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SCSC - Q2 2012 SCANSOURCE INC. EARNINGS CONFERENCE CALL

EVENT DATE/TIME: JANUARY 26, 2012 / 10:00PM GMT



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PRESENTATION

Operator

Welcome to the ScanSource second quarter earnings announcement call. (Operator Instructions). I would now like to turn the call over to Mr. Rich Cleys, CFO. Thank you, sir, you may begin.

Rich Cleys - *ScanSource Inc - CFO*

Thank you, Sara, and thank you for joining us for the ScanSource earnings conference call to discuss the financial results for the quarter ending December 31, 2011. My name is Rich Cleys, and with me are Scott Benbenek, President of Worldwide Operations, and Mike Baur, our CEO. We will review operating results for the quarter, and then take your questions.

This conference call contains comments which are forward-looking statements which involve risks and uncertainties. These statements are subject to the Safe Harbor created by the Private Securities Litigation Reform Act of 1985. The statements made in this call are made as of today's date. We may subsequently make these statements available on ScanSource's website or otherwise. ScanSource does not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after today's date. Any number of important factors could cause actual results to differ materially from anticipated results. For more information concerning factors that could cause such a difference, please see the Company's annual report on Form 10-K for year ended June 30, 2011 filed with the Securities and Exchange Commission. We will be discussing both GAAP and non-GAAP results during our call, and have provided a reconciliation between these amounts in our press release. Mike Baur will now begin our discussion with an overview of quarterly results.

Mike Baur - *ScanSource Inc - CEO*

Thanks, Rich. We are pleased to report record net sales for the third quarter in a row. Net sales for the December quarter increased to \$783 million, that's up 14% year-over-year and up slightly over the September quarter. On a US dollar basis, comparative quarterly sales increases occurred in every sales unit and geography except for our European communications unit. Unlike last year when we saw significant end of year push for sales, we experienced fewer big deals closing at the end of December. We also don't believe there were a significant number of deals pushed into the March quarter.

As you will hear later in this call, our forecast for March is seasonally down from December. As we don't give guidance for more than a quarter because we don't have a backlog of orders and due to the nature of our business, I can't provide you additional information on the rest of 2012. However, we understand there are macroeconomic challenges present in our geographic areas of business. We continue to listen to our vendors and resellers regarding their plans for 2012, and we will prepare our business accordingly.

Turning to our results, our sales for the quarter include record sales results from the North American communications and POS/barcodes units in each geography. ScanSource Brazil team also delivered record sales results in the third quarter after the acquisition of CDC Brazil last April. Our gross margins for the quarter were



excellent, although slightly down from September at 10.2%, and our operating margins were strong at 4.1%, which reflected a favorable mix of product sales and strong attainment of vendor programs.

However, one area of focus for us going forward will be our inventory levels. We did exit the quarter with higher inventory levels than originally planned, so we will be focusing our product management teams on aligning our purchases in the March quarter with our forecast. As we said last quarter, we do have longer lead times now with certain vendors, so we will not put ourselves in a position of reducing inventory levels at the expense of sales opportunities.

And we have announced several management changes recently that I wanted to remind you of. First of all, Rich has decided to retire as ScanSource CFO. He has agreed to stay on board through the transition of a new CFO, and we appreciate Rich's significant contributions in the Company over the last nine years. We have started the search process and will work diligently to retain the appropriate candidate. In addition to this news, we have two new promotions. The first is Paul Constantine, the President of our North America POS and barcode business, and second is Tony Sorrentino, the President of our North America security business unit. Paul and Tony are ScanSource veterans of many years, and will do an excellent job leading these sales units. With that, I'll turn the call over to Rich to discuss our second quarter financial results in more detail.

Rich Cleys - ScanSource Inc - CFO

Thanks, Mike. I'll start my discussion with overall sales and operating results for the December 31, 2011 quarter. In this quarter, the Company generated worldwide sales of \$782.7 million, which increased 14% over the prior year second quarter and increased 2% over the first quarter of 2012, respectively. On a geographic basis, sales originating from our North American distribution segment increased 8% in comparison with the prior year quarter to \$562.9 million. The international segment grew 37% from the prior year to \$219.8 million. Excluding the impact of foreign exchange fluctuation, the international segment sales grew 38%.

Within our product lines we experienced a 17% increase in worldwide sales of our POS/barcoding and security product categories over the prior year quarter. These product categories represented 62% of our total sales for the quarter, with the remaining 38% originating from communications products. Our communications sales unit experienced an increase of 10% in comparison to the prior year quarter. The Company's consolidated gross margin percentage remained relatively constant at 10.2%, compared to 10.3% in the prior year and sequential quarter. As Mike mentioned, we had a favorable product mix and strong vendor program attainment.

SG&A expenses in the current quarter increased to \$48.5 million compared to \$37.1 million in the prior year. In the prior year, SG&A expense was partially offset by a \$3.1 million legal recovery from a former service provider. The remaining year-over-year increase in SG&A is largely attributable to the incremental operating expenses incurred in Brazil and compensation costs associated with sales growth.

As a percentage of net sales, our SG&A expense increased 76 basis points. The increase is attributable to the \$3.1 million legal recovery in the prior year and incremental expenses in Brazil. From the sequential quarter, SG&A expenses increased \$1.9 million from \$46.6 million and 14 basis points as a percent of net sales. The sequential change is largely attributed to higher compensation costs and increased spending on training programs for our anticipated ERP implementation.

As a reminder, we have an earn-out for CDC Brazil that is required to be remeasured to fair value every quarter. The quarterly remeasurement of this contingent consideration is presented separately from other SG&A expenses. In the current quarter, we've recorded a gain of \$722,000, or \$0.02 a share, for the change in fair value of the earn-out. As mentioned on previous calls, factors impacting fair value adjustments can cause volatility for this line item. We anticipate the fair value adjustment to accrete the cash value of the earn-out over time.

Operating income was \$32.1 million, down 4.3% from the prior year, and up 1.5% from the first quarter. Expressed as a percentage of sales, operating income was 4.1% in the current quarter, compared to 4.9% in the prior year and 4.1% sequentially.

Interest expense was \$749,000 for the quarter, up from \$388,000 in the prior year and \$486,000 in the sequential quarter. The increase is due to increased borrowings on our revolving credit facility. Interest income was \$1 million for the quarter compared to \$306,000 and \$450,000 in the prior year and sequential quarter, respectively. In late September we transferred \$22 million to our Brazilian subsidiary to prefund future earn-outs.

We recorded a \$379,000 gain in other income and expenses this quarter, compared to \$182,000 gain in the prior year, and a \$3.5 million loss in the first quarter. As mentioned on the first quarter earnings call, we incurred a \$2.5 million loss from a foreign exchange forward contract.

The effective tax rate was 34.7% and 35.7% for the quarter that ended December 31, 2011 and 2010, respectively. This decrease reflects the benefit of changes in geographical mix to tax jurisdictions with lower corporate income tax rates. Our return on invested capital was strong at 19.8% for the quarter, compared to 25% for the prior year quarter and 18.2% for the September quarter. The decrease in our ROIC from last year is primarily driven by increased borrowings on the Company's revolving credit facility and additional equity primarily from earnings from the prior year.



As previously discussed, we also benefited in the prior year from the \$3.1 million legal recovery from a former service provider. In summary, the December 2011 quarter had reported fully diluted earnings per share of \$0.77 versus \$0.80 in the prior year. The current year earnings per share includes the benefit of the fair value adjustments. Normally we would not expect income as a fair value adjustment.

If we exclude the fair value adjustment benefit of \$0.02 per share, we earned \$0.75 in the December 2011 quarter. The prior year EPS had a beneficial impact of a \$3.1 million legal recovery. This recovery had a favorable impact of \$0.07 per share in the prior year, so without the legal recovery the prior EPS would have been \$0.73 per share.

Turning to the balance sheet. Inventory turned 5.6 times during the quarter compared to 6.7 times and 5.8 times in the prior year and sequential quarters, respectively. Paid for inventory days are down slightly to 11 days this quarter from 13 days at the end of the prior quarter and 12 days at the end of the first quarter 2012. We have continued to increase inventory levels in response to increased market demand, favorable vendor programs and longer lead times.

However, as of December 2011, inventory levels were at the high end of our target range. There are \$71.6 million in checks written but not cleared in the December account payable balance. At the end of June 2011, this amount was \$73.6 million. Our days sales outstanding, DSO, was 57 days at December 31, 2011, compared to 55 and 56 days in the prior year and sequential quarters, which are all within our normal range of expectation.

The Company had cash and cash equivalents on hand of \$42.6 million as of December 2011, compared to \$28.7 million on June 30, 2011. The Company has spent \$3.2 million and \$5.5 million on capital expenditures during the quarter and year-to-date respectively, primarily on our investment in the new ERP system, which has been discussed in previous conference calls and filings.

The Company had \$101.1 million of interest-bearing debt at December 31, 2011, up from \$60.1 million at our prior year end, driven by borrowing on the Company's revolving credit line. After achieving three consecutive record sales quarters, our working capital needs have increased in order to increase the level of inventories and extension of trade credit to our customers. Furthermore, we prefunded a portion of our expected future earn-out payments for CDC as discussed earlier. These needs were financed from operations and our revolving credit facility.

As mentioned on our previous earnings call, we announced an amended credit agreement replacing our previous revolving line of credit on October 11th. This facility is a five-year, \$300 million multi currency senior secured revolving credit facility. Additionally, we used funds from the new credit agreement to pay off our \$25 million unsecured note payable. Mike will now comment specifically on the quarterly results and outlook for each of our business units.

Mike Baur - ScanSource Inc - CEO

Thanks, Rich. Let's take a look at each of our sales unit starting those in our international segment first, which is now 28% of our overall business. Net sales of \$220 million for a 37% increase year-over-year and a 12% increase sequentially. On a local currency basis, the international segment sales grew 38% year-over-year.

Starting with Europe, POS and barcoding sales increased from the September quarter led by an increase in big deals. A strong growth year-over-year came from record results with Intermec, Honeywell, LXE, ELO, Motorola and Zebra. We gained market share and sold to a record number of reseller customers in the quarter. Our recruiting and marketing efforts continue to drive a strong return on investment as we saw in Spain. We had over 130 new prospects attend our Spain partner tour.

Our Europe communications for the December quarter was disappointing, as the expected number of big deals did not materialize. Our Germanic region has been most affected by the postponement of several large projects that drive significant revenue. As a result, we missed our sales plan, although we grew revenues from the September quarter. Positive for the quarter was sales growth in Avaya data, Avaya SME, Plantronics and ShoreTel product lines by our sales team focused in the UK. In Germany, our ramp up in video with Polycom is just beginning, and we expect to be a significant Polycom distributor during 2012.

Our Latin America business includes three areas of operation, Brazil, Mexico, and Miami serving US-based exporters, the Caribbean and the rest of South America. This region historically experiences seasonal buying in December due to year-end budget spending by governments, and this year saw the same pattern.

Beginning with Brazil, this team had a record quarter, beating our sales plan while growing strongly over last quarter on a local currency basis. Our team delivered impressive results from Bematech, our largest vendor partner, who has a broad point-of-sale product portfolio, including fiscal printers. Bematech and ScanSource are working together to realign the existing channel model in Brazil that will result in fewer direct resellers and more resellers transitioning to ScanSource. This new strategy will also reward more aggressive recruiting by our Brazil team in the region. Other strong results came from Honeywell, Motorola, Zebra and Datamax O'Neil.



In Miami, we have record sales results led by Mexico, Chile, Columbia, and US-based exporters. However, sales did decrease in Argentina as new import regulations affected sale of barcode products for all companies. In Mexico, we had strong barcode results with Motorola, Intermec, NCR, Datamax, and Datalogic. Our communications business with Polycom and AudioCodes also grew nicely during the quarter.

Let's turn now to North America, which includes the United States and Canada, and represents 72% of our overall sales. Our North America sales of \$563 million represent an increase of 8% year-over-year, and a decrease of 2% sequentially. Starting with our security unit, we achieved good results. Due to seasonality, we saw a quarter-to-quarter decline and a reduction in big deals. This team achieved record sales with newer vendors, including Samsung, Arecont, Mobotix, and ACTi. Our marketing activities are centered around IP workshops like the one last quarter in Orange County, California, where we recruited new security resellers and provided education for the existing security resellers. In addition, we participate in industry events, like ISE solutions, a trade show, and conduct vendor specific education events around the United States.

Our North America communications unit had a record quarter, led by Polycom services and infrastructure products, and Polycom video product sales were also very good, though not a record this quarter. We also had record results with ShoreTel, Plantronics and AudioCodes. However, higher inventories for this sales unit will need to be managed down to match our March quarter expectations. We will continue to invest in marketing and recruiting programs as we enter 2012. Likewise, for ShoreTel, we see significant growth ahead in 2012 as our success in 2011 gave us experience and allowed us to develop ShoreTel specific skills. We expect to use those skills to recruit a much broader group of resellers in 2012.

In our Catalyst Telecom unit, we had a strong services and data products quarter led by Avaya. Although Catalyst sales were seasonally down from the September quarter, we did have some vendors with strong results, including Juniper, Aruba, Meru, Adtran, and Eaton. The Catalyst business development team is targeting a larger group of resellers for recruitment in 2012 in the areas of small, medium, data and enterprise.

In North America POS/barcode, this team had a record quarter, but missed our sales plan as we had fewer big deals than expected. This team did have a strong POS system quarter with IBM and Pioneer. Other areas of strength were with Intermec, Zebra, Honeywell and Motorola. The sales team took share in a competitive market, and gross margins did decline somewhat. Our payment processing program continued to gain momentum with strong results from Verifone. The ScanSource key injection business is growing significantly every quarter, and we see this offering as a competitive advantage in the marketplace. Now, I will turn it over to Rich to communicate our March quarter-end guidance.

Rich Cleys - ScanSource Inc - CFO

Thanks, Mike. We believe total revenues for the March 2012 quarter could range from \$700 million to \$720 million, and our earnings per share can range from \$0.52 to \$0.55 per share. The comparison to the December quarter results to the midpoint of our guidance is as follows; in December we reported EPS of \$0.77, if we subtract out the fair value adjustment of \$0.02, the results for December without fair value would be \$0.75.

The March midpoint guidance lowers revenues to \$710 million, which would result in about a \$0.17 per share reduction. The gross margin is projected to be about 30 basis points lower than the 10.2% reported in December. This reduction is primarily due to timing of recognition of vendor incentives, and to a lesser extent, vendor program changes resulting in further reduction of about \$0.05 per share.

Finally, we anticipate interest expense and fair value adjustment to offset reduced SG&A due to lower volume. All of this will result in about \$0.53 EPS guidance at the midpoint. At this time, we will be glad to answer your questions.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). Our first question comes from Tony Kure with KeyBanc. Your line is open.

Tony Kure - KeyBanc Capital Markets - Analyst

Good afternoon, everyone.



Mike Baur - ScanSource Inc - CEO

Hi, Tony.

Tony Kure - KeyBanc Capital Markets - Analyst

I wanted to quickly congratulate you, Rich, with the announcement. Thank you for all of the help over the years and wish you the best of luck.

Rich Cleys - ScanSource Inc - CFO

Well, thank you.

Tony Kure - KeyBanc Capital Markets - Analyst

With that being said, let's talk about the guidance and the EPS line for the upcoming quarter here, the March quarter. Could you just review again, make sure I've got it in my notes here exactly how that \$0.17 reduction plays out?

Rich Cleys - ScanSource Inc - CFO

We'll start with December. If we adjust the EPS for December for the fair value, you'd be at \$0.75 a share. We reported \$783 million in sales, so our midpoint guidance is 710, so the reduction in sales would result in about \$0.17 a share in reduction in earnings.

Then, in addition to that, we reported in our December quarter, 10.2% gross margin. Our midpoint guidance would be about 30 basis points less than that, and that is driven by a couple of things, the main being the timing of the recognition of vendor incentives and vendor program changes, and that will be about \$0.05 a share, the 30 basis points. So 17 and 5, \$0.22 off the \$0.75 gets you to our midpoint guidance of \$0.53.

Tony Kure - KeyBanc Capital Markets - Analyst

Okay, got you, understood. Let's just move on to North America here, the sequential decline in North America down about 2%. Would that be considered normal for the December quarter, or is there something? Surprised to see that down versus international up. Can you talk about the sequential decline in North America?

Mike Baur - ScanSource Inc - CEO

Yes, this is Mike, Tony. I think the big story there is a historic story in our Catalyst unit. If you recall, our Avaya business peaks in September, it's the year-end for Avaya, so typically we move from a strong September quarter to a weaker December. That didn't happen last year, but that is what happened this year. It's more historic, and as we gave guidance for this quarter, that was one of the things that we commented on. That's the biggest story there. We ended up with a record, although it was slight growth record sales in POS and barcoding in North America, which was good, and we also did a great job in communications, so really it's a seasonal decline in Catalyst and a somewhat seasonal decline quarter-to-quarter in security. Security has a strong education/government focus in September. In years past, we've seen less seasonality because they've been growing through that as a new business unit, but we saw more of that this quarter than we had a year ago.

Tony Kure - KeyBanc Capital Markets - Analyst

Okay. Then I guess to comment on the international in a similar vein, up sequentially, would that be the puts and takes around seasonality there, too, or is there any one offs there?

Mike Baur - ScanSource Inc - CEO

One big, one off is the upside for Brazil, right, which is not in the prior year?



Tony Kure - KeyBanc Capital Markets - Analyst

Right.

Mike Baur - ScanSource Inc - CEO

We decided last quarter we weren't going to breakout Brazil going forward, but that would be a big chunk of that growth, if you will. I'm not going to tell you exactly how much, but it would still suggest that international still had strong growth even without Brazil, and I think the big story there is the POS and barcoding unit really came back well, did well after we had some challenges in the September quarter, and we were able to close some good deals in December. So we feel really good about that, even though as I've said on the call already, our communications business in Europe was somewhat disappointing, but Latin America overall was just very strong led by Brazil.

Tony Kure - KeyBanc Capital Markets - Analyst

Do you think Europe has gotten worse since the December quarter from the sentiment from talking to your sales force or your vendors?

Mike Baur - ScanSource Inc - CEO

Well, since the quarter ended, we haven't had any results posted. Of course, as you know, we had a partner conference there back in the early part of the December quarter and there were certainly some, I would say some resellers that were concerned, so our results in December were better than what we thought we would do because of some of that sentiment. I don't think we've heard anything yet different than that since December. We were pleased with the business that we did. We do know that there were some big deals that we were able to close, and we were all well aware of the negative sentiments that's in the media and the press and all of that.

Tony Kure - KeyBanc Capital Markets - Analyst

But was Europe better in September than in December?

Mike Baur - ScanSource Inc - CEO

Yes.

Tony Kure - KeyBanc Capital Markets - Analyst

Okay. And then just wanted to circle back one more time on that \$0.05 hit on the earnings into the March quarter for the vendor incentives. Does that happen every year as far as the March quarter goes? Is that timing always fall just after December into the March quarter?

Rich Cleys - ScanSource Inc - CFO

Not always, Tony. What happens is as we earn these incentives, many of these incentives from an accounting point of view have to be put on the balance sheet, then they're amortized into earnings over the inventory turns. What happened over the last quarter is we earned more at the beginning of the quarter than at the end of the quarter, so we were able to recognize some of those incentives in the December quarter because we're turning about six times, so if you earn something in October, you'll be able to book it in December. So going into the March quarter part of what we're dealing with is we've got a little bit less in the bank, if you will, for our vendor programs.

Tony Kure - KeyBanc Capital Markets - Analyst

Okay, so do you expect that sort of headwind, based on the way you're talking, that headwind would abate as we go into the June quarter?



Rich Cleys - ScanSource Inc - CFO

I think this is a timing issue. Of course, how we do this quarter will affect the June quarter, too. Right now I'm looking at this as primarily a timing issue on the \$0.05.

Mike Baur - ScanSource Inc - CEO

And maybe, Tony, another piece of that is I mentioned in the call, that we didn't have the December year-end sales push like we saw a year ago.

Tony Kure - KeyBanc Capital Markets - Analyst

Right, okay. Okay, great. I'll drop off from here. Thanks.

Mike Baur - ScanSource Inc - CEO

Thanks, Tony.

Operator

Our next question comes from Andrew Abrams with Avian Securities. Your line is open.

Andrew Abrams - Avian Securities - Analyst

Hi, guys. I just wanted to talk about two quick things. Did you guys see any shortages come up at all either as a result of the floods in Thailand or just any product shortages that you might have seen?

Mike Baur - ScanSource Inc - CEO

This is Mike, Andrew. I think the only place we saw anything at all, and it wasn't significant or material, was in our security business, where we use DVRs that have drives built in, but no appreciable change in our business.

Andrew Abrams - Avian Securities - Analyst

Got it. On the inventory side was this a function of -- I'm not sure if I understood what you said about the inventories building as a function of a shortfall in North America. Was that the security side or was there something else there that built that inventory up?

Mike Baur - ScanSource Inc - CEO

I think it was a couple of things. One, we normally have a stronger end of the quarter in December, right, so that was part of it. To have inventory for December, you have to order it sooner than that because we indicated we have a longer lead times now so the inventory built earlier in the quarter and, as Rich said, the incentives timed out sooner than they would normally, so we were prepared for an even better quarter than we ended up with, and that's what translate into higher inventory levels.

Andrew Abrams - Avian Securities - Analyst

Got you. As you go into the next quarter, I'm assuming you're going to bring that down or you're going attempt to bring that down to what you guys would consider a more normal level. Is that inventory pricing at any appreciable difference than where you think pricing going to be today? Is there going to be an impact of the sell-down of some of that inventory?



Mike Baur - *ScanSource Inc - CEO*

No, that wouldn't be our strategy is to use pricing to move it. We would just not reorder the inventory as quickly, so we believe we have good current, well-priced inventory that will sell through. We would just slowdown our replenishment of that.

Andrew Abrams - *Avian Securities - Analyst*

Got it. When you do that, does the vendor come back to you and say, hey, our deal was X, you're a little below that this quarter. Does that change your deal with them to any appreciable degree or is it just the matter of course and the way things work out?

Mike Baur - *ScanSource Inc - CEO*

It can, it certainly can, so those will be discussions that we'll be having with our vendors throughout this quarter because there's always been volatility and fluctuations in the vendor programs, and many of them do happen throughout the year on a quarterly basis, so I expect we'll be having some of those conversations, yes.

Andrew Abrams - *Avian Securities - Analyst*

From their prospective, if it evens out over two or three quarters, does it not become a big deal or do they look at it in a 90-day basis no matter what the circumstances are?

Mike Baur - *ScanSource Inc - CEO*

They are all aware of our position on inventory, and they are aware typically that the first quarter calendar is always a slower sells end quarter for them, so I don't believe there will be any surprises here by our vendors. It will be more business as usual.

Andrew Abrams - *Avian Securities - Analyst*

Got you. Thanks very much, I appreciate it.

Mike Baur - *ScanSource Inc - CEO*

Thank you.

Operator

(Operator Instructions). Our next question comes from Ajit Pai, Stifel Nicholas, your line is open.

Ajit Pai - *Stifel Nicholas - Analyst*

Good evening.

Mike Baur - *ScanSource Inc - CEO*

Hello.

Ajit Pai - *Stifel Nicholas - Analyst*



Two questions. One is looking at the overall tone of business in this quarter in Europe, you talked about seeing good business like in countries like Spain. Can you give us color as one of the worse hit countries in Europe right now, so what was it more driving the strength? Was it more ScanSource specific or more broadly to do with end markets, then I can move to my second question?

Mike Baur - ScanSource Inc - CEO

Sure, it's Mike. I think the real point is that our vendors still want us to market into those countries. We actually saw, believe it or not, improvement in Italy as well, Spain is an area that we don't have a large presence, we don't have a sales office for example, so we decided to conduct what we call a road show or a partner tour where we bring our team into a certain geography like Spain and sponsored with some of our key vendors, do some education training, so there's still business going on in a place like Spain and some of the vendors feels like it's been under-marketed throughout last year because of all of the conversation and stories about it's in trouble. There's still business being done and so they agree with us, let's go make some efforts there. It wasn't a huge effort, but for us what was surprising was that the resellers came out in pretty large numbers, so that's a good sign that they are in the business of trying to sell something and they're eager to find a way to create some value in their market, so that was a good sign.

Ajit Pai - Stifel Nicholas - Analyst

Got it. Then the second question is just about the two areas that maybe five years ago RFID was getting some momentum, maybe six years ago, and now we're hearing about RFID in the field. Is that something that you could see to start the auto ID business or is too far out? Also in the security business, if there's updates, some color that you can provide, any changes that have occurred in the business, in terms of vendors penetrating geographies or a change in the industry structure that can make the business more material over the next couple of years?

Mike Baur - ScanSource Inc - CEO

RFID clearly there is a lot more discussion about it. At the national retail show last week in New York, there were more vendors and our resellers exhibiting, talking about RFID, however, the word that I received from the key vendors is that it's still not a significant opportunity for them. They see pilot projects going on. There's some large retailers that are doing things with RFID, but it's not material for them the key companies that are broad based AIDC companies and the same for us. I would say it is slightly moving the needle, but not a whole lot.

Moving over to security, I think the story there is we're continuing to find a vendor every quarter or two that's starting to rationalize their distribution here in the US, so this past quarter I would say the one that has made some pretty aggressive or planned changes is Samsung. Samsung has a new management team in place, it's some guys that were at another vendor before that did this in the security business, they saw the results and the success of that, and they're wanting to do the similar strategy change, which means using fewer distributors, asking the distributors to take on more responsibility in the channel, and results in a bigger opportunity for ScanSource. I think this is a continued process. It's one of those where if it was one of the larger traditional physical security vendors like a Bosch or UTC or Honeywell, some of those folks, that would make a more meaningful change in the near term, but I think the pattern of Samsung joining what Sony has done and Panasonic has done and Axis has done, I believe we have a theme that we can count on contributing over 2012.

Ajit Pai - Stifel Nicholas - Analyst

Got it. One last question. Just looking at the rise in receivables in inventories this quarter and looking at your balance sheet, which is still very solid, and the access that you have to getting capital, how would you prioritize the uses of cash right now? Would you sort of still look at investing organically and increasing the receivables in this environment? Would you look at deleveraging the balance sheet because you are in a net debt position, or would you look at additional acquisitions right now? Are those looking more interesting in this environment?

Rich Cleys - ScanSource Inc - CFO

This is Rich. In terms of the balance sheet, of course our primary use of the balance sheet right now would be to invest in growth. Certainly in the short-term with a forecast with a midpoint of \$710 million, this quarter coming up could be a quarter where we might generate a little bit of cash flow, which would allow to us pay down some of that credit line, but I think in the longer range we're going to be looking to continue to invest in growth opportunities.



Ajit Pai - Stifel Nicholas - Analyst

And would it be the balance between organic and inorganic right now given where the current environment is? Which one would you place higher in priority?

Rich Cleys - ScanSource Inc - CFO

Well right now, organic. Obviously, if we have opportunities to find something to do an acquisition, we'd use our strong balance sheet to finance that acquisition, but we've got some pretty good coverage in terms of geography in the Americas, as well as Europe, and the growth opportunities in those geographies are pretty significant still.

Mike Baur - ScanSource Inc - CEO

Yes, I would add to that, Ajit, that if you recall we still have, what we believe is significant opportunity in Europe in communications, that it's not been built out yet. We're going to continue to invest there. That communications business is not at mature operating margins, so we believe it's still an investment area, plus the Brazil opportunity and less so security. Having said that, Rich is right. If we see an opportunity to make an acquisition, we would not be hesitant to take a look at that.

Ajit Pai - Stifel Nicholas - Analyst

Got it. Thank you.

Mike Baur - ScanSource Inc - CEO

You bet. Thanks.

Operator

Our next question comes from Chris Quilty from Raymond James. Your line is open.

Chris Quilty - Raymond James & Associates - Analyst

Gentlemen, just one question remaining. You mentioned that your big deal activity fell in North America and actually did better than expected in Europe, which also kind of aligns with how those geographies performed relative to your expectations, so the two-part question is; was the existence or absence of big deals sort of deciding factor in the relative performance of those geographies? And number two, can you read anything into the trend in large deals relative to future quarters, or is it just random?

Mike Baur - ScanSource Inc - CEO

Chris, I think your analysis is pretty good. I think the big deals did mirror the success in the region. When we do our quarterly business reviews with each of our units, we typically start those reviews with how did we do on big deals versus last quarter and versus a year ago quarter, and that generally tells the theme very quickly as to what's going on. So we agree that the big deals generally can call the theme for the quarter for that business unit, and I think this is an example of that. I think the thing that was missing this year in North America were big deals in our barcode business. We mentioned our POS business, we had actually a better POS quarter than we've had in a while, but on the AIDC or bar code side of the business, that's where big deals were not as much, they were definitely down, and also in our Catalyst communications unit. Those two areas where we would have normally had big deals, they did not happen. Not only that, but the pipeline of big deals is not real full, meaning that we didn't see big deals that just got pushed or delayed either, so that's what lead us to be very careful in how we analyzed our March forecast, that we weren't carrying big deals into March.

Chris Quilty - Raymond James & Associates - Analyst



Got you. All right, thank you, gentlemen.

Mike Baur - ScanSource Inc - CEO

Thanks, Chris, appreciate it.

Operator

Our next question comes from Keith Housum of Northcoast Research. Your line is open.

Keith Housum - Northcoast Research - Analyst

Thanks, guys, I appreciate you taking the call. I apologize, I'm jumping on the call late. Can you provide color about profitability internationally versus the US? I noticed in the past two quarter profitability internationally trailed the US by a good margin. Was there in change in this quarter compared to last?

Mike Baur - ScanSource Inc - CEO

I don't have that handy. We're going to see if we can grab it real quick. Do you have a second question, Keith, while we look that up? Sorry about that, that was one I didn't have at my fingertips.

Keith Housum - Northcoast Research - Analyst

No, not a problem at all. To be honest I am not quite sure if you covered these at all. In terms of spending trends over in Europe, again I apologize if you answered it all ready, what are you seeing as you exited the calendar year?

Mike Baur - ScanSource Inc - CEO

It was interesting because we did see some big deals in Europe that happened, and we think that was fairly significant for us, and it came from vendors who had opportunities and they were looking for distributors and resellers to help them close the business because we had the inventory, we could get it executed quickly, and I think our ability to do that within the timeframes they needed helped us get some business that we would not have gotten in previous quarters. The big deal activity in Europe was a sign that there were some activity going on there, better than in the US.

Keith Housum - Northcoast Research - Analyst

Great, thank you.

Rich Cleys - ScanSource Inc - CFO

I've got some information on the segment information that we'll be putting out in the 10-Q. So, we should have a similar operating profit mix between domestic and international in terms of percentages to last year, so we'll have a stronger North American result than we will have for the international at the operating profit level. Of course, you've got to remember that there are included in those results, we certainly have some of the acquisition costs being amortized out over time.

Keith Housum - Northcoast Research - Analyst

Right, okay. I appreciate it. Thank you.

Rich Cleys - ScanSource Inc - CFO



Thanks, appreciate it.

Operator

And sir, we're showing no further questions at this time.

Mike Baur - ScanSource Inc - CEO

All right, thanks very much for joining us. Our next conference call to discuss our March 31 quarterly earnings is expected to be on April 26, 2012. Thank you.

Operator

Thank you that does conclude today's conference. Thank you all for participating. You may disconnect your lines at this time.

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