	4
Dividend Yield	0.00%	0.00%	1.78%	2.34%	1.15%	1.16%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Cash/Price	0.19	0.13	0.04	0.13	0.01	0.03
EV/EBITDA	7.92	8.88	14.07	6.53	17.78	7.90
PEG Ratio	3.66	1.65	2.04	1.77	1.54	0.96
Price/Book (P/B)	1.72	1.80	3.28	0.91	19.85	1.87
Price/Cash Flow (P/CF)	8.37	11.37	13.58	4.82	18.56	6.71
P/E (F1)	10.93	12.05	18.86	18.35	20.22	9.91
Price/Sales (P/S)	0.14	0.27	2.65	0.19	1.06	0.30
Earnings Yield	9.15%	8.37%	5.30%	5.45%	4.94%	10.09%
Debt/Equity	0.44	0.23	0.71	0.36	3.56	0.72
Cash Flow (\$/share)	17.21	10.06	6.89	7.46	7.15	20.63
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	23.16%	17.03%	10.80%	-4.91%	21.73%	19.05%
Proj. EPS Growth (F1/F0)	5.21%	3.90%	7.23%	-52.31%	7.56%	5.38%
Curr. Cash Flow Growth	28.90%	27.93%	9.51%	-8.48%	-2.02%	54.78%
Hist. Cash Flow Growth (3-5 yrs)	21.17%	16.93%	8.55%	1.13%	14.79%	25.83%
Current Ratio	1.26	2.01	1.20	2.38	1.24	1.62
Debt/Capital	30.36%	16.14%	42.90%	26.66%	78.05%	41.78%
Net Margin	0.92%	1.92%	11.76%	0.55%	4.09%	2.11%
Return on Equity	15.52%	15.13%	16.98%	7.86%	94.72%	18.84%
Sales/Assets	2.96	3.10	0.54	2.11	2.30	2.10
Proj. Sales Growth (F1/F0)	1.62%	2.55%	4.15%	-8.19%	4.62%	-3.14%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>A</b>	<b>C</b>
Daily Price Chg	-0.01%	0.64%	-0.64%	-3.15%	-1.47%	-2.84%
1 Week Price Chg	-0.15%	-2.20%	-2.60%	-12.99%	-5.42%	-3.52%
4 Week Price Chg	0.06%	-11.87%	0.72%	-15.60%	-6.56%	7.43%
12 Week Price Chg	10.37%	-3.41%	4.69%	-11.32%	-0.12%	17.72%
52 Week Price Chg	45.71%	34.96%	16.01%	-15.27%	45.65%	40.46%
20 Day Average Volume	484,589	343,379	1,961,054	852,420	1,081,182	475,198
(F1) EPS Est 1 week change	0.00%	0.16%	0.00%	0.00%	-0.35%	0.00%
(F1) EPS Est 4 week change	0.00%	0.16%	-0.00%	-6.11%	0.00%	5.89%
(F1) EPS Est 12 week change	1.54%	0.93%	-0.16%	-6.11%	0.00%	5.89%
(Q1) EPS Est Mthly Chg	0.00%	-1.40%	0.00%	-14.84%	-0.38%	7.73%

## 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>A</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

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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