

PIVOT TECHNOLOGY SOLUTIONS, INC.

Tech Data to Acquire Avnet's Technology Solutions Group in \$2.6B Deal

EVENT

Tech Data (TECD) announced the acquisition of the Technology Solutions (TS) group from Avnet (AVT) in a deal valued at \$2.6B.

BOTTOM LINE

Positive Read Through for PTG. The transformational deal values the business on a TTM Revenue of ~0.3x and TTM adj. EBITDA of ~8.0x. TECD enhances its position as a premier global IT distributor post-close with diverse end-to-end solutions. The TS division carried ~\$9B in revenue for F2016 (and ~3.3% Adj. EBITDA margins), with key vendor relationships such as Cisco, Oracle, Microsoft, IBM, Juniper; most of which overlap with PTG's vendor-base. Key verticals of TS' business are Energy, Education, Healthcare, Industrial, Retail, and Financial Services, also mirroring PTG's footprint. **We maintain a BUY rating, and our TP of C\$1.50.**

FOCUS POINTS

- **PTG Undervalued by Comparison.** On our CY16E, PTG is trading at 0.14x revs and 5.6x EBITDA - a 114% and 43% discount to the deal metrics, respectively.
- **Q3/16 Preview.** PTG expects a typical Q3 "in-line with historical market activity" (translates to up q/q in our opinion). We believe 2H/16 revs will be greater than 1H/16.
- **Customer Concentration.** PTG's top ten customers accounted for 52.1% of total revenues in Q2/16, vs. 46% in Q2/15 and 52% in Q1/16. We expect Q3/16 to be in the 48-53% range – which should help margins.
- **NCIB.** PTG is able to repurchase a maximum of 8,389,331 common shares under its NCIB.
- **Costs.** We expect Kevin Shank to 'trim the fat' and begin optimizing the cost structure.

Recommendation:

BUY

Symbol/Exchange:

PTG/TSX-V

Sector:

Technology – IT Services

All dollar values in US\$ unless otherwise noted.

Current price:

C\$0.46

One-year target:

C\$1.50

Dividend / Yield

\$0.04/8.7%

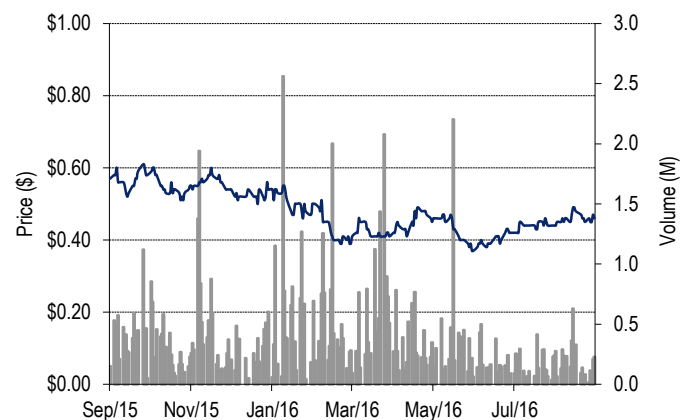
Target return

226%

Financial summary

	2015	2016E	2017E	2018E
Shares O/S (M)	171.3	52-Week Range	C\$0.36 - C\$0.62	
Market Cap (\$M)	59.7	Avg. Weekly Volume (M)	1.73	
Net Cash (\$M)	(158.9)	Fiscal Year End	31-Dec	
US\$M	2015	2016E	2017E	2018E
Revenue	1,489.0	1,532.4	1,634.9	1,744.3
Revenue (YoY %)	9.5%	2.9%	6.7%	6.7%
Adj. EBITDA	31.4	39.0	49.0	57.6
Adj. EBITDA margin	2.1%	2.5%	3.0%	3.3%
IFRS EPS (Basic)	0.02	0.06	0.14	0.19
IFRS EPS (Diluted)	0.02	0.06	0.14	0.19
Shares O/S (Diluted)	156.6	172.4	171.3	171.3
EV / Revenue	0.15x	0.14x	0.13x	0.13x
EV / Adj. EBITDA	7.0x	5.6x	4.5x	3.8x
P/E	20.2x	5.5x	2.4x	1.8x
FCF Yield	37%	62%	43%	54%

Source: Cantor Fitzgerald Canada



Company profile: Pivot designs, sells, integrates and supports IT solutions - including hardware, maintenance and support - engaging clients in all aspects of their IT Lifecycle Management, including infrastructure investments.

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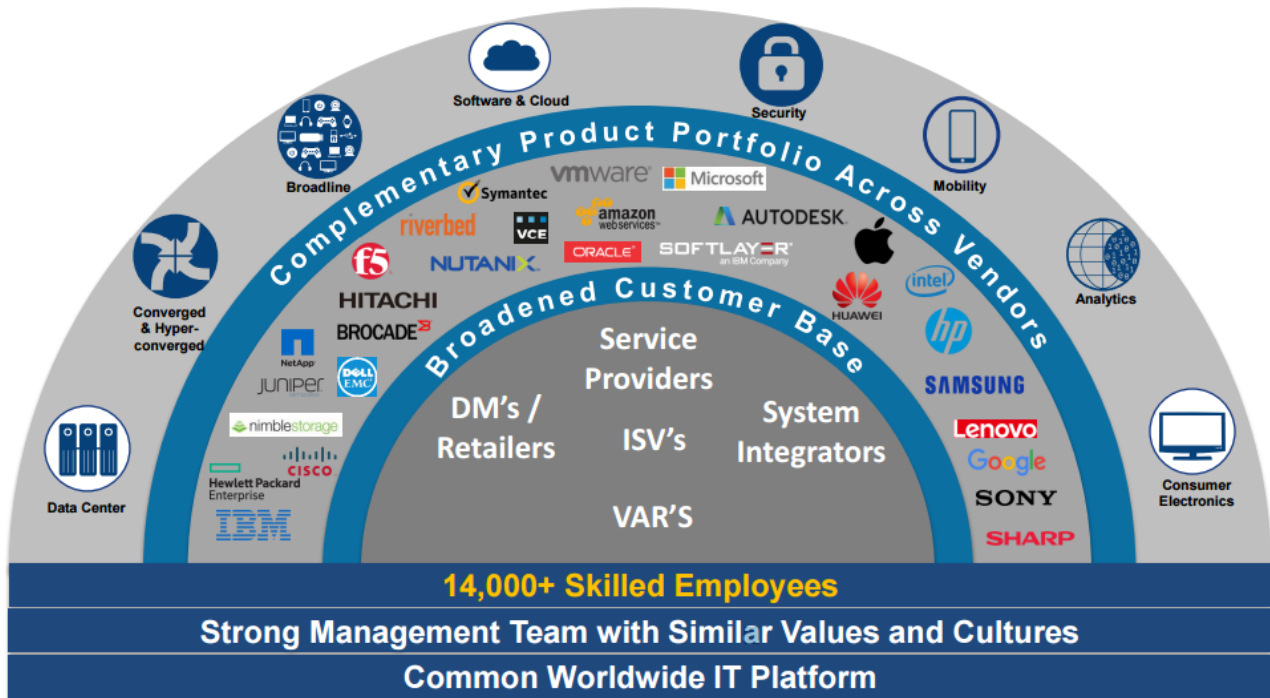
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See disclosure and a description of our recommendation structure at the end of this report.

TECD TO ACQUIRE AVNET'S TECH SOLUTIONS GROUP

The transformational deal values the business on a TTM Revenue of ~0.3x and TTM adj. EBITDA of ~8.0x. TECD enhances its position as a premier global IT distributor post-close with diverse end-to-end solutions. The TS division carried ~\$9B in revenue for F2016 (and ~3.3% Adj. EBITDA margins), with key vendor relationships such as Cisco, Oracle, Microsoft, IBM, Juniper; most of which overlap with PTG's vendor-base. Key verticals of TS' business are Energy, Education, Healthcare, Industrial, Retail, and Financial Services, also mirroring PTG's footprint.

Exhibit 1. Combined TECD/TS Group Profile Similar to that of Pivot...But on a Larger Scale



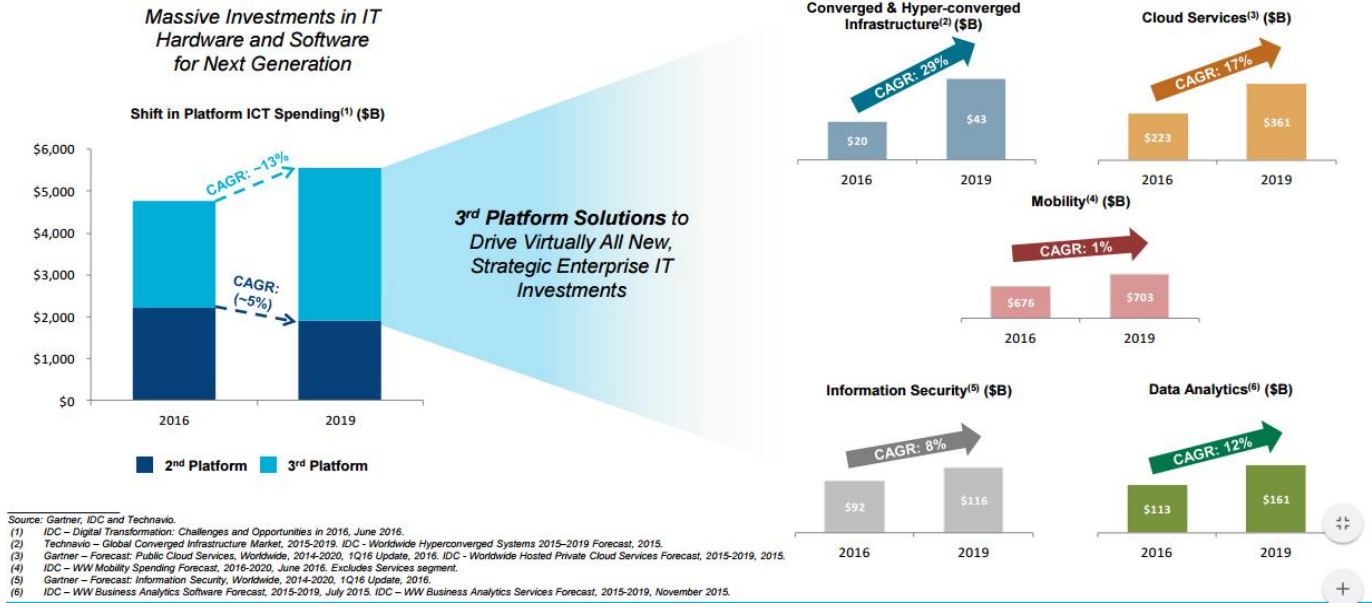
Source: Tech Data Presentation, Cantor Fitzgerald Canada, Company Documents

Additionally, the acquisition broadens Tech Data's value-add proposition. Pro-forma, post-close, revenue mix from data center will account for 45% of revenue, versus the present 29%. Industry data points to robust IT growth through 2019 across the landscape and will provide next catalysts for players such as Tech Data and Pivot.

Conference call replay numbers:

- TECD Conf Call Replay: (800) 585-8367/(404) 537-3406 (pass 84578145).
- AVT Conf Call Replay: (877) 660-6853/(201) 612-7415 (pass 13645727).

Exhibit 2. IT Spend to Fuel Growth

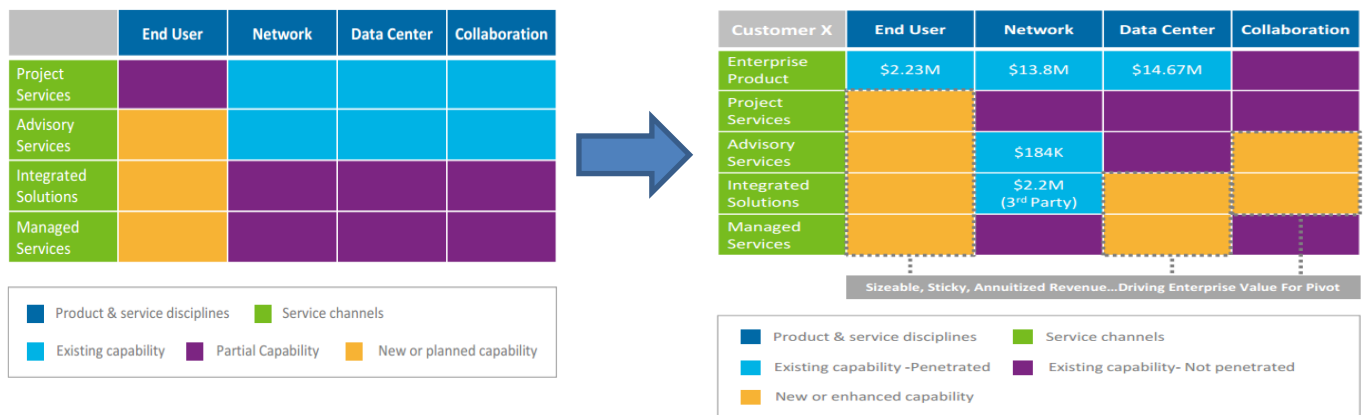


Source: Tech Data Presentation, Cantor Fitzgerald Canada, Company Documents

GROWING MANAGED SERVICES KEY TO PTG STRATEGY

Going forward, costs will grow slower than revenues, adding operating leverage in the business. *The leverage that comes from growing services revenue from 11% of total revs to 30% can be significant for PTG.* An example is shown on the right-side illustration in Exhibit 3 – Client X which generates annual revenue of \$33M could double their revenue contribution if and when PTG offers services offerings across its client portfolio. This incremental revenue is sizeable, sticky, and takes the form of a growing annuity. In the past, CEO Kevin Shank took ~3 years to bring services revenues to 30% of total and ~8 years to bring it to 65% – we are confident in his ability to deliver for PTG and its stakeholders. *We estimate that every 1% increase in services revenues (as a % of total revs) adds ~\$1M in EBITDA.*

Exhibit 3. Leverage is in Service Revenues (Re-affirmed by Tech Data Today)



Source: Cantor Fitzgerald Canada, Company Documents

We expect Q3/16 results by mid-November, and are looking for the following.

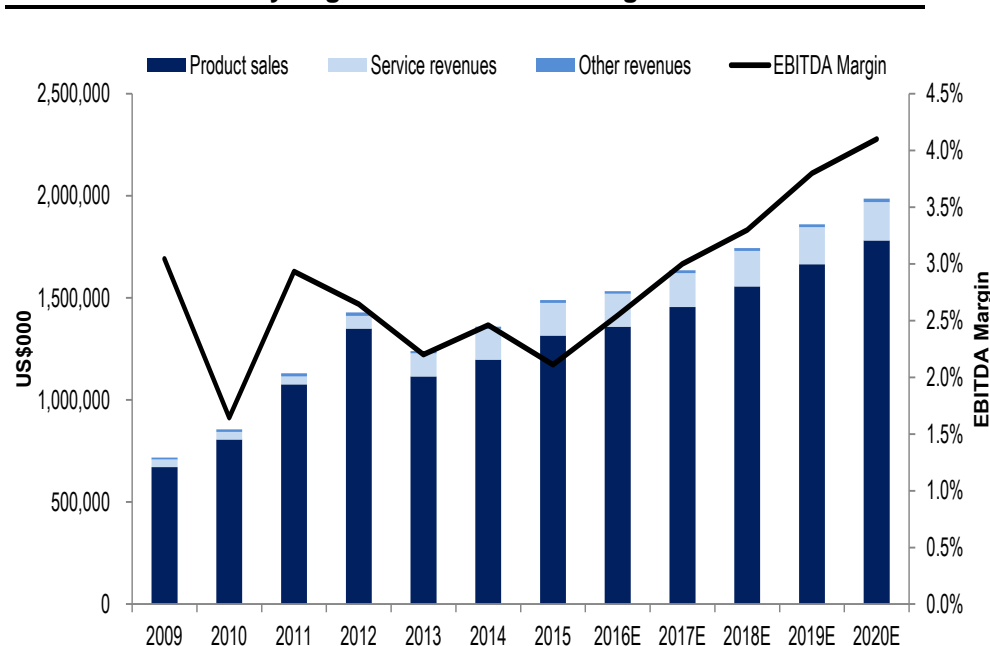
Exhibit 4. Summary of Estimates

Forecasts	Q116	Q216E	Q316	Q316E	% Diff.	Q416E	Q117E
Revenue (\$M)	\$332.8	\$373.7		\$404.9		\$421.1	\$354.9
Adj. EBITDA (\$M)	\$1.45	\$9.12		\$11.74		\$16.72	\$10.65
Basic EPS	(\$0.02)	0.02*		\$0.03		\$0.05	\$0.03
F/D EPS	(\$0.02)	0.02*		\$0.03		\$0.05	\$0.03
		*Adj. EPS					

Source: Cantor Fitzgerald Canada, Company Documents

Longer term we continue to look for organic rev growth of ~4-7% and EBITDA margins to trend towards the 4% level.

Exhibit 5. Revenue by Segment and EBITDA margins



Source: Cantor Fitzgerald Canada, Company Documents

RECOMMENDATION AND VALUATION

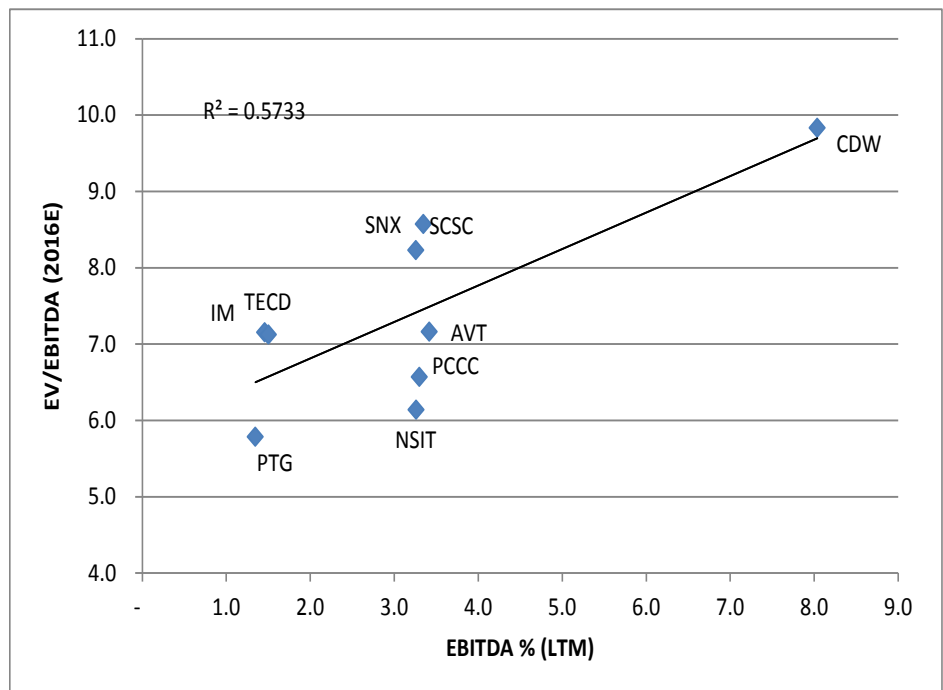
We are maintaining a BUY recommendation and our C\$1.50 TP. On our estimates, PTG currently trades at a C2016 EV/Sales of 0.15x and EV/EBITDA of 5.8x vs its VAR comparables at an average of 0.29x and 7.6x, respectively.

Exhibit 6. Global Value Added Resellers (VARs) Comparables

	Ticker	Price	Mkt Cap	LTM Rev (US\$)	GM	EV/Sales			EV/EBITDA			P/E		
						2015	2016	2017	2015	2016	2017	2015	2016	2017
Pivot Technology Solutions, Inc	PTG-CA	0.46	78	1,541	10.7	0.14	0.15	0.14	6.8	5.8	4.6	16.6	5.8	2.5
Ingram Micro Inc. Class A	IM	34.86	5,217	41,287	6.6	0.13	0.14	0.13	7.3	7.1	6.6	13.3	13.3	12.3
Tech Data Corporation	TECD	84.02	2,959	26,229	4.9	0.10	0.10	0.10	7.1	7.1	6.8	14.6	14.2	13.6
Avnet, Inc.	AVT	42.28	5,385	26,219	11.6	0.25	0.27	0.28	6.4	7.2	7.1	9.4	10.0	10.0
SYNNEX Corporation	SNX	103.95	4,133	13,387	8.6	0.32	0.31	0.29	8.8	8.6	7.6	16.6	16.7	14.7
Insight Enterprises, Inc.	NSIT	30.84	1,094	5,355	13.7	0.22	0.22	0.21	6.9	6.1	5.9	14.6	12.7	12.0
ScanSource, Inc.	SCSC	35.60	912	3,540	10.0	0.30	0.27	0.27	8.3	8.2	8.0	13.6	13.1	12.3
CDW Corp.	CDW	45.26	7,392	13,701	16.5	0.82	0.76	0.72	10.4	9.8	9.3	15.4	13.6	12.4
PCM, Inc.	PCMI	18.30	214	1,966	14.1	0.21	0.16	0.15	18.3	7.4	6.8	96.3	11.7	10.9
PC Connection, Inc.	PCCC	25.24	670	2,614	13.3	0.24	0.23	0.21	7.2	6.6	6.2	14.3	13.3	12.3
ePlus inc.	PLUS	90.79	645	1,224	23.7	0.52	0.49	0.47	7.6	7.4	6.6	14.3	13.7	12.7
AVERAGES:					12.3	0.31	0.29	0.28	8.8	7.6	7.1	22.2	13.2	12.3

Source: Cantor Fitzgerald Canada, FactSet

Exhibit 7. Global VARs – EBITDA Margins Drive Valuation



Source: Cantor Fitzgerald Canada, FactSet

Canadian Technology Dividend Stocks

At current share price levels, the dividend results in a yield of ~8.7%. If the yield were to move to the average yield shown below (~2.9%), the shares would be trading at ~\$1.38 level.

Exhibit 8. Canadian Technology Dividend Stocks

	Ticker	Price (Local)	Mkt Cap (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E		Div Yield	
					2015	2016	2017	2015	2016	2017	2015	2016		2017
Constellation Software Inc.	CSU-CA	568.20	9,111	1,988	4.8	4.4	3.8	19.0	17.2	15.1	23.4	23.7	19.6	0.9%
Open Text Corporation	OTC-CA	86.00	7,903	1,824	4.8	4.8	4.2	14.5	13.3	11.6	19.1	18.4	15.9	1.4%
MacDonald, Dettwiler and Associates Ltd.	MDA-CA	81.48	2,241	1,599	1.8	1.8	1.7	10.5	10.4	9.7	13.4	13.2	12.4	1.8%
Enghouse Systems Limited	ESL-CA	50.15	1,018	229	4.6	4.1	3.8	17.9	15.8	14.5	42.9	34.9	29.0	1.1%
Evertz Technologies Limited	ET-CA	16.94	951	289	3.0	2.9	2.7	10.8	10.3	9.2	17.9	16.7	14.7	4.3%
Computer Modelling Group Ltd.	CMG-CA	9.51	568	59	8.4	9.1	8.4	17.8	18.7	16.8	29.7	30.0	28.7	4.2%
Wi-LAN Inc.	WIN-CA	2.08	188	94	1.0	1.3	1.2	1.8	2.3	2.3	3.1	3.8	3.8	2.4%
Vecima Networks Inc.	VCM-CA	9.75	165	84	1.6	1.4	1.4	5.2	4.2	4.6	13.4	10.0	11.6	2.3%
Absolute Software Corporation	ABT-CA	7.28	215	89	2.0	2.2	2.1	10.9	17.8	28.5	52.4	23.9	NM	4.4%
Mediagrif Interactive Technologies Inc.	MDF-CA	18.98	215	56	4.3	NM	3.8	10.9	10.2	9.5	18.1	17.2	15.5	2.1%
Sylogist Ltd.	SYZ-CA	10.40	180	27	NM	NM	NM	NM	NM	NM	NM	NM	NM	2.7%
Pollard Banknote Limited	PBL-CA	8.12	145	176	1.2	1.1	1.0	9.8	8.9	8.6	25.4	17.3	14.5	1.5%
TECSYS Inc.	TCS-CA	9.50	89	52	1.6	1.5	1.4	14.8	14.0	10.2	24.4	28.8	18.3	1.3%
RDM Corporation	RC-CA	4.36	75	22	1.8	2.1	1.9	7.2	7.5	6.4	13.1	25.4	20.6	1.8%
Pivot Technology Solutions, Inc.	PTG-CA	0.46	59	1,541	0.1	0.1	0.1	6.8	5.8	4.6	16.6	5.8	2.5	8.7%
C-COM Satellite Systems, Inc.	CMI-CA	1.01	28	7	NM	NM	NM	NM	NM	NM	NM	NM	NM	4.9%
Averages:					2.9	2.8	2.7	11.3	11.2	10.8	22.3	19.2	15.9	2.9%

Source: Cantor Fitzgerald Canada, FactSet

TECHNICALLY SPEAKING....

PTG appears to be trading in an up-channel pattern and is above its 50- and 200-day moving averages. We would use the lower and upper bands as support and resistance levels, respectively; with additional support at its 200-day moving average.

Exhibit 9. PTG Technical Chart



Source: Cantor Fitzgerald Canada, StockCharts.com

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HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

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