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Ingram Micro Reports Second Quarter Financial Results

IRVINE, Calif.--(BUSINESS WIRE)-- Ingram Micro Inc. today announced financial results for the second quarter ended Jul. 1, 2017.

Second Quarter Results of Operations

Ingram Micro continued to experience solid demand across the majority of its largest countries, led by strength in technology solutions and mobility distribution. Worldwide 2017 second quarter sales were \$10.83 billion, an increase of 7 percent in USD, with gross margin of 6.54 percent. This compares to sales of \$10.12 billion and gross margin of 7.10 percent in the 2016 second quarter. The translation of foreign currencies versus last year had a negative impact of 1 percentage point on worldwide sales. Recent acquisitions contributed approximately 1 percentage point of growth to 2017 second quarter worldwide sales. 2017 second quarter non-GAAP operating income was \$156 million, or 1.44 percent of revenue, and non-GAAP net income was \$93 million. This compares to 2016 second quarter non-GAAP operating income of \$157 million, or 1.55 percent of revenue, and non-GAAP net income of \$92 million.

2017 second quarter gross margin, non-GAAP operating income and non-GAAP net income were impacted by a higher mix of sales of consumer focused product lines, particularly in international markets, as well as by strategic investments in the company's cloud and commerce and fulfillment businesses and lower profit contribution from the company's U.S. mobility business.

2017 second quarter GAAP operating income and net income was \$91 million, or 0.84 percent of revenue, and \$45 million, respectively, including:

- The pre-tax negative impact of approximately \$42 million in restructuring, merger, acquisition and transition costs primarily related to retention payments and the vesting of restricted shares and stock options due to HNA Group's acquisition of Ingram Micro; and
- The pre-tax negative impact of \$23 million in amortization expense.

This compares to 2016 second quarter GAAP operating income and net income of \$97 million, or 0.96 percent of revenue, and \$55 million, respectively.

Non-GAAP Disclosures

In addition to GAAP results, Ingram Micro is reporting non-GAAP operating income, non-GAAP operating margin and non-GAAP net income. These non-GAAP measures exclude charges associated with reorganization, merger, acquisitions, integration and transition costs, including those associated with the company's previously announced cost savings

programs, and the amortization of intangible assets. These non-GAAP financial measures also exclude a loss on the sale of affiliate and a gain related to a legal settlement in the 2016 second quarter. Non-GAAP net income also exclude the impact of foreign exchange gains or losses related to the translation effect on Euro-based inventory purchases in Ingram Micro's pan-European entity. 2017 year-to-date non-GAAP net income also excludes a non-cash tax benefit primarily related to the reversal of a valuation allowance against certain deferred tax assets in Australia.

The non-GAAP measures noted above are primary indicators that Ingram Micro's management uses internally to conduct and measure its business and evaluate the performance of its consolidated operations and operating segments. Ingram Micro's management believes these non-GAAP financial measures are useful because they provide meaningful comparisons to prior periods and an alternate view of the impact of acquired businesses. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting Ingram Micro's business. A material limitation associated with these non-GAAP measures as compared to the GAAP measures is that they may not be comparable to other companies with similarly titled items that present related measures differently. The non-GAAP measures should be considered as a supplement to, and not as a substitute for or superior to, the corresponding measures calculated in accordance with GAAP.

A reconciliation of GAAP to non-GAAP financial measures for the periods presented is attached to this press release.

About Ingram Micro Inc.

Ingram Micro helps businesses realize the promise of technology™. It delivers a full spectrum of global technology and supply chain services to businesses around the world. Deep expertise in technology solutions, mobility, cloud, and supply chain solutions enables its business partners to operate efficiently and successfully in the markets they serve. More at www.ingrammicro.com.

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Ingram Micro Inc.
Consolidated Balance Sheet
(Amounts in 000s)
(Unaudited)

	<u>July 1, 2017</u>	<u>December 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 532,964	\$ 796,164
Restricted cash	13,895	64,916
Trade accounts receivable, net	5,866,169	6,354,905
Inventory	4,335,452	3,902,626
Other current assets	<u>669,386</u>	<u>691,253</u>
Total current assets	11,417,866	11,809,864
Property and equipment, net	398,241	381,876
Goodwill	929,711	904,920
Intangible assets, net	424,146	445,646
Other assets	<u>213,809</u>	<u>176,643</u>
Total assets	<u>\$13,383,773</u>	<u>\$ 13,718,949</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 6,334,570	\$ 7,174,946
Accrued expenses	767,233	856,627
Short-term debt and current maturities of long-term debt	<u>842,530</u>	<u>559,773</u>
Total current liabilities	7,944,333	8,591,346
Long-term debt, less current maturities	912,832	832,459
Other liabilities	<u>236,810</u>	<u>181,393</u>
Total liabilities	9,093,975	9,605,198
Stockholder's equity	<u>4,289,798</u>	<u>4,113,751</u>
Total liabilities and stockholder's equity	<u>\$13,383,773</u>	<u>\$ 13,718,949</u>

Ingram Micro Inc.
Consolidated Statement of Income
(Amounts in 000s)
(Unaudited)

	Thirteen Weeks Ended	
	July 1, 2017	July 2, 2016
Net sales	\$10,826,707	\$10,122,606
Cost of sales	10,118,321	9,403,660
Gross profit	<u>708,386</u>	<u>718,946</u>
Operating expenses:		
Selling, general and administrative	558,683	569,819
Amortization of intangible assets	22,907	25,621
Reorganization costs	4,882	7,690
Merger related costs	30,783	3,488
Loss on sale of affiliate	-	14,878
	<u>617,255</u>	<u>621,496</u>
Income from operations	<u>91,131</u>	<u>97,450</u>
Other expense (income):		
Interest income	(3,256)	(2,117)
Interest expense	25,237	18,152
Net foreign currency exchange loss	1,770	587
Other	4,810	4,116
	<u>28,561</u>	<u>20,738</u>
Income before income taxes	62,570	76,712
Provision for income taxes	<u>18,013</u>	<u>22,060</u>
Net income	<u>\$ 44,557</u>	<u>\$ 54,652</u>

Ingram Micro Inc.
Consolidated Statement of Income
(Amounts in 000s)
(Unaudited)

	Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016
Net sales	\$21,229,646	\$19,459,207
Cost of sales	19,862,632	18,108,565
Gross profit	<u>1,367,014</u>	<u>1,350,642</u>
Operating expenses:		
Selling, general and administrative	1,116,306	1,110,301
Amortization of intangible assets	45,266	52,646
Reorganization costs	9,350	24,256
Merger related costs	64,457	12,708
Loss on sale of affiliate	-	14,878
	<u>1,235,379</u>	<u>1,214,789</u>
Income from operations	<u>131,635</u>	<u>135,853</u>
Other expense (income):		
Interest income	(5,335)	(3,258)
Interest expense	51,400	38,624
Net foreign currency exchange (gain) loss	(1,557)	9,114
Other	9,426	7,198
	<u>53,934</u>	<u>51,678</u>
Income before income taxes	77,701	84,175
(Benefits from) Provision for income taxes	<u>(4,709)</u>	<u>27,624</u>
Net income	<u>\$ 82,410</u>	<u>\$ 56,551</u>

Ingram Micro Inc.
Consolidated Statement of Cash Flows
(Amounts in 000s)
(Unaudited)

	Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016
Cash flows from operating activities:		
Net income	\$ 82,410	\$ 56,551
Adjustments to reconcile net income to cash (used) provided by operating activities:		
Depreciation and amortization	99,585	104,318
Stock-based compensation	11,961	19,908
Merger related costs	64,457	12,708
Excess tax benefit from stock-based compensation	-	(8,351)
Unrealized gain on marketable securities, net	(3,073)	-
Gain on sale of property and equipment	(956)	(1,115)
Loss on sale of affiliate	-	14,878
Noncash charges for interest and bond discount amortization	2,305	1,409
Deferred income taxes	(38,626)	10,494
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	684,629	653,914
Inventory	(325,735)	(247,578)
Other current assets	46,606	(87,108)
Accounts payable	(942,351)	(235,962)
Change in book overdrafts	(150,898)	(166,027)
Accrued expenses	(102,480)	(98,740)
Cash (used) provided by operating activities	<u>(572,166)</u>	<u>29,299</u>
Cash flows from investing activities:		
Capital expenditures	(66,506)	(50,476)
Movements from restricted cash	51,021	-
Sale of marketable securities, net	-	4,700
Realized gain on marketable securities, net	(415)	-
Proceeds from sale of property and equipment	719	590
Proceeds from sale of affiliate	-	27,847
Acquisitions and earn-out payments, net of cash acquired	(20,737)	(173,406)
Cash used by investing activities	<u>(35,918)</u>	<u>(190,745)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	3,538
Excess tax benefit from stock-based compensation	-	8,351
Equity contribution from Parent	37,500	-
Settlement of stock-based awards due to Merger	(34,779)	-
Other consideration for acquisitions	(14,164)	(2,091)
Net proceeds from revolving and other credit facilities	347,162	78,969
Cash provided by financing activities	<u>335,719</u>	<u>88,767</u>
Effect of exchange rate changes on cash and cash equivalents	<u>9,165</u>	<u>16,293</u>
Decrease in cash and cash equivalents	(263,200)	(56,386)
Cash and cash equivalents, beginning of period	<u>796,164</u>	<u>935,267</u>
Cash and cash equivalents, end of period	<u>\$ 532,964</u>	<u>\$ 878,881</u>

Ingram Micro Inc.
Supplementary Information

Income from Operations - Reconciliation of GAAP to Non-GAAP Information
(Amounts in Millions)
(Unaudited)

	Thirteen Weeks Ended	
	July 1, 2017	July 2, 2016
Net Sales	<u>\$ 10,826.7</u>	<u>\$ 10,122.6</u>
GAAP Operating Income	\$ 91.1	\$ 97.5
Reorganization, integration and transition costs	11.3	19.5
Amortization of intangible assets	22.9	25.6
Merger related costs	30.8	3.5
Loss on sale of affiliate	-	14.9
Settlement of a class action lawsuit	-	(3.8)
Non-GAAP Operating Income	<u>\$ 156.1</u>	<u>\$ 157.2</u>
GAAP Operating Margin	0.84%	0.96%
Non-GAAP Operating Margin	1.44%	1.55%

	Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016
Net Sales	<u>\$ 21,229.6</u>	<u>\$ 19,459.2</u>
GAAP Operating Income	\$ 131.6	\$ 135.9
Reorganization, integration and transition costs	17.0	46.1
Amortization of intangible assets	45.3	52.7
Merger related costs	64.5	12.7
Loss on sale of affiliate	-	14.9
Settlement of a class action lawsuit	-	(3.8)
Non-GAAP Operating Income	<u>\$ 258.4</u>	<u>\$ 258.5</u>
GAAP Operating Margin	0.62%	0.70%
Non-GAAP Operating Margin	1.22%	1.33%

Ingram Micro Inc.
Supplementary Information
Reconciliation of GAAP to Non-GAAP Financial Measures
(Amounts in Millions)
(Unaudited)

	Thirteen Weeks Ended	
	July 1, 2017	July 2, 2016
	Net Income	Net Income
As Reported Under GAAP	\$ 44.6	\$ 54.7
Reorganization, integration and transition costs	7.8	13.3
Amortization of intangible assets	15.8	17.5
Merger related costs	21.2	2.4
Loss on sale of affiliate	-	10.2
Settlement of a class action lawsuit	-	(2.6)
Pan-Europe foreign currency exchange loss (gain)	3.9	(3.4)
Non-GAAP Financial Measure	<u>\$ 93.3</u>	<u>\$ 92.1</u>

	Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016
	Net Income	Net Income
As Reported Under GAAP	\$ 82.4	\$ 56.6
Reorganization, integration and transition costs	12.1	33.3
Amortization of intangible assets	32.6	37.7
Merger related costs	46.6	9.3
Loss on sale of affiliate	-	10.2
Settlement of a class action lawsuit	-	(2.6)
Pan-Europe foreign currency exchange loss	5.7	0.2
Reversal of a valuation allowance against certain deferred tax assets in Australia	(30.6)	-
Non-GAAP Financial Measure	<u>\$ 148.8</u>	<u>\$ 144.7</u>

Note: Amounts above are net of applicable income taxes.

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