The Component Market Is Still Weak & Mid-Term Outlook Could Worsen Before Getting Better

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In our initial read of the ITAD sector's performance in the second quarter of 2024, we first assumed Iron Mountain's positive quarterly results may have reflected what was happening in the market, in particular in the component sector. Well, that's not really the case. Instead, other major players in the component space depicted a rather challenging environment, likely more reflective of the broad market conditions both for new and used components. In the current environment, the component market will have to undergo adjustments and corrections with the potential for significant challenges in the ITAD sector's own component business. With major players in the sector reporting year-over-year revenue declines, and weak sequential performances, there is plenty of evidence of a broader industry downturn, that may not necessarily insulate the ITAD's component business. What concerns me the most, perhaps, is these companies' strategic focus on inventory management. By that I mean inventory reduction, that would impact pricing and margins. Beyond the mid-term, of course, I am still optimistic that demand will return to normal in the long run.

So for now and for ITAD executives, the implications are clear: As component availability fluctuates due to inventory adjustments pursued by leading companies and sellers of brand-new components, ITAD businesses must figure out ways to respond to this situation and stay agile. For example, and as I have always advocated, ITAD companies must have vertical and segment approaches in their go-to-market strategy, so as to focus more on growth segments and avoid putting too many sales and marketing resources in low-to-no-growth segments. While the overall market remains tough, opportunities exist in leveraging these specific areas of demand to sustain and potentially grow revenue streams. This environment underscores the need for ITAD companies to closely monitor market trends and adapt strategies accordingly. With the right approach, there's potential to navigate these challenges and emerge stronger.

In the electronics and IT components markets, so critical to the ITAD sector, the second

quarter of 2024 experienced difficult conditions. Components are part of a portfolio of products and services that ITAD companies rely on to generate revenues. Parts and components originating from PCs, servers, data centers and other devices and systems are remarketed to feed into a variety of secondary markets, including the warranty sector. Although the ITAD industry does not rely solely on components, as they also sell complete systems, supplying output into the commodity market and offering premium services such as data erasure, the component business generates a substantial percentage of overall sales for many leading ITADs.. Any negative performance on that market would inevitably affect many ITAD company's revenue position. So then then question is how is the component market performing?

There have been some early indications of improved performance in the secondary market, largely through the reading of Iron Mountain quarterly earnings results. But this could be a misleading way to analyze the market. Iron Mountain's results are not likely to be the norm as they could be the consequence of two phenomena. First, the positive results reported by the company are a function of acquiring Regency Technologies and it may be therefore benefiting from a "honeymoon" period. The second is related to the company's unique go-to-market strategy, where it managed to integrate its ITAD sales with its broad sales efforts, leverage its existing client relationships in its core business of document management, to up-sale ITAD services. Therefore, the company already has attentive clients who may be willing to give it business due to the trust it has built over the decade. Taking these two factors into account, we should expect Iron Mountain to do well, at least over four consecutive quarters. A better review period for Iron Mountain would start in the fifth quarter after it acquired Regency to account for a full year of operations.

However, a broader analysis of the component market suggests both continued difficulties and a potentially compromised outlook for the secondary market.

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