



Frank Khulusi

Chairman and CEO, PCM, Inc.

Editor's Note: Frank Khulusi is one of the co-founders of PCM, Inc. and has served as Chairman of the Board and CEO since its inception in 1987. Under his leadership, PCM has become a leading provider of technology products, services and solutions from many leading vendors. The company, traded on the NASDAQ Exchange under the ticker PCMI, generated net sales of nearly \$2.0 billion in the twelve months ended June 30, 2016.

Let's talk about PCM. Today you are the fastest grower in your space and you recently announced record earnings results. What's your secret to success?

We at PCM are hyper-focused on serving our customers and delivering them the right technology solutions. We have a tagline: "The Right Technology Delivered," and it is one that we take very seriously. Providing the right technology means building out an extensive technical organization with deep expertise in the solutions that matter to our customers, such as Cloud, Data Center, Security, Mobility, Software and other needed areas. It also means developing and maintaining the right partnerships to solve our customers' problems.

PCM serves commercial, public sector and healthcare customers of all sizes. Many Fortune 100 customers depend on us year-round for the products, services and solutions which serve their technology needs, help position them ahead of their competitors and enable their strategic business objectives. We have strong partnerships with world-leading tech companies like HP Enterprise, HP Inc., Microsoft, Cisco, Dell, Lenovo, and many others. We couple our technology know-how with excellence and customer service, and we never forget that we work for our customers, striving to earn their business every minute of every day.

Keeping our customers at the center of our focus is a belief we instill in every PCMer. This is exemplified by our mission statement -- to "wow" our customers and surprise and delight them, thereby becoming their clear preferred go-to partner. And the underlying values that support our mission statement include acting with speed, energy, and enthusiasm and working within a framework of teamwork while at the same time stepping up as individual contributors to exceed all hopes and expectations. We frequently recognize, celebrate and reward PCMer who go above and beyond the call of duty to serve our customers and who embrace and exemplify our mission and values in the best possible manner.

“The only constant in our business is that there is always change and that the pace of change is always accelerating.”

Let’s go into your history. You founded PCM in 1987. What has kept you interested in the industry? What are some of the biggest changes you’ve seen in the PC industry?

Only a decade ago, it was all about the hardwired PC and the peripherals that centered around it. Today we have a multitude of connected wired and wireless devices with data and applications on-premise and in the Cloud. Technology keeps you on your toes and businesses need to be in a constant state of learning and expanding.

The only constant in our business is that there is always change, and that the pace of change is always accelerating. I find this pace exhilarating. However, I can’t really pin one particular thing that I can say is the biggest change.

When we focus on ourselves as end-users rather than CEOs, the things that really touch us the most are the devices we use day in and day out. For example, the ability to spontaneously participate in a web-ex meeting and watch a live presentation on my large iPhone screen while I simultaneously interact on its speakerphone increases my productivity greatly.

Look at how Uber transformed the world in just two years. We all get frustrated now if we set our location and request a ride and a driver does not show up within a few minutes. We would think something is wrong. This is another example of how people’s expectations are moving at a more rapid pace, and as a business, if we can’t keep up then we will become yesterday’s news.

The rise of the personal computer launched the Information Age 30 years ago. From that time on, there has been a fast-paced revolution towards new ways of doing business and managing our lives. PCs propelled us down the path towards networks, the rise of big data, a new way to market through the email revolution. Ultimately, it led to the rise of the internet. Now we are in the mobile period and through multiple devices we are “always on” which has both good and bad implications. The increased value to be “always on” also developed the downside: the rise of data insecurity, loss of privacy and other security concerns.

Today’s evolution is the move to Cloud – and the persistent need to keep all devices and networks at full availability without security being compromised or breached.

This is a brief walk through history with a number of chapters missing, but it still illustrates this rapid change I talked about. As a leading provider in this industry, PCM has been on the forefront of that change, constantly re-inventing ourselves in our never-ending quest to anticipate our customers’ needs and exceed their expectations. Our history specifically began when technology was in its infancy. We

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were a very significant part of the direct marketing revolution and offered customers great value, a wide selection of products and excellent service. As computing became more complex, our customers’ needs became more complex, and we rapidly moved to accelerate and transform our capabilities.

Through a series of strategic investments and acquisitions, we augmented our resources and greatly expanded our technical and services capabilities while maintaining our legacy strengths of price competitiveness, wide product assortment and excellent customer service. This enabled us to help every type of business in every industry maneuver through the complexity of IT while keeping costs under control. PCM is now a technology solutions powerhouse with an extensive portfolio of services which includes pre-sales consulting, post-sales support, and a very robust lifecycle services, Managed Services, and Cloud Services business. We help our customers design the best solutions and keep them performing at their peak. In short, as the industry has evolved, PCM has been on the leading edge of that evolution.

You’ve been very acquisitive, especially in 2015. How would you explain your M&A strategy to Wall Street? Are you exploring M&A overseas in Europe or Asia?

We have been very strategic in our M&A while at the same time being opportunistic. We typically expect our acquisitions to be accretive in a few areas, such as to our vendor partnerships, authorizations and technical certifications, solutions portfolio, customer base, scale, and geographic footprint. We’re also looking to keep enhancing our capabilities with respect to our customers. We believe that when we do right by our customers and surprise and delight them, it ultimately pays dividends for all of our stakeholders.

We acquire businesses we make better, but more importantly, which make us better. Often times we want these businesses to become catalysts for change and transformation within the greater PCM, so we can keep transforming ourselves and staying ahead of the market.

Moving on to the overseas questions, we have not stated any intention at this time, but we just completed two acquisitions that launched PCM in a very material way into the Canadian market. We are always looking at how to improve shareholder value, and overseas markets could provide us such an opportunity at some point in the future.

Is your business more complicated now that you have expanded to Canada in a more material way?

PCM is more complicated but not unnaturally so. Having a business and customer base in Canada broadens our US customer base with

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those businesses that also operate out of Canada and it is a significant, important value-add to this group of very important customers.

Let’s talk about some of your recent acquisitions: En Pointe, Systemax’s North American Technology Group, and Acrodex. What attracted you to each of them, and, since the acquisition, how they have made a difference for you?

Each of these acquisitions has been quite additive to PCM. En Pointe, for example, deepened our capabilities in the Microsoft ecosystem, as well as expanded our technical resources and expertise. Additionally, its customer set has been very complimentary to PCM and it has allowed us to grow our market share in the Mid-Market, Enterprise, and Public Sector markets.

As for Tiger Direct, it had a very strong foothold in the small and medium size business (SMB) market as did PCM. Combining the two made us that much more relevant and stronger from a market-share perspective for this important customer segment. Additionally, their efficient engine transacting with SMB through the web and online sales has accelerated PCM’s reach as well. Last but not least, it gave us the SMB portion of our Canada business, which we combined with the more enterprise and public sector focused Acrodex Canadian acquisition, thus allowing us to represent essentially all customer segments in Canada.

Acrodex is very significant from a services capability, Microsoft, and solution sales perspective. It checks the box in many areas. It’s best to think of them as a Canadian PCM, with very similar robust capabilities and the same mission and values. We are very busy building our new combined Canada business from here and propelling ourselves into the future. Already we have become very quickly one of top ten technology solution providers in Canada, and our plan is to move further to the top.

How has the Cloud affected your business? On a broader sense, what opportunities or problems do you see the Cloud creating?

Cloud has been an enabler for both products and services at PCM. Although Cloud is kind of used as an umbrella term in ways that are sometimes incorrect, it is by definition a solution-centric approach. For PCM, Cloud has allowed us to firm up our solutions-first approach and broaden the dialogue from a set of solutions into a complete end-to-end view. This benefits our customers first and foremost. That’s why with our primary tagline “The Right Technology Delivered” we have an offshoot of “The Right Cloud Solutions Delivered” to clearly communicate PCM’s expertise across this very important and complex area.

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Clearly Cloud is an opportunity-rich environment. We can provide value across a large spectrum. Cloud is not just a destination—we like to say that Cloud is an “and” not an “or” strategy and undertaking for our customers. Many customers have enterprise applications that will require traditional IT approaches for years to come, but they also are adding Cloud capabilities across a range of fundamental to highly advanced solutions. This necessary “Hybrid” approach is very complex and requires a sufficient number of highly skilled and highly certified resources across a range of technologies versus a single technology tower.

PCM had the foresight and invested heavily in Cloud early on, and we have very significant maturity in this regard. We take the complexity out and provide our customers with resources, expertise, and significant capabilities in this area, including our own captive PCM Cloud Data Centers.

You experienced the high valuations of the early internet era. What are your thoughts on today’s unicorns? More broadly, would you say that we are experiencing a bubble today?

I talked about Uber before, and creating great businesses such as Uber and Airbnb has really had a positive impact and made our lives much better, easier and more productive. On the other hand, just like in the early internet era, there are some unicorns today that are not worth the valuation they have been given and some that may crash and burn completely.

Without being a psychic, as an investor you can’t help create an Uber, Airbnb or Tesla without also missing the mark a few times and investing in the wrong things at the wrong valuation. We are now creating at a higher rate than ever businesses which are changing the world and having a greatly positive impact on people’s lives. These businesses are growing at break-neck speeds, can sustain these growth rates for a long period of time, and ultimately become very profitable. And these businesses are worth much more than the failures I talked about earlier not only for the investors, but for the human race overall. I think the environment today is very healthy.

There have been a number of recent deals with implications for the channel. To look at two of them specifically, what do you think about Dell’s acquisition of EMC and Microsoft’s acquisition of LinkedIn?

In our industry, consolidation has been a reality for quite some time. Having said that, the Dell-EMC acquisition is an altogether different scale given the overall size of the transaction and the level of debt being carried by Dell to complete this purchase. From the perspective of the channel, this acquisition is expansive for both the Dell and EMC

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brands. Dell can take EMC further into the SMB market and EMC can take Dell more up-market with broader enterprise-backed offerings and a strong global footprint. The downside for the channel is fewer, more dominant competitors. That’s a downside because it potentially limits the emergence of alternative players.

While the EMC deal is additive for Dell, Microsoft’s acquisition of LinkedIn expands Microsoft into a data and social market. Microsoft steps away from its core software business and opens its door to a broader business model. Similarly to Dell/EMC, this acquisition is also very expensive. The impact to the channel is less clear, so time will hopefully tell.

We are seeing a lot of new interest in the IT space from private equity. What are your thoughts on their new-found heavy involvement? Are they in it for the long term?

When you make as many acquisitions as we have, you run across private equity firms on the sell side. We’ve seen good private equity firms that are on top of their business, know what they’re doing, have a deep appreciation for our space and are in it for the long-term; others, not so much. Having said that, it seems to be a natural progression that private equity would have an increased interest here because their business model requires that they continually find new deals and the accelerating rate of change in technology we have discussed can only create opportunities which facilitate that need.

What has been the most memorable business advice you were ever given that has shaped how you carried out your career.

In this case it wasn’t advice that was given to me but advice that I borrowed. It fits my personality, and when I heard it, it really registered and I’ve embraced it with every fiber in my being - for better and for worse. It is: “Success comes from never being satisfied.” It really applies to every business, in my opinion, but more so in our industry where everything is always changing and the rate of change is continuously accelerating. Embracing this advice of success coming from never being satisfied as a business m.o. has allowed PCM to continue to be on the forefront and leading edge of this change. At PCM, we often break things ourselves so we can recreate an even better mousetrap for our customers.

Your first question was about our status today as the fastest grower in the market and our recent record earnings results. Since “Success comes from never being satisfied,” we took a very brief moment to celebrate our wins and then immediately moved our efforts to focusing on the future. We do believe the future holds much more to celebrate, and PCM’s future is very bright for all of our stakeholders and employees.