



## Connection (CNXN) Reports Fourth Quarter and Record Full Year 2022 Results

MERRIMACK, N.H.--(BUSINESS WIRE)--Feb. 9, 2023-- Connection (PC Connection, Inc.; NASDAQ: CNXN):

### FOURTH QUARTER SUMMARY:

- Net sales: \$732.5 million, down 8.5% y/y
- Gross profit: \$124.3 million, down 2.1% y/y
- Net income: \$18.8 million, down 15.9% y/y
- Diluted EPS: \$0.71, down 16.2% y/y

### FULL YEAR SUMMARY:

- Net sales: \$3.1 billion, up 8.0% y/y
- Gross profit: \$526.2 million, up 13.3% y/y
- Net income: \$89.2 million, up 27.6% y/y
- Diluted EPS: \$3.37, up 27.2% y/y

Connection (PC Connection, Inc.; NASDAQ: [CNXN](#)), a leading information technology solutions provider to business, government, healthcare and education markets, today announced results for the fourth quarter and year ended December 31, 2022. The company also announced that its board of directors has declared a quarterly dividend of \$0.08 per share on the company's common stock, which will be payable on March 10, 2023, to shareholders of record as of February 21, 2023.

"We achieved record full-year results in 2022 despite Q4 headwinds. We are excited about the progress we made in 2022 and are confident our business strategy remains well aligned to the shifting dynamics of how our customers deploy, utilize, and consume technology," said Timothy McGrath, President and Chief Executive Officer of Connection.

Net sales for the quarter ended December 31, 2022 decreased by 8.5%, year over year. Gross profit decreased 2.1% while gross margin expanded 110 basis points to 17.0%, compared to the prior year quarter. Net income for the quarter ended December 31, 2022 decreased by 15.9% to \$18.8 million, or \$0.71 per diluted share, compared to net income of \$22.4 million, or \$0.85 per diluted share, for the prior year quarter.

Net sales for the year ended December 31, 2022 increased by 8.0%, year over year. Gross profit increased 13.3% while gross margin expanded 78 basis points to 16.8%, compared to the year ended December 31, 2021. Net income for the year ended December 31, 2022 increased by 27.6% to \$89.2 million, or \$3.37 per diluted share, compared to net income of \$69.9 million, or \$2.65 per diluted share for the year ended December 31, 2021.

Earnings before interest, taxes, depreciation and amortization, adjusted for stock-based compensation expense and restructuring and other charges ("Adjusted EBITDA") increased 23% to \$139.3 million for the year ended December 31, 2022, compared to \$113.0 million for the year ended December 31, 2021. <sup>1</sup>

### Quarterly Performance by Segment:

- Net sales for the Business Solutions segment decreased by 7.5% to \$280.7 million in the fourth quarter of 2022, compared to \$303.5 million in the prior year quarter. Gross profit increased by 3.6% to \$60.0 million in the fourth quarter of 2022, compared to \$58.0 million in the prior year quarter. Gross margin increased by 229 basis points to 21.4% primarily due to an increase in sales of datacenter products including software, networking and servers during the fourth quarter of 2022.
- Net sales for the Public Sector Solutions segment decreased by 9.4% to \$117.3 million in the fourth quarter of 2022, compared to \$129.4 million in the prior year quarter. Sales to the federal government increased by 46.0%, compared to the prior year quarter, while sales to the state and local governments and educational institutions decreased by 23.2%. Gross profit decreased by 8.8% to \$17.0 million in the fourth quarter of 2022, compared to \$18.6 million in the prior year quarter. Gross margin increased by 10 basis points to 14.5%.
- Net sales for the Enterprise Solutions segment decreased by 8.9% to \$334.5 million in the fourth quarter of 2022, compared to \$367.3 million in the prior year quarter. Gross profit decreased by 6.2% to \$47.3 million in the fourth quarter of 2022, compared to \$50.5 million in the prior year quarter. Gross margin increased by 41 basis points to 14.1% primarily due to an increase in sales of servers and services during the fourth quarter of 2022.

### Quarterly Highlights

- Continued growth in certain of our vertical markets:
  - In our Finance vertical market, revenue grew 13% year-over-year as customers modernized their environment with a focus on security and software. In addition, gross profit increased 22% year-over-year.
  - Retail revenue grew 11% year-over-year as customers relied on technology to enable automation and improve the retail experience.

### Quarterly Sales by Product Mix:

- Software sales decreased by 19% year over year and accounted for 10% of net sales in the fourth quarter of 2022, compared to 11% of net sales in the fourth quarter of 2021.
- Notebook/mobility sales decreased 13% year over year and accounted for 36% of net sales in the fourth quarter of 2022, compared to 38% of net sales in the fourth quarter of 2021.
- Accessories sales increased by 5% year over year and accounted for 13% of net sales in the fourth quarter of 2022, compared to 11% of net sales in the fourth quarter of 2021.
- Desktop sales decreased by 20% year over year and accounted for 9% of net sales in the fourth quarter of 2022, compared to 10% of net sales in the fourth quarter of 2021.

Selling, general and administrative ("SG&A") expenses increased in the fourth quarter of 2022 to \$100.4 million from \$95.7 million in the prior year quarter. The increase in SG&A was primarily due to an increase in cost of labor and on-going investments in resources to strengthen our sales, technical sales and services organizations. SG&A as a percentage of net sales increased to 13.7%, compared to 12.0% in the prior year quarter. The increase in SG&A as a percentage of net sales is primarily due to the decrease in net sales.

Cash and cash equivalents were \$122.9 million at December 31, 2022, compared to \$108.3 million at December 31, 2021.

"We continue to make investments in our infrastructure, tools, resources, and training to support the shift in our customer priorities to advanced technologies and integrated solutions," concluded Mr. McGrath. "We are confident that we have the right team and strategic plans to continue to deliver customer value and long-term shareholder growth."

### Conference Call and Webcast

Connection will host a conference call and live web cast today, February 9, 2022 at 4:30 p.m. ET to discuss its fourth quarter financial results. For participants who would like to participate via telephone, please register [here](#) to receive the dial-in number along with a unique PIN number that is required to access the call. A web-cast of the conference call, which will be broadcast live via the Internet, and a copy of this press release, can be accessed on Connection's website at [ir.connection.com](http://ir.connection.com). For those unable to participate in the live call, a replay of the webcast will be available at [ir.connection.com](http://ir.connection.com) approximately 90 minutes after the completion of the call and will be accessible on the site for approximately one year.

### Non-GAAP Financial Information

EBITDA and Adjusted EBITDA are non-GAAP financial measures. These measures are included to provide additional information with respect to the Company's operating performance and earnings. Non-GAAP measures are not a substitute for GAAP measures and should be considered together with the GAAP financial measures. Our non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. A reconciliation to the most directly comparable GAAP measures is available in the tables at the end of this release.

### About Connection

PC Connection, Inc. and its subsidiaries, dba **Connection**, ([www.connection.com](http://www.connection.com); NASDAQ: CNXN) is a Fortune 1000 company headquartered in Merrimack, NH. With offices throughout the United States, Connection delivers custom-configured computer systems overnight from its ISO 9001:2015 certified technical configuration lab at its distribution center in Wilmington, OH. In addition, the Company has over 2,500 technical certifications to ensure that it can solve the most complex issues of its customers. Connection also services international customers through its GlobalServe subsidiary, a global IT procurement and service management company. Investors and media can find more information about Connection at <http://http://ir.connection.com>.

Connection–Business Solutions (800.800.5555) is a rapid-response provider of IT products and services serving primarily the small-and medium-sized business sector. It offers more than 460,000 brand-name products through its staff of technically trained sales account managers, publications, and its website at [www.connection.com](http://www.connection.com).

Connection–Enterprise Solutions (561.237.3300), [www.connection.com/enterprise](http://www.connection.com/enterprise), provides corporate technology buyers with best-in-class IT solutions, in-depth IT supply-chain expertise, and real-time access to over 460,000 products and 2,500 vendors through MarkITplace®, a proprietary next-generation, cloud-based supply chain solution. The team's engineers, software licensing specialists, and subject matter experts help reduce the cost and complexity of buying hardware, software, and services throughout the entire IT lifecycle.

Connection–Public Sector Solutions (800.800.0019), is a rapid-response provider of IT products and services to federal, state, and local government agencies and educational institutions through specialized account managers, publications, and online at [www.connection.com/publicsector](http://www.connection.com/publicsector).

### Cautionary Note Regarding Forward-Looking Statements

Statements in this release, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify forward-looking statements by words such as "believe," "expect," "intend," "plan," "estimate," "anticipate," "may," "should," "will," or similar statements or variations of such terms, although not all forward-looking statements include such terms. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements. Such risks and uncertainties include, but are not limited to, disruptions impacting the global supply chain; the impact of certain macroeconomic factors facing the global economy, including disruptions in the capital markets, economic sanctions and economic slowdowns or recessions, rising inflation and changing interest rates on the Company's business; the level of business investment in information technology products; our ability to realize market demand for and competitive pricing pressures on the products and services marketed by the Company; fluctuations in operating results and the ability of the Company to manage personnel levels in response to fluctuations in revenue; the ability of the Company to hire and retain qualified sales representatives and other essential personnel; the impact of changes in accounting requirements; the impact of the COVID-19 pandemic, or other future health pandemics and any related economic downturns, on the Company's business, operations, and the markets in which we and our partners and customers operate; and other risks detailed in the Company's filings with the Securities and Exchange Commission, including under the caption "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2021. The Company assumes no obligation to update the information in this press release or revise any forward-looking statements, whether as a result of any new information, future events, or otherwise, except as required by law.

<sup>1</sup> Adjusted EBITDA is a non-GAAP measure. See page 10 for the definition and reconciliation.

## CONSOLIDATED SELECTED FINANCIAL INFORMATION

| At or for the Three Months Ended December 31,                                           | 2022           |   | 2021           |   |        |
|-----------------------------------------------------------------------------------------|----------------|---|----------------|---|--------|
|                                                                                         |                |   |                |   | %      |
| (Amounts and shares in thousands, except operating data, P/E ratio, and per share data) |                |   |                |   | Change |
| Operating Data:                                                                         |                |   |                |   |        |
| Net sales                                                                               | \$ 732,451     |   | \$ 800,174     |   | (8 %)  |
| Diluted earnings per share                                                              | \$ 0.71        |   | \$ 0.85        |   | (16 %) |
| Gross margin                                                                            | 17.0           | % | 15.9           | % |        |
| Operating margin                                                                        | 3.3            | % | 3.9            | % |        |
| Inventory turns <sup>(1)</sup>                                                          | 11             |   | 14             |   |        |
| Days sales outstanding <sup>(2)</sup>                                                   | 70             |   | 65             |   |        |
| Product Mix:                                                                            | % of Net Sales |   | % of Net Sales |   |        |
| Notebooks/Mobility                                                                      | 36             | % | 38             | % |        |
| Accessories                                                                             | 13             |   | 11             |   |        |
| Software                                                                                | 10             |   | 11             |   |        |
| Displays                                                                                | 9              |   | 11             |   |        |
| Desktops                                                                                | 9              |   | 10             |   |        |
| Servers/Storage                                                                         | 8              |   | 6              |   |        |
| Net/Com Products                                                                        | 7              |   | 6              |   |        |
| Other Hardware/Services                                                                 | 8              |   | 7              |   |        |
| Total Net Sales                                                                         | 100            | % | 100            | % |        |
| Stock Performance Indicators:                                                           |                |   |                |   |        |
| Actual shares outstanding                                                               | 26,350         |   | 26,252         |   |        |
| Total book value per share                                                              | \$ 29.08       |   | \$ 26.00       |   |        |

|                                    |              |              |
|------------------------------------|--------------|--------------|
| Tangible book value per share      | \$ 26.11     | \$ 22.97     |
| Closing price                      | \$ 46.90     | \$ 43.13     |
| Market capitalization              | \$ 1,235,815 | \$ 1,132,249 |
| Trailing price/earnings ratio      | 13.9         | 16.3         |
| LTM Adjusted EBITDA <sup>(3)</sup> | \$ 139,298   | \$ 112,959   |

(1) Represents the annualized cost of goods sold for the period divided by the average inventory for the prior four-month period.

(2) Represents the trade receivable at the end of the period divided by average daily net sales for the same three-month period.

(3) Adjusted EBITDA is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for stock-based compensation and restructuring and other related charges.

## REVENUE AND MARGIN INFORMATION

| For the Three Months Ended December 31, | 2022       |              | 2021       |              |
|-----------------------------------------|------------|--------------|------------|--------------|
| (amounts in thousands)                  | Net Sales  | Gross Margin | Net Sales  | Gross Margin |
| Enterprise Solutions                    | \$ 334,501 | 14.1 %       | \$ 367,291 | 13.7 %       |
| Business Solutions                      | 280,700    | 21.4         | 303,479    | 19.1         |
| Public Sector Solutions                 | 117,250    | 14.5         | 129,404    | 14.4         |
| Total                                   | \$ 732,451 | 17.0 %       | \$ 800,174 | 15.9 %       |

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

|                                               | Three Months Ended December 31, Years Ended December 31, |            |              |              |
|-----------------------------------------------|----------------------------------------------------------|------------|--------------|--------------|
| (amounts in thousands, except per share data) | 2022                                                     | 2021       | 2022         | 2021         |
| Net sales                                     | \$ 732,451                                               | \$ 800,174 | \$ 3,124,996 | \$ 2,892,595 |
| Cost of sales                                 | 608,107                                                  | 673,139    | 2,598,819    | 2,428,016    |
| <b>Gross profit</b>                           | 124,344                                                  | 127,035    | 526,177      | 464,579      |
| Selling, general and administrative expenses  | 100,436                                                  | 95,731     | 405,625      | 368,062      |
| <b>Income from operations</b>                 | 23,908                                                   | 31,304     | 120,552      | 96,517       |
| Other income/(expense), net                   | 764                                                      | (1 )       | 1,083        | 5            |
| Income tax provision                          | (5,849 )                                                 | (8,918 )   | (32,416 )    | (26,616 )    |
| <b>Net income</b>                             | \$ 18,823                                                | \$ 22,385  | \$ 89,219    | \$ 69,906    |

Earnings per common share:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.72 | \$ 0.85 | \$ 3.40 | \$ 2.67 |
| Diluted | \$ 0.71 | \$ 0.85 | \$ 3.37 | \$ 2.65 |

Shares used in the computation of earnings per common share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 26,312 | 26,229 | 26,279 | 26,196 |
| Diluted | 26,478 | 26,372 | 26,443 | 26,364 |

**December 31, December 31,**

**CONDENSED CONSOLIDATED BALANCE SHEETS 2022 2021**

*(amounts in thousands)*

**ASSETS**

Current Assets:

|                                           |                     |                     |
|-------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                 | \$ 122,930          | \$ 108,310          |
| Accounts receivable, net                  | 610,280             | 607,532             |
| Inventories, net                          | 208,682             | 206,555             |
| Prepaid expenses and other current assets | 11,900              | 10,016              |
| <b>Total current assets</b>               | <b>953,792</b>      | <b>932,413</b>      |
| Property and equipment, net               | 59,171              | 61,011              |
| Right-of-use assets, net                  | 7,558               | 9,579               |
| Goodwill                                  | 73,602              | 73,602              |
| Intangibles assets, net                   | 4,648               | 5,868               |
| Other assets                              | 1,055               | 910                 |
| <b>Total Assets</b>                       | <b>\$ 1,099,826</b> | <b>\$ 1,083,383</b> |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities:

|                                        |                |                |
|----------------------------------------|----------------|----------------|
| Accounts payable                       | \$ 232,638     | \$ 281,836     |
| Accrued payroll                        | 24,071         | 30,966         |
| Accrued expenses and other liabilities | 53,808         | 61,830         |
| <b>Total current liabilities</b>       | <b>310,517</b> | <b>374,632</b> |
| Deferred income taxes                  | 17,970         | 19,278         |

|                                                   |                     |                     |
|---------------------------------------------------|---------------------|---------------------|
| Operating lease liability                         | 4,994               | 6,789               |
| Other liabilities                                 | 170                 | 211                 |
| <b>Total Liabilities</b>                          | <b>333,651</b>      | <b>400,910</b>      |
| Stockholders' Equity:                             |                     |                     |
| Common stock                                      | 291                 | 290                 |
| Additional paid-in capital                        | 125,784             | 122,354             |
| Retained earnings                                 | 686,037             | 605,766             |
| Treasury stock at cost                            | (45,937 )           | (45,937 )           |
| <b>Total Stockholders' Equity</b>                 | <b>766,175</b>      | <b>682,473</b>      |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 1,099,826</b> | <b>\$ 1,083,383</b> |

#### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                             | Three Months Ended December 31, |           | Years Ended December 31, |           |
|---------------------------------------------------------------------------------------------|---------------------------------|-----------|--------------------------|-----------|
| (amounts in thousands)                                                                      | 2022                            | 2021      | 2022                     | 2021      |
| <b>Cash Flows from Operating Activities:</b>                                                |                                 |           |                          |           |
| Net income                                                                                  | \$ 18,823                       | \$ 22,385 | \$ 89,219                | \$ 69,906 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |           |                          |           |
| Depreciation and amortization                                                               | 2,978                           | 3,037     | 11,978                   | 12,202    |
| Adjustments to credit losses reserve                                                        | 594                             | 1,603     | 3,252                    | 3,307     |
| Stock-based compensation expense                                                            | 1,603                           | 1,113     | 5,675                    | 4,231     |
| Deferred income taxes                                                                       | (1,308 )                        | 753       | (1,308 )                 | 753       |
| Loss (gain) on disposal of fixed assets                                                     | 1                               | (38 )     | 17                       | (36 )     |
| Changes in assets and liabilities:                                                          |                                 |           |                          |           |
| Accounts receivable                                                                         | 35,782                          | (24,530 ) | (6,000 )                 | (2,093 )  |
| Inventories                                                                                 | 4,634                           | (31,181 ) | (2,127 )                 | (65,688 ) |
| Prepaid expenses and other current assets                                                   | (1,805 )                        | 1,781     | (1,884 )                 | 1,421     |
| Other non-current assets                                                                    | (150 )                          | 121       | (145 )                   | 435       |
| Accounts payable                                                                            | (25,788 )                       | 64,811    | (49,056 )                | 14,814    |
| Accrued expenses and other liabilities                                                      | (16,164 )                       | 9,065     | (14,732 )                | 18,502    |

|                                                                              |            |            |            |            |
|------------------------------------------------------------------------------|------------|------------|------------|------------|
| Net cash provided by operating activities                                    | 19,200     | 48,920     | 34,889     | 57,754     |
| <b>Cash Flows from Investing Activities:</b>                                 |            |            |            |            |
| Purchases of equipment and capitalized software                              | (2,102 )   | (3,210 )   | (9,077 )   | (10,302 )  |
| Proceeds from sale of equipment                                              | -          | 69         | -          | 69         |
| Proceeds from life insurance                                                 | -          | -          | -          | 1,500      |
| Net cash used in investing activities                                        | (2,102 )   | (3,141 )   | (9,077 )   | (8,733 )   |
| <b>Cash Flows from Financing Activities:</b>                                 |            |            |            |            |
| Proceeds from short-term borrowings                                          | -          | -          | 36,463     | -          |
| Repayment of short-term borrowings                                           | -          | -          | (36,463 )  | -          |
| Dividend payments                                                            | (8,948 )   | (26,224 )  | (8,948 )   | (34,599 )  |
| Payment of payroll taxes on stock-based compensation through shares withheld | (1,410 )   | (973 )     | (2,244 )   | (1,767 )   |
| Net cash used in financing activities                                        | (10,358 )  | (27,197 )  | (11,192 )  | (36,366 )  |
| Increase in cash and cash equivalents                                        | 6,740      | 18,582     | 14,620     | 12,655     |
| Cash and cash equivalents, beginning of period                               | 116,190    | 89,728     | 108,310    | 95,655     |
| Cash and cash equivalents, end of period                                     | \$ 122,930 | \$ 108,310 | \$ 122,930 | \$ 108,310 |
| <b>Non-cash Investing Activities:</b>                                        |            |            |            |            |
| Accrued capital expenditures                                                 | \$ 192     | \$ 334     | 192        | 334        |
| <b>Supplemental Cash Flow Information:</b>                                   |            |            |            |            |
| Income taxes paid                                                            | \$ 2,928   | \$ 865     | \$ 33,687  | \$ 21,465  |
| Interest paid                                                                | \$ -       | \$ -       | \$ 4       | \$ -       |

#### EBITDA AND ADJUSTED EBITDA

A reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable GAAP measure is detailed below. Adjusted EBITDA is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for restructuring and other charges, and stock-based compensation. Both EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either includes or excludes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. We believe that EBITDA and Adjusted EBITDA provide helpful information with respect to our operating performance including our ability to fund our future capital expenditures and working capital requirements. Adjusted EBITDA also provides helpful information as it is the primary measure used in certain financial covenants contained in our credit agreements. When analyzing our operating performance, investors should use EBITDA and Adjusted EBITDA in addition to, and not as alternatives for Net income or any other performance measure presented in accordance with GAAP. Our non-GAAP financial measures may not be comparable to other similar titled measures of other companies.

(amounts in thousands)

#### Three Months Ended December 31, Years Ended December 31, <sup>(1)</sup>

|            | 2022      | 2021      | % Change | 2022      | 2021      | % Change |
|------------|-----------|-----------|----------|-----------|-----------|----------|
| Net income | \$ 18,823 | \$ 22,385 | (16 %)   | \$ 89,219 | \$ 69,906 | 28 %     |

|                               |           |           |     |    |            |            |     |    |
|-------------------------------|-----------|-----------|-----|----|------------|------------|-----|----|
| Depreciation and amortization | 2,978     | 3,037     | (2  | %) | 11,978     | 12,202     | (2  | %) |
| Income tax expense            | 5,849     | 8,918     | (34 | %) | 32,416     | 26,616     | 22  | %  |
| Interest expense              | -         | 4         | 100 | %  | 10         | 4          | 150 | %  |
| <b>EBITDA</b>                 | 27,650    | 34,344    | (19 | %) | 133,623    | 108,728    | 23  | %  |
| Stock-based compensation      | 1,603     | 1,113     | 44  | %  | 5,675      | 4,231      | 34  | %  |
| <b>Adjusted EBITDA</b>        | \$ 29,253 | \$ 35,457 | (17 | %) | \$ 139,298 | \$ 112,959 | 23  | %  |

(1) LTM: Last twelve months

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