FINAL TRANSCRIPT

Pivot Technology Solutions, Inc.

Third Quarter Results Conference Call

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CORPORATE PARTICIPANTS

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OPERATOR

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Pivot Technology Solution's 2016 third quarter conference call. This call is being recorded on November 29, 2016 at 8 am Eastern Time for replay purposes.

Your main hosts today are Kevin Shank, President and Chief Executive Officer, Brian Kyle, Chief Financial Officer and Matt Girardot, Vice President Legal and General Counsel.

Following management's presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions.

Before we begin, I am required to provide the following statement respecting forward looking information, which is made on behalf of Pivot and all of its representatives on this call.

The oral statements made on this call will contain forward-looking information. The actual results could differ materially from a conclusion, forecast or projection in the forward-looking information.

Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, are contained in Pivot's filings with Canadian provincial securities regulators.

I'll now turn the call over to Kevin Shank. Please go ahead Mr. Shank.

KEVIN SHANK

Good morning everyone and thank you for attending. I will start today's call with an update on several key items for the quarter and then turn over to Brian Kyle, Pivot's CFO to discuss our financial performance and the effect of the GTS termination, which weighed heavily on the quarter's results. I will then return with some closing remarks on our overall business.

First, let's discuss our capital market strategies, underlying performance, excluding GTS, and our recent acquisition of TeraMach, which gives us a solid foundation of capabilities and clients in Canada.

Starting with our capital market strategies, we are making progress toward our listing on the TSX and our share consolidation and subject to normal course approvals, we believe we should be able to complete these commitments to our shareholders shortly. As part of the process to achieve a TSX listing, we are finalizing our Annual Information Form.

In addition, we've been actively re-purchasing and cancelling our shares under the NCIB. While we have many good growth opportunities, we believe share repurchases are a good use of shareholder capital at this point in time.

Moving to our results excluding GTS, third quarter performance was solid, notwithstanding lower revenues. Our gross profit and gross margin dollars grew, and we advanced our services strategy and our pipeline of opportunities is strong.

On revenue, performance was mixed. Product sales declined almost 5%, reflecting lower volumes to large customers that usually carry a lower margin. We believe this is largely a matter of timing, although some customers have exhibited caution on large capital purchases at this point in their business cycles.

On the other hand, service revenue increased almost 11% in the third quarter. We have more to do to grow and enhance our service offerings and the way we engage customers, but we're pleased with this result.

Gross profit was almost 18% above the third quarter last year and gross profit margin increased by 202 basis points to 11.7%. This was due to changes in product and customer mix and an uplift from manufacturers' rebates – rebates are a function of timing and hitting various milestones.

As you know, improving profitability is a key focus of this management team and while it will take some time to make gains in gross margins sustainable and predictable, I believe we are focused on the right levers.

As a result of higher gross profit from margin expansion activities, Adjusted EBITDA increased 11% in the third quarter over last year.

Overall, operating performance trends are broadly positive, and we believe we can do better on the revenue front.

As mentioned in previous communications, we plan to grow both organically and by way of selective acquisition. Organically, we look to work more closely and strategically with our existing clients and unilaterally offer a broader portfolio of products and services. Our foundation includes 2,000 client relationships that we can work closely with to expand our penetration.

I'll speak more to our organic growth strategy at the end of this call.

On acquisitions, we will look over time to acquire companies that we deem to be strategic, and at an appropriate price.

By strategic, we mean in part, businesses that have capabilities that we can integrate and sell across the Pivot network to create accretion. In addition, targets will be assessed based on the attractiveness of their geographic territory and our ability to integrate our own capabilities in their operations to create additional value.

In early October, we were able to check all the right boxes in acquiring TeraMach, one of Canada's leading IT products and services companies.

With revenues of approximately $100 million Canadian, TeraMach has amassed a 20-year track record of growth by addressing the IT needs of customers including various governments in Canada and some very recognizable corporations. Like Pivot, TeraMach has built trusted relationships with these customers and with leading hardware and software manufacturers.

TeraMach is a profitable and growing business that gives us expertise in Toronto and Ottawa that we can use to further our services strategy, whether we're selling to Canadian customers or US clients operating in Canada.

We are now engaged in best practice sharing and also benefitting from the fact that TeraMach's management team has stayed in place and is helping to lead the way in Canada.

I'll return with some final comments about our value creation strategy but now I'd like Brian to provide his analysis. This is Brian's first call as Pivot CFO. Although he only joined us in August, Brian has already made a significant contribution to our business there is much much more to come. I'm delighted that he has joined us. Brian?

BRIAN KYLE

Thanks Kevin and It's a pleasure to be on the call this morning.

I recently joined Pivot because I believe there is a great deal of value to be unlocked in this business. However, it will take several quarters to drive the results we all want to see, but I'm convinced that we have the right strategy, the right team and desire necessary to execute our strategy and deliver shareholder value.

My immediate focus is on improving our fundamentals, including our costs, cost effectiveness and our productivity, in part through streamlining our operations and achieving tighter integration.

I'm also committed to enhancing both our reporting disclosure and corporate governance processes over the next few quarters. Improving disclosure with clearer transparency will provide better insight and measurement around our progress. And to attract new investors and position ourselves as a TSX listed company, our corporate governance must evolve to address these higher standards.

Looking at the third quarter, the loss of control over Austin Ribbon, or GTS as it's now called, weighed heavily on our results. Pivot announced that GTS provided notice to terminate its various agreements on June 1st and, subsequently, we determined that a loss of control for accounting purposes occurred on July 1st.

Accordingly, the assets and liabilities of GTS were derecognized as of that date and a loss of $7.2 million was recorded in the third quarter. The loss consisted of the removal of net assets of $353-thousand, and a reserve against remaining receivables due from GTS of $6.9 million.

In addition, we took a related impairment charge of $900-thousand in the quarter. Impairment charges for 2016 related to this termination were $4.8 million, which represents full impairment of the purchased intangible and goodwill related to the acquisition of GTS.

We've segregated GTS's contribution to revenue, gross profit and adjusted EBITDA in our third quarter MD&A, and we will continue to call this out over the next few quarters as we believe this more accurately reflects our ongoing business and provides better year-over-year comparability.

We've also taken legal action against GTS, seeking full damages for breaches of various contracts and intend to aggressively pursue this matter in the courts to the fullest extent possible. Due to the fact that we are in litigation, I can't say much more other than what has been disclosed already in our MD&A at this time.

What I will say, however, is that while Pivot has suffered a loss, this development in no way effects our ability to pursue our strategy.

As Kevin reviewed our results excluding GTS and our "all-in" results are explained in the MD&A, I would like to focus on expenses, cash, our financial capacity and provide an update on TeraMach.

Third quarter selling and administrative expenses were $2.2 million or 6.5% higher than a year ago, or 19% higher excluding GTS. The main reason for the increase, on a GTS-excluded basis, is due to lower compensation costs recognized in GTS that, when removed, negatively impacted Pivot's selling and administrative expenses. In addition, we continued to incur shared Pivot/GTS expenses through the quarter, which negatively impacted our results. These shared costs have been eliminated in Q4. Beyond that and looking at underlying costs, there were several drivers of expense growth including: higher variable compensation costs within areas of our business that generated strong revenue growth, investments made in staffing in advance of revenue recognition in certain areas of our operations, and to a lesser degree, general expense growth in support of our services strategy.

Given our margin profile, creating an effective and efficient cost structure is critical, and looking forward, finding cost efficiencies while supporting the growth of our service business is key to enhancing shareholder value.

Moving on, cash provided by operations increased $38 million in the third quarter compared to prior year due to a net increase in cash from comparative changes in non-cash working capital of $43 million, offset by a decrease in underlying cash from operations of approximately $4.8 million.

The non-cash working capital comparative change was primarily due to lower accounts receivables from improved collections and improved inventory management, partially offset by a decrease in accounts payable. The loss of control of GTS also had an impact to our quarterly non-cash working balance and year-over year change.

Cash provided by operating activities of $35.5 million was used to repay our credit facilities, make quarterly common share dividends and for CAPEX. As a result of these items, cash and cash equivalents decreased during the third quarter by about $11.3 million dollars, after repaying $32.9 million in debt repayments.

Overall, we seek to drive cash generation using a number of strategies including: improving organic growth rates, executing our strategy to grow our higher valued services business, stronger cost management focus, and tighter controls over non-cash working capital balances.

Due to the nature of our business and the presence of both large customers and large vendors, our leverage is somewhat limited, but should improve over time as we grow our services business.

Looking forward from a borrowing perspective, Pivot continues to have the capacity to fund its growth strategies under its existing facilities. That said, we are exploring alternatives to enhance our existing financing and capital structure. I see this as an area of opportunity for Pivot and with good execution, we would hope to reduce financing costs and our overall cost of capital while increasing our flexibility to make acquisitions of desired capability.

Certainly our graduation to the TSX will be a welcome development in this regard and while a listing will not change our business model or strategy, it will create higher expectations of governance and financial reporting which is positive. We continue to expect to graduate to the TSX within the current year.

As Kevin mentioned, we’ve been active users of the NCIB. Since employing it April 1st, we have acquired and cancelled about 2.8 million shares.

My final comment is about the acquisition of TeraMach. We purchased TeraMach for a purchase price of up to $14 million Canadian, consisting of a $5 million up-front payment and $9 million in potential earn out payments over the next four years. We believe this provides a great way to manage growth and execution risk.

Although we’ve been together less than two months, TeraMach is meeting our expectations and we’re pleased with the pace of integration and overall customer reaction to Pivot’s ownership.

As this was a subsequent event, TeraMach’s results will be included in our fourth quarter financial statements. This is a business with annual revenues of about $100 million Canadian and gross margins that are equivalent to Pivot’s.

So once again, thank you for listening to my comments. I will now turn it back to Kevin for closing comments.

KEVIN SHANK

Thanks Brian.

My final comments today relate to the execution of our value creation strategy.

Key components of the strategy include, building on our core products and service business, expanding our services capabilities and portfolio, executing a commercial transformation, and optimizing our cost structure.

In terms of expanding our services portfolio, we've expanded our capabilities in four different discipline areas of IT including: end user computing, networking, data center and collaboration.

Highlights of the commercial transformation include, educating and retooling our sales team on the expanded offerings, implementing a unified CRM and deal process flow, adding additional solutioning capabilities and putting an account planning and measurement process in place to track progress.

In terms of services, historically, a large part of Pivot's services were focused on designing and implementing technology. These are highly valued services but fluctuate with product sales and technology change.

Today, our capabilities are expanding and our definition of service is much more expansive in that it incorporates five channels to go to market, including: fulfillment and integration services, professional and advisory services, deployment services, workforce services and managed services.

To create our strategy and capabilities and to drive results, I've recently recruited several senior business leaders to Pivot whom I've worked with in my prior life. Each one has the specialized expertise in services, and specifically, managed services that we need to move the Company forward.

Matt Olsen, our Chief Strategy Officer, spent 21 years at CompuCom, one of the largest device management companies in North America, delivering services on a large scale and developing solutions strategies that helped transform the market.

Mike Flanagan is our Executive Vice President of Unified Portfolio Technology, and is also a CompuCom veteran, serving for 20 years in various senior capacities including integration, program management, and product/services development.

John Little and John Conner, have joined our Existing Sales Leadership teams as Executive Vice Presidents of Sales. John and John have led commercial transformations at multiple companies, meaning moving from selling primarily products to selling a more balanced products and services portfolio. In addition, John Conner was instrumental in setting our services strategy at GE IT Solutions and CompuCom that helped shape that company's future success. John Little helped create an industry-focused sales team in Retail that provided significant growth.

It's important to mention that we have a very strong legacy management team at Pivot too. Our existing teams have tremendous industry knowledge and sales capabilities and together with the new management folks I just mentioned, we have the management talent we need to drive our strategies forward.

With our new Unified Pivot Portfolio, we have evaluated our capabilities, identified the gaps we need to fill both delivery and selling capabilities and initiated the commercial transformation I mentioned, which requires a change in our approach in how we market on a customer-by-customer basis. We got a great reception at a recent customer event and it provided further validation that our strategy is on the right track.

As with any commercial transformation, this is not an overnight exercise and it will be a few quarters before we see tangible evidence of our progress. As this part of our business builds, our value to customers should also increase and become evident in our financial performance. Service as we define it will create recurring revenue streams, which will reduce our dependence on customer capital spending cycles, and generate additional gross profit dollars.

I'm very confident that we can execute this strategy with the capabilities and talent we have in place today.

Looking ahead, some customers remain cautious in their approach to IT investments at this stage of the economic cycle. This is understandable given that the US election has created some uncertainty for the global economy and we are keeping this in mind as we do our own internal forecasting. At the same time, we take some encouragement from the latest IDC State of the Market report showing that IT spending in the US and Canada, our two largest markets, should grow in 2017.

In summary, our third quarter performance was solid, excluding the impact of GTS. We made a high-value acquisition in TeraMach, recruited some top talent to our team to help drive our strategy and introduced our services concept to a number of clients.

That concludes our prepared remarks. Operator, please open the lines to questions.

OPERATOR

Your first question comes from the line of Ralph Garcea from Cantor Fitzgerald. Your line is open.

Ralph Garcea — **Cantor Fitzgerald**

Good morning, gentlemen. Just wanted to get one ARC question out of the way first. Given the litigation, were there any injunctions in there as part of this that prevented you from selling in the Texas market? And why take it all the way down to zero from a revenue perspective? Are you not allowed to sell there while you're trying to resolve this?

Kevin Shank

So, Ralph, yes, there was a non-compete for a period of time which ended towards the end of the third quarter time frame. And obviously we can't comment on the litigation and those kind of pieces of the situation with GTS, but there was some non-compete in place through parts of the third quarter, towards the end of third quarter. And certainly with that change going forward in the future we have the ability to—we have no more constraints in that regard that we could go back and market to those same customers.

Ralph Garcea

Okay. I just wanted that clarification out there. I mean it was a great quarter notwithstanding all the noise around ARC. I like the split with the majors, so 35/65 percent, and that helped your gross margins. Do you expect a budget flush in Q4 out of the majors, I guess, is part one of the question. And then two, with TeraMach that should add about US$20 million or so in Q4. I mean you could get back to the $400 million level if you add those two drivers there in the fourth quarter, is that correct?

Brian Kyle

Hi, Ralph. It's Brian. We don't provide guidance, but what I can tell you is with respect to TeraMach, TeraMach's stronger quarter is quarter one, so we're optimistic that we're going to see some government or budget spending that typically occurs in the first quarter of the year. And your first question, again, could you just repeat that? We were having some technical issues here.

Ralph Garcea

Yes. With regards to the majors, they were 35 percent of revenue in Q3. Are you expecting a budget flush in Q4 from them that should help revenues sequentially?

Brian Kyle

Again, we don't provide guidance on that, but historically the fourth quarter from Pivot's perspective has been strong, largely due to the majors coming up and stepping up and primarily dealing with their budget releases and capital needs. So history dictates we should have a healthy fourth quarter.

Ralph Garcea

Okay. Then just one more for me and I'll get back in the queue. On TeraMach do you have rough splits between government and commercial on their revenue splits?

Kevin Shank

We don't have that data, Ralph. But I'd be happy to say that a good portion of their revenue is through their large government customers, which they have really done a nice job with. When we evaluated the business, customer feedback was something that was important to us. And post the acquisition we've got really good responses from various customers about how well TeraMach has executed for them. So we're very pleased with what we're seeing and hearing from the customer base.

Ralph Garcea

Okay. Just two more for me; from an insider-buying perspective, I mean it's been great you guys have been doing the NCIB. But from an insider-buying perspective I mean, Kevin, you had mentioned before at the AGM you wanted your senior managers and more of the line employees also to own stock. Should we see insider buying going forward after the TSX listing?

Kevin Shank

Good question, Ralph. We're in a blackout period right now. We do see as we graduate to the TSX it will make it easier. Since a considerable amount of our management team is in the US, given we have our larger customers there and significant operations there, graduating to the TSX, I believe, gives the management team a much easier method to acquiring stock. I can't comment on if and how much, obviously, but certainly from an ease of access, graduating to the TSX will help a lot. And again, just to mention that we're under blackouts a lot, and that also impacts us.

Ralph Garcea

Okay. And then from the product mix, again, nice 65 percent split from new customers, et cetera. What were the main products that were driving that growth? And did that momentum in the pipeline continue into Q4?

Kevin Shank

So I can't comment on the future, obviously, but our largest … and we generally don't comment on the manufacturers, but our networking operations and our server operations, servers and integration, and building the advanced racks have been a part of our business that has been picking up. And then certainly we do a fair amount of end user that most people don't recognize us for, but that volume jumps around significantly as well. So our networking, our server business has been performing very, very solid. Our storage business can fluctuate as there's a lot of change in technology right now in the storage space, and some quarters that impacts us. And as that change in technology occurs and our partners update their technologies we see an opportunity for that to come back longer term. But for the most part, nothing material in terms of a change from the past, other than to say that storage continues to be an area where technology change is impacting buying cycles.

Ralph Garcea

Okay. And then just one last one for Brian, I guess. As you've been there over that last two or three months and looked at some of the cost structure and inefficiencies, I mean you guys have probably finished the year at about 12 percent gross margin. Some of your nearest competitors are sort of running 13, 16, 17 percent gross margins. Where do you see the biggest inefficiencies? And where can you get the biggest leverage from a cost perspective?

Brian Kyle

So again, if we take a step back and we look at Pivot over the last few years and how it's grown, it's grown through a lot of acquisitions. And it grew at a fairly fast pace, and with a relatively lean management team that's been focused on delivering revenue growth. As a result of that there are a lot of opportunities we see. I think we have some good insights around our consolidation of facilities. That seems to be one that was not focused on in the past and we've got enough locations that we'll have to time that when the leases come up or deal with some restructuring items on that, but there's some opportunities on that front. We've got some realignment of some shared services, again that is typical from acquisitions where those functional areas continue to reside in entities and seeing if we can streamline those and make that a little more effective and efficient and looking at our pricing models, the depth of reach in terms of our overall business. So, Ralph, I think there's a few areas that will be fairly easy to focus on, and you'll start seeing some results short term. And then so the heavier-lifting ones you'll start getting some indications around where we're going to focus and how we're going to address those changes. So hopefully that helps answer your question.

Ralph Garcea

Are you happy with the DSOs? Or do you think you can get it down to 40 days? Or anything you can do there on the collections side?

Brian Kyle

I mean I think it's attractive where it's at right now. I think that it's an acceptable level. Certainly we'll be focused on trying to improve that. I just can't comment on how much lower it could go right now. I mean we do have some constraints around who our vendors are and the payment terms around those issues in connection with our sales also. And so I think the challenge we have are our customers are big and we have certain terms and we have to comply with them. At the same time, our vendors are large and we have to comply with certain terms on those. So we don't have a lot of leeway, as you know. But we're certainly looking at improving those metrics going forward.

Ralph Garcea

Okay. Thank you.

Operator

Your next question comes from the line of Brian Gallagher, a private investor. Your line is open. Please go ahead.

Brian Gallagher — Private Investor

Is the intent to do the reverse split at the same time that you guys do the TSX listing?

Kevin Shank

We haven't confirmed exactly the timing…we just have not confirmed the exact process that we'll go through there. It's certainly part of our discussion, but I'd hate to comment on it and have to reverse that comment.

Brian Kyle

I think to just continue on Kevin's comment, the one thing we are committed to do is to do both of those by the end of the year as we indicated earlier. So whether the consolidation and listing occur simultaneously or at a slight difference in date, we'll work through those mechanics. But we're very comfortable and confident that we'll be able to do both the listing and the consolidation within the current year.

Brian Gallagher

The calendar year?

Brian Kyle

Yes.

Brian Gallagher

Okay.

Operator

Again, we would remind our participants that if they have a question or a comment they may press *, followed by the number 1 on their telephone keypad. There I no further questions. I would now return the call to Mr. Kevin Shank.

Kevin Shank

Since there are no further questions, I will sign off by saying that we look forward to reporting our fourth quarter results in early 2017. And on behalf of everyone at Pivot, we thank you for your interest and your time today and your participation on this call. Thank you.

Operator

This concludes today's conference call. You may now disconnect

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