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Corporate Participants

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Thomas C. Alsborg – Chief Financial Officer
Kevin M. Murai – President, Chief Executive Officer & Director
Christopher Caldwell – Senior VP & GM-Global Business Services

Other Participants

Matt Sheerin – Analyst, Stifel, Nicolaus & Co., Inc.
Robbie Wilkins – Analyst, Goldman Sachs & Co.
Ananda Baruah – Analyst, Brean, Murray, Carret & Co. LLC
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Sara and I will be your conference operator today. At this time, I would like to welcome everyone to the SYNNEX 2012 Third Quarter Earnings Conference Call. All lines have been placed on a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time. Thank you.

At this time, I would like to pass the call over to Lori Barker, Investor Relations at SYNNEX Corporation. Ms. Lori Barker, you may begin your conference.

Lori Barker, Senior Director-Investor Relations

Thank you, Sara. Good afternoon and welcome to the SYNNEX Corporation fiscal 2012 third quarter conference call for the period ended August 31, 2012. Joining us on today's call are Kevin Murai, President and Chief Executive Officer; Dennis Polk, Chief Operating Officer; Thomas Alsborg, Chief Financial Officer; and Chris Caldwell, President of Concentrix Corporation.

Before we begin, I would like to note that statements on today's call which are not historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements include, but are not limited to, statements regarding our strategy, including growth, market share, investments in growth of our GBS business, profitability and returns; growth in shareholder value, our leadership position, expectations of our revenues, net income and diluted earnings per share for the fourth quarter of fiscal 2012; our expectations of our tax rate, our performance, general economic recovery, anticipated benefits of our Hyve Solutions business, CLOUDSolv, RENEWSolv, and other platforms and performance in our GBS segment, the transition of certain customer revenue to fee-for-service, the impact and integration of our recent acquisitions, benefits of our business model, our product mix, including the launch of new products and services, and relationships with new vendors, IT demand expectations and market conditions, operating expenses, and operating margins and expectations regarding any margin expansion.

These are subject to risks and uncertainties that could cause the actual results to differ materially from those discussed in the forward-looking statements. Please refer to today's press release and documents filed with the Securities and Exchange Commission, specifically our most recent Form 10-Q for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements.

Additionally, this conference call is the property of SYNNEX Corporation and may not be recorded or rebroadcast without specific written permission from the company.

Now, I'd like to turn the call over to Thomas Alsborg for an update on our financial performance. Thomas?

Thomas C. Alsborg, Chief Financial Officer

Thank you, Lori. Good afternoon, everyone, and thank you for joining our call today. I'll begin with a few highlights and by summarizing our results of operations and key financial metrics and I'll conclude with guidance for the fourth quarter of fiscal 2012.

Our third quarter of fiscal 2012 was a solid quarter in which we executed well and gained market share in a challenging macroeconomic environment marked by softer global demand as well as a bit more aggressive pricing by competitors around certain markets and offerings. Despite the current operational environment, SYNNEX executed well, generating normal profit in our Distribution segment, and sequentially increasing our profit margin in GBS.

Let me share some of the details behind our consolidated Q3 performance starting with revenue. In our third quarter, total consolidated revenue was $2.58 billion slightly higher than we reported in Q3 of 2011. Considering the transition of certain customers' gross revenue business to a fee-for-service logistics relationship and our distribution business starting in mid-Q4 of 2011, third quarter revenue would have been up by about 4.4% year-over-year.

Looking exclusively at the segment level now, our third quarter revenue from the Distribution segment was $2.54 billion, essentially flat year-over-year due to the aforementioned transition of certain customer revenue to a fee-for-service basis. Adjusting for approximately $105 million related to this transition, year-over-year revenue growth would have been a positive 4.1% which we believe is higher than industry IT growth rates and the overall channel growth.

In our GBS segment, revenue was $49.7 million or up 22.8% year-over-year due in part to acquisitions which is accounted for roughly three quarters of the year-over-year growth. Sequentially, revenue was up 4.2%. We are just beginning to see the top-line impact of our prior quarter wins in our GBS Concentrix business and we expect to see this trend continue. In fact, the third quarter was yet another record quarter of signing new multi-year service contracts for Concentrix.

This quarter, SYNNEX achieved a consolidated gross margin of 5.90% compared to 5.98% in the third quarter of 2011 and 6.3% in Q2 2012. The 2012 third quarter results reflected a more normalized profit profile with some incremental pricing pressure and less favorable mix for our distribution business. And specifically within Japan, certain of our business, which was under a legacy relationship agreement, incurred a pronounced charge as a result of the rapidly changing local consumer market. The terms of this business relationship have since been reset, but the result to Q3 was a setback to Japan's gross profit and operating margin.

Third quarter total selling, general and administrative expenses were $94.9 million or 3.68% of revenues. This compares with $87.2 million or 3.39% of revenues in the third quarter of fiscal 2011 and represents a decline from $97.1 million in Q2 of 2012. As a reminder, the Q3 2011 quarter included a $4.1 million benefit from a credit adjustment to contingent M&A consideration related to the GBS segment. The net comparable year-over-year increase in SG&A is approximately $4.3 million, of which approximately $3.1 million is related to the GBS acquisitions that occurred late in 2011.

Consolidated operating income before non-operating items, income taxes and non-controlling interest was $57.1 million or 2.21% of revenues compared to $66.5 million or 2.59% in the prior year third quarter and $59.3 million or 2.39% in Q2 of 2012. At the segment level, in fiscal Q3, distribution income before non-operating items, income taxes, and non-controlling interest was $52.6 million or 2.08% of distribution revenues compared to $56.4 million or 2.31% sequentially and $58.6 million or 2.31% in the prior year quarter primarily reflecting the year-over-year changes in the gross profit profile that I noted earlier.

In the GBS segment, income from continuing operations before non-operating items, income taxes, and non-controlling interest was $4.6 million or 9.21% of GBS revenues compared to $7.9 million or 19.58% in the prior year quarter. Again, it is important to note that the prior year Q3 SG&A included the benefit of the $4.1 million credit adjustment in the GBS segment. This compares to a $700,000 credit adjustment in the fiscal third quarter of 2012.

Q2 2012 GBS income from continuing operations before non-operating items, income taxes and non-controlling interest was 5.4% of revenues and contain no such credit. By comparison, for Q3 2012 and the Q3 2011, the comparable operating margins before the effects of credit adjustments for contingent M&A consideration would have been 7.8% and 9.6% respectively. So operating margin and GBS saw good sequential growth in operations.

During the quarter, we continued to make investments in SG&A for both ramping new business and driving continued success in winning new business. We continue to believe this segment will provide significant margin upside as our recent new wins continue to ramp. This ramp will increasingly offset such ongoing sales investments, helping to drive us back to the double-digit operating margins and enhancing SYNNEX's consolidated operating margin trend in the future.

Net total interest expense and finance charges for the third quarter of 2012 were $5.8 million, down $0.7 million from the prior year quarter as we reduced our borrowings. Net other income was $0.9 million and is largely made up of gains on deferred compensation plan investments.

The effective tax rate for the third quarter of fiscal 2012 was 33.2% compared to 33.4% in Q3 2011. Our expectation for the fiscal 2012 year overall is a tax rate that is in the range of 34% to 35%. Our third quarter net income for SYNNEX was $35.1 million or $0.93 per diluted share. This compares to $39.0 million or $1.07 per diluted share in Q3 2011.

Turning to the balance sheet, our accounts receivable totaled $1.2 billion at August 31, 2012 for DSO of 41 days, which was flat from the prior year quarter. Inventory totaled $901 million or 34 days at the end of the third quarter, which is down two days from the third quarter of 2011. Days payable outstanding was 34 days and up two days from the end of the prior year third quarter. Hence, our overall cash conversion cycle for the third quarter of 2012 was 41 days. This is down four days from the same quarter of last year and down three days from Q2 2012.

Our debt-to-capitalization ratio was 19%, down from 29% in the third quarter of 2011. At the end of Q3, between our cash and our credit facilities, the company had over $0.75 billion available to fund growth and other potential financing needs.

Other financial data and metrics of note for the third quarter are as follows. Depreciation expense was $4.2 million. Amortization expense was $2.1 million. Hewlett-Packard had approximately 37.8% of sales, with the only vendor accounting for more than 10% of sales.

Capital expenditure for the quarter was approximately $4.2 million. Preliminary year-to-date cash flow provided by operations was approximately $219 million. Q3 annualized ROIC was 9.7% and trailing four quarter ROIC was 11.1%, up from 10.5% as of Q3 2011, marking another quarter in a virtual five-year long string of improvements in trailing four quarter ROIC. With the trailing four quarter ROIC of 11.1%, we continue to maintain a good 2% to 3% spread over a weighted average cost of capital on which we can continue to drive growth in earnings and shareholder value.

Now, moving to our fourth quarter 2012 expectations. We expect revenue to be in the range of $2.71 billion to $2.81 billion. This guidance reflects a change of about $70 million to $90 million in revenue from gross distribution to a net fee-for-service basis in Q4 relative to the same quarter of 2011.

For net income, the forecast is expected to be in the range of $38.4 million to $40 million and corresponding diluted earnings per share is anticipated to be in the range of $1.02 to $1.06. A few comments about this projection.

We are projecting that consumer demand will remain soft and commercial demand will be relatively stable, resulting in a less-than-normal seasonal demand for Q4. Also looking back in time to the fourth quarter of last year, the hard drive shortage added a significant gross profit to our business, a P&L benefit that we clearly do not anticipate repeating this year.

In addition, as I just alluded, I would remind you that we began the transition of certain customer gross revenue business to a fee for service logistics relationship during the fourth quarter of 2011. This year, we will have a complete full quarter in which the business is now running on a fee-for-service basis. As a result, for one to have an apples-and-apples comparison of year-over-year fourth quarter revenue, as I just noted, one would have to gross up our fourth quarter forecast by approximately $70 million to $90 million of business that is currently reported on a net basis in 2012. As a reminder, these statements of our Q4 expectations are forward-looking statements and actual results may differ materially. I will now turn the call over to Kevin Murai, President and Chief Executive Officer for his perspective on the business and our quarterly results.

Kevin M. Murai, President, Chief Executive Officer & Director

Thank you, Thomas. Good afternoon everyone and thank you for joining our call today. I'm proud of our third quarter performance as we delivered another quarter of solid growth and profitability. Within our Distribution segment while our reported sales were flat year-over-year, they increased about 4.1% on an apples-to-apples gross revenue basis. We believe this to be better than market performance, particularly in light of the well-documented weak macroeconomic and consumer demand trends. We maintained our disciplined approach to price and margin management while responsibly controlling our cost to deliver strong operating margin, and a solid trailing four quarter ROIC of over 11%.

In the United States, excellent execution and market share gains drove relatively strong sales in the commercial market, while the consumer market was soft. From a product perspective, storage, peripherals, network and security were strong while notebooks and software were relatively soft.

In Canada, overall IT demand continued to be challenging. However, we delivered growth above market rates driven by good share gains within our commercial segment.

In Japan, we incurred a non-repeatable charge that Tom spoke of and the overall market remained slow. However despite the current market softness, we remained committed to continued operational improvements that we believe will result in increased profitability in the coming quarters.

Turning to our GBS segment, we continue to invest in our sales process and additional platform development, which will enrich our business, but will also temporarily mute our financial performance until we get to greater scale. These investments have driven great momentum in signing new business, which continued in Q3 with another record in the value of new contracts signed. We improved our operating margins sequentially even as we on-boarded parts of our recently signed business. As I stated previously, we remain committed to growing our overall GBS margins to the double-digit level as we maintain our long-term focus on that business.

Stepping back now and looking beyond our third quarter consolidated results, I'm excited about the progress we've made in our key strategic investment areas and new partnerships. Our CLOUDSolv platform continues to gain traction and our RENEWSolv platform is progressing nicely.

Our keen focus on investments in emerging technologies and specialty markets has been a key driver in managing our business portfolio to our higher margin mix. One of these emerging technologies is the White Box server market. I will take a moment to highlight for you our Hyve Solutions business as it is another example of what makes SYNNEX unique.

Hyve is a good example of why SYNNEX has become known for its thought leadership, innovation and unique hybrid value-add distribution IT offerings. Hyve Solutions provide custom hardware and services to large scale data center operators. I'm pleased to tell you that demand for Hyve hardware and services continues to be quite strong and you will see a good example of our market leadership tomorrow when we announce some specific benchmarks and our success in providing Orange with an extremely cost effective solution. And the market interest goes beyond, Web 2.0,cloud and social media and it's expanding into online gaming, government, banking, gas and oil, and more. It's a wholesale change in how people view scale computing.

Our business strategy is to move into higher margin products such as storage, big data and services. We're embracing change in the industry and are creating business models around key trends that provide us an opportunity to add value for our customers and get paid for that value add. We're absolutely in the right place at the right time.

Now turning to our future expectations, our fourth quarter forecast reflects our expectation that macro market demand will continue to be challenging with muted customer spending and a mixed but overall stable demand outlook within the commercial market. This is consistent with recent industry-wide views and data points. In addition, we had significant benefit in Q4 2011 from the hard drive shortage that Thomas described earlier.

However, even within the current market environment, there are noteworthy demand and growth catalysts in view. One exciting area is the much anticipated launch of Microsoft's Windows 8. We expect this will initially fuel complementary new Ultrabooks within the consumer market.

Additionally, we have signed new partnerships with some key distribution vendors such as Adobe and Kindle. The difficulty we have is in scoping the timing and size of these various catalysts. For example, Windows 8 launches in late October, so it probably won't have a meaningful effect on our results until our next fiscal year, which starts in December. So while our guidance reflects our conservative view of Q4, we remain optimistic about capitalizing on these and other opportunities in the coming months.

Our outlook may prove to be conservative, particularly if the economy starts to incrementally pick up and North American consumer sentiment turns more positive with improving economic stability in the macroeconomic market. Although we would prefer the tailwinds of a stronger economic outlook, I am proud of SYNNEX's history of outstanding execution within downturns in the business cycle, which have often resulted in bigger market share gains and standout financial performance. We remain committed to our goal of increasing shareholder value by driving earnings growth and strong ROIC. Regardless of the economic environment, we will continue to invest wisely to drive profitable long-term growth within our distribution and GBS segments, and to create business model that capture a new value pool around cloud, mobility, and the other technical solutions.

In closing, I'm pleased with our third quarter performance and market share gains. I'd like to once again thank all of our employees around the world for their hard work and dedication in delivering another successful quarter. And I'd also like to thank our customer and vendor partners for their continued support of our business.

And with that, Lori, let's turn the call over to the operator for questions.

Lori Barker, Senior Director-Investor Relations

And Sara, we're ready to take the first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Matt Sheerin with Stifel, Nicolaus. Your line is open.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yes, thanks and good afternoon. So just a question regarding the revenue and not so much the revenue, but the EPS guidance, backing into that it sort of implies gross margin sort of flattish, and I'm just wondering how much of that has to do with mix. Are you seeing some pricing pressure on any volume deals? I know you also talked a little bit about Japan as a headwind, but could you just talk about the components of gross margin and how you see that playing out in the next quarter or two?

<A – Thomas Alsborg – SYNNEX Corp.>: Hey, Matt. This is Thomas. I'll start off with that.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Hey, Thomas.

<A – Thomas Alsborg – SYNNEX Corp.>: Hey. First of all, it's actually both. As we look at the margin profile here without being specific as to what we forecast for gross profit, we do see that, that based on our guidance as you've seen and as we saw in Q3, our gross margin is at the lower end of our normal range. And as we commented in Q3, it is driven by two primary factors and that is – that is the mix of business that we're incurring currently and pricing pressure in the competitive marketplace. And I would tell you that both of them are – I wouldn't say equal, both of them are important aspects of the gross profit outlook.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And then – and I know that the focus – is that primarily on the commodity type of products because I know your margins in the enterprise data center related space tends to be higher, is that true? Is that more in the commodity side? Or are you seeing it on the enterprise side as well?

<A – Thomas Alsborg – SYNNEX Corp.>: No. Certainly your comments and observations are correct and that's partially where the mix play comes into being. But, the pricing pressure is more pronounced on a more commoditized and more standardized side of our business.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And then, it looks like the SG&A control obviously was very good in the quarter. Do you have – do you expect SG&A to be up a little bit sequentially given the higher volume revenue run rate or are you expecting to keep it in this area, this range?

<A – Thomas Alsborg – SYNNEX Corp.>: Sure. So, there is a variable component of SG&A that does correspond to our revenue and so as our revenue goes up by the upper single-digits, we're going to see some level of SG&A spend related to that. But we remain very diligent around spending and we look for opportunities to tighten our belt when the economy gets a little bit tougher as, in our view, currently is. And so, we'll do our best to try to keep that any increase in SG&A from being disproportionate.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. Okay, that's it from me. Thanks so much.

<A – Thomas Alsborg – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Robbie Wilkins with Goldman Sachs. Your line is open.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Great. Thanks for taking my call. Just a follow up on the competitive environment, you mentioned some, certain markets and offerings that are a bit more competitive, I was wondering if you could maybe drill down a bit more on that?

<A – Kevin Murai – SYNNEX Corp.>: I'm not sure how much more we can drill down. I think just talking about the more commoditized higher volume product area is really where we do see that kind of competition. So, specifically that would be in areas like notebook and desktop, also other higher volume peripheral devices.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Okay. So, it's not areas that you're gaining market share, it's more on the service side so the comments made earlier on the call on to gains in market share it's more of these whitebox offerings and [ph] service towards (26:34) where you're gaining share?

<A – Kevin Murai – SYNNEX Corp.>: It's – we gain share pretty much across the board, across all product segments, even in the commoditized space, but in the areas of focus that offer higher margin – the higher margin for the products and services that we sell, we don't see the activity on pricing the same way that we do on the commoditized product side.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Okay, thanks. And secondly, I was wondering if you could give some color on the government vertical and if you've seen much volatility in that market?

<A – Kevin Murai – SYNNEX Corp.>: I assume you're talking more Federal government?

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Yes.

<A – Kevin Murai – SYNNEX Corp.>: Yeah, so on the Federal side, through our past quarter, actually our business was relatively stable, but I'm sure you've heard as many others have as well that the government spending – Federal government spending seems to be a little more backend loaded this year than we've typically seen in the past, also talk of perhaps overall spending to be a little bit softer. So, we're kind of coming to the tail end of that big spending season, so we'll see, but I think the market commentary out there is that it's likely a bit softer.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Great. Thanks for the color.

<A – Kevin Murai – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Ananda Baruah with Brean Capital. Your line is open.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Hey, good afternoon, guys. Thanks for taking the question. Hey, Kevin, can you just talk about, I guess, inventory levels that you see for sort of the different products? It seems like your inventory actually feels fine, but as you look across the industry and then even if – and even in your business, if there is certain products that maybe a little bit higher, a little lower than you like them to be, just like to get your comments there?

<A – Kevin Murai – SYNNEX Corp.>: Sure. Actually no story there, we've done a good job of managing inventory and as you can see our inventory is a bit lower, but certainly in line with where our sales are. Again, Ananda, I should remind you that given – inventory just moves quite a bit back and forth on a day-to-day basis just depending on how much it gets shipped out, how much we receive in. So, it's a bit of moving target on point in time measure.

But kind of getting to the second part of your question around any shortages or overages, there really is nothing to write home about there.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Okay. And Kevin, do you have, I guess, visibility into sort of what the broader industry inventory would look like?

<A – Kevin Murai – SYNNEX Corp.>: Ananda, we're not hearing anything of note that would say that there is any shortage out there, across any specific line or category, certainly not on the opposite side either of any increased inventory level.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Okay, got it. Thanks. And then I guess on your consumer business, I didn't hear you guys talk about how it would – how it did on a year-over-year basis? Can you just give us some detail around how New Age did? And I'm assuming that sort of the PC business was one of the softer areas as well. But were any other parts of the business soft too?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So, I mean specific to your question, we don't get into that level of detail category-by-category, but our consumer markets and the products contained within that were on the softer side, which means they were lower than what our overall company growth was.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Okay, got it. Okay, that's helpful. Thanks a lot. I'll get back in the queue.

<A – Kevin Murai – SYNNEX Corp.>: Okay, thank you, Ananda.

Operator: Our next question comes from Osten Bernardez with Cross Research. Your line is open.

<Q – Osten Bernardez – Cross Research LLC>: Hey, good afternoon and thanks for taking my call. Would you be able to comment, Kevin, on the – further on your comments regarding share gains, in particular how you were able to gain market share during the quarter, where there any special initiatives on your part or would you, would you I guess – could it be miss-execution by some competitors, sort of what led to the market share gains during the quarter across the board as you mentioned?

<A – Kevin Murai – SYNNEX Corp.>: I guess to simplify really probably three categories – number one, is just day in and day out [ph] how our (31:05) execution, just very reliable in terms of being in stock and getting product to the right place at the right time, also just having very strong relationships with our customers.

The second category would be around some focus areas that we have, so where we've really put focus on some key technology areas and there are many that we've talked about in the past, network and security as an example, or wide-format print. We continue to gain share in those focus areas.

And then the third category, I guess, it's related to [ph] how our (31:43) execution really is, some challenges that some of our competitors have had recently in execution where we've been really the reliable partner for our customers to deal with.

<Q – Osten Bernardez – Cross Research LLC>: Okay, that's helpful. And would you able to comment also further on with respect to your data center business on linearity during the quarter, at any point did you see any sort of push-outs of orders or projects.

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So from an enterprise data center, so I'm not talking about our whitebox server, just more traditional enterprise. We have been seeing some level of push-out over the past few months, and in terms of the quarter itself, I wouldn't say that any one month was markedly different, although what we've seen in the past just a little bit more in terms of stagnation of orders and that partly of course makes up our commentary on what we are seeing in a stable commercial environment, but with puts and takes in certain segments.

<Q – Osten Bernardez – Cross Research LLC>: Thank you very much. And lastly from me, would you be able to give a number on the – on the record signings for the quarter? I believe you provided a number last – this is for GBS, you provided an analyzed number, I can't get off the top of my head, I want to say maybe $24 million...

<A – Thomas Alsborg – SYNNEX Corp.>: Sure.

<Q – Osten Bernardez – Cross Research LLC>: ...what – for this particular quarter what was that?

<A – Thomas Alsborg – SYNNEX Corp.>: Yeah, so, Osten when we gave that number last quarter, we also said that we probably won't be giving that number on a regular basis. But suffice it to say that our traction and our momentum in winning new business in GBS does continue, in fact that same metric in this past Q3 was higher than it was in Q2.

<Q – Osten Bernardez – Cross Research LLC>: Thank you very much.

<A – Thomas Alsborg – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Brian Alexander with Raymond James. Your line is open.

<Q – Brian Alexander – Raymond James & Associates>: Thanks. Sorry if some of these were asked juggling in two calls, but Kevin, maybe just a follow-up on that. I know you're not providing the absolute dollar amount, but just qualitatively, were more of these signings skewed toward renewals like I think they were last quarter? Could you talk about whether these are competitive displacements or are these more greenfield outsourcing opportunities that you're winning from companies that might have been doing this in-house, but not necessarily with the competitor and are most of these new logos for SYNNEX? And then I have a couple of follow-ups?

<A – Christopher Caldwell – SYNNEX Corp.>: So, Brian, I'll take that, it's Chris. First off, the majority of the deals were in the renewals and sales momentum opportunities. And again, the majority were in sort of new logos to both SYNNEX and Concentrix as a consolidated entity.

And all of them were taken from competitors and none of them were sort of in-sourced and then, we took over an in-sourced operation. So, they're all frankly very good wins that we've been working through the pipeline and for a period of time and we're able to show our value and win them from existing competitors.

<Q – Brian Alexander – Raymond James & Associates>: And Chris, maybe while you have the floor, just walk us through that value proposition and talk about how maybe the benefit of the whole SYNNEX umbrella is maybe leading to some opportunities in cross-selling that's allowing you to win this business, maybe just to kind of remind us the value proposition that's unique to SYNNEX?

<A – Christopher Caldwell – SYNNEX Corp.>: So, I think, Brian, if you looked at where we've been making investments in technology and building out our own intellectual property, which has somewhat muted our operating income for a number of quarters since we started building out our technology, it's really being able to come to these customers and talk about enriching and driving the highest value they can have from every customer interaction that we perform for them, whether that be adding new product sales or software sales to engagement, whether it be up-selling, cross-selling, or whether it be renewing those relationships with their end customers.

And we're doing that both with a mix of technology and people, and from a people perspective we're able to offer a global footprint where we can seamlessly and frankly consistently deliver globally for their customer base, which is unique and sort of a high value offering to them since they don't have to deal with multiple partners or have to juggle between in-source and out-source relationships.

<Q – Brian Alexander – Raymond James & Associates>: Great. And then maybe back to the distribution business, Kevin can you just talk about PC demand in general ahead of Windows 8, consumer versus commercial and how much of a catalyst are you thinking Windows 8 could potentially be to SYNNEX in 2013? I think the launch date is October 26. And then just longer term thoughts on tablet encroachment on notebooks in the non-consumer markets and whether you think that you're seeing much of that cannibalization occurring today?

<A – Kevin Murai – SYNNEX Corp.>: Sure, so I'll try to segment my answer. So, first starting with Windows 8 and any current impact on the commercial market, we really haven't seen any, and I think Windows 8 is going to follow the same kind of uptake pattern that we've seen with previous Windows releases, which is the commercial market is going to do a wait and see and then fully transition and likely coordinate that with a normal hardware refresh anyway.

On the consumer side of the business, there's a lot of excitement out there. I think Microsoft has done a good job in articulating why the interconnectivity between devices is a huge value-add and ease-of-use, but what that has had is a bit of a dampening effect on current notebook and Ultrabook sales. So – and that's part of the reason why the back-to-school season was somewhat muted this year as well.

So, as we start moving into the launch of Windows 8, I expect that we're going to continue to operate in that kind of environment with what we all both expect and hope to be a very successful launch that's going to include a lot of hardware that goes with that too, primarily in the Ultrabook segment.

As I had noted earlier though, because of our fiscal quarter end – actually fiscal year-end being November, we're only going to have a limited number of selling days from the launch to the end of our quarter. So, we do expect that a lot of the success that will come out of the Windows 8 launch is going to be reflected partly in our Q4, but perhaps to a larger extent in our first quarter of next year.

Longer term, when we take a look at different mobile devices, tablet included, on the overall enterprise and commercial market, we're already starting to see a lot of transition, but I think the same thing that's happening in addition to a higher level trend of – the type of computing device moving more to mobile is that the computing devices themselves are changing and the lines are blurring between what will actually be identified as a tablet and notebook and an Ultrabook. So -and even today there are products on the market that are Ultrabooks, but they have a removable screen that becomes a tablet too. So, I do think that there's a good opportunity in commercial for incremental sales.

The good news is that these devices are priced somewhat higher than what a typical commoditized notebook would be, so I think there's a good opportunity there in terms of raising average selling price. And I think that with enough increase in demand for new products, that could, to a certain extent, offset some of the cannibalization that might also happen longer-term as well.

I think what's really important to focus on especially in the enterprise though is security and device management and where we're putting a lot of focus in our own company is on the software and the tools that we believe enterprises are going to require to manage these mobile devices effectively and appropriately for their business.

<Q – Brian Alexander – Raymond James & Associates>: So just a follow-up on that, at the end of the day how do you think SYNNEX is positioned in the context of this transition and the blurring of the lines between these devices given that you have very strong relationships with most of the traditional laptop players, Ultrabook, et cetera, but with the stronger tablet vendors to the extent that they're more successful in cannibalizing these products, those are vendors that historically you haven't been as tied to, so I'm just wondering do you view this as a net neutral, as a net opportunity and just help me understand that? Thanks.

<A – Kevin Murai – SYNNEX Corp.>: I do view it as a net opportunity for SYNNEX. On the commercial side of the business, we do sell a lot of mobile devices and tablet devices. As you know, in the United States, we are not an Apple distributor, we are in other parts of the world, so we are able to leverage the huge success that Apple's had there. However, with much lower-cost Tier 2 tablets more for the consumer market, we've actually had excellent success in being able to identify, sign on those vendors, and so a heck of a lot of volume through the retail channels that we have, and that's been the case over the past 18 months.

As we look at the commercial space, I do believe that from an enterprise hardware perspective, we do have a very good assortment of the OEMs that are bringing these new mobile devices to market and as I said, it's not just going to be about the device itself, I think some of the higher value pools that we want to attack and take advantage of are those in the services around mobile device management and around security.

<Q – Brian Alexander – Raymond James & Associates>: Okay. Thank you so much.

<A – Kevin Murai – SYNNEX Corp.>: Thanks, Brian.

Operator: Our next question comes from Lou Miscioscia with CLSA. Your line is open.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay, thank you. Kevin, if you could just go back to one of the comments that you had about that commercial was stable, but then you also talked about stagnation and things getting pushed out. I guess if you look at it from a revenue standpoint though, it seems like you came in where expected, so was it just a little sloppy as it ran through the quarter or are you sort of suggesting that it's actually maybe getting weaker into August or into September here?

<A – Kevin Murai – SYNNEX Corp.>: Sure. So, yeah, in our Q3 we did come in exactly where we thought we would be, but of course, you can put all your dots on a paper and draw your lines on where you think you are going to end up and you still end up in the same place, but you get there in a slightly different way. Just another way of saying that there's always going to be different puts and takes in any given market. So, there were good pockets of strength both by market as well as by product category and there were certain pockets that were a little bit softer than anticipated too.

My comment on some projects being pushed out was one specific market that I was asked about, which was more of the datacenter, the enterprise datacenter market. But, as I said, there are other pockets of relative strength as well that did offset that. But looking forward, we actually expect in the commercial market that that's actually going to continue. We do see a stable outlook for commercial where again we're going to see some markets that are going to continue to grow and we're going to see others that are probably going to be a little bit softer.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. Did you actually say putting a good category of peripherals?

<A – Kevin Murai – SYNNEX Corp.>: Yes.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: And maybe if you can just maybe slice that – was that maybe inkjet, lasers or something else?

<A – Kevin Murai – SYNNEX Corp.>: We don't breakdown peripherals beyond that, but let's just call it peripherals was a strong category for us last quarter.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: And then maybe just following up on Japan, I'm not sure if I heard a comment, I think you said something that there was a charge there and was that in your GAAP and non-GAAP – or non-GAAP numbers?

<A – Kevin Murai – SYNNEX Corp.>: So what Thomas had referred to was there was a charge in Q3 that we took to honor a legacy relationship. I do want to point out though that we're comfortable, we've addressed that issue, and it's not a challenge that we're going to have to face anymore. I'll just talk a little bit more about Japan because my comments I think on Japan were quite limited in the prepared remarks, but the overall market in Japan kind of like what we're seeing in the U.S. and Canada has some headwinds in particular in consumer, but also commercial is a bit soft.

Overall though, we're very happy with our Japanese business and we're happy with the progress that we've made in installing our own ERP and improving process within that business. So, the outlook that we have internally on Japan is that very committed to that business, committed to that market and we do see that business as a net opportunity for the company as we improve margins to take our margins as a company to higher level.

<A – Thomas Alsborg – SYNNEX Corp.>: And Lou with regards to your question about GAAP and non-GAAP, that was a GAAP charge, we did not carve it out. We absorbed it in the operating results of the company.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay. And did you mention how much – how big it was?

<A – Thomas Alsborg – SYNNEX Corp.>: No, we did not.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: And can you or...?

<A – Thomas Alsborg – SYNNEX Corp.>: I knew that was coming. We typically – as you know, we don't break out our profitability by geography, so I prefer not to. I would tell you this, I would tell you that for the growing business that we have in Japan, it was certainly significant enough that we felt disclosing it and sharing that with you was the right thing to do, but from an overall consolidated standpoint, it was just another put or take that we deal with on a day-to-day basis in the business and again as Kevin said the particular circumstance that we're dealing with is now changed, the terms are changing and we do not anticipate dealing with that again.

<Q – Louis Miscioscia – Credit Agricole Securities (USA), Inc.>: Okay, great. Thanks, guys. Good luck on the new quarter.

<A – Kevin Murai – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Rich Kugele with Needham & Company. Your line is open.

<Q – Richard Kugele – Needham & Co. LLC>: Thank you. Just two follow-up questions; one is HP did increase sequentially as a customer and I'm just wondering if there's a level where you start to get uncomfortable tied to one particular guy even if it is a broad solution provider, like an HP?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, and actually when you take a look at our – the share of our business with HP, it does move up and down. In fact, the longer term trend lines I think were might even be down a little bit, but we have a very strong relationship with HP. They have, as you said, the most complete portfolio of IT products and services and during the quarter, we also gained share within the HP channel business as well. So, I think part of that is reflected in the slight increase that we had in our overall business with HP.

All of that being said, though, we've also had very good success in growing business with vendors beyond HP and many of those vendors are highlighted in some of the technical solutions areas that we have a key focus around and in addition to that we've had a lot of success over the past two years in signing on some new vendors, again related to the technical solutions division space and as we continue to grow those over time, we want to continue to grow HP, but as we grow other vendors more quickly and grow our line card, we should start to see that overall mix perhaps soften a bit.

<Q – Richard Kugele – Needham & Co. LLC>: Okay. And, then just lastly on Windows 8; in terms of the notebook inventory that's out there today, is there enough Windows 8 loaded product out there or is it all Windows 7 based today? I just – there is some investor concern that the mix that's out there in the market today, because of the timing of Windows 8, may be screwed up relative to demand.

<A – Kevin Murai – SYNNEX Corp.>: From a consumer perspective, there is a sufficient amount – more than a sufficient amount, I'd say, of Windows 8 product already available today. My comments earlier on commercial adoption of Windows 8, because it's probably going to take a little bit longer, is probably a little bit less relevant in terms of what is preloaded on the system.

<Q – Richard Kugele – Needham & Co. LLC>: Okay. And, would you expect that should Windows 8 start to be adopted or see Windows 8 based tablets be adopted in the commercial segment, do you expect to be involved in any of the configurations of those machines, share images or security around that? Is that what you were referring to by security element?

<A – Kevin Murai – SYNNEX Corp.>: Really, it's a multifaceted thing, starting off at the highest level of having the right vendors on board that do have software and other appliances that do mobile device management. But, then second to that, we do have a number of services that are legacy within our Distribution business where we do things like imaging. And, over the past two years we've also invested in development capability as well where we do custom coding for enterprise, with the focus area being in integrating mobile devices.

<Q – Richard Kugele – Needham & Co. LLC>: Okay. All right, thank you very much.

<A – Kevin Murai – SYNNEX Corp.>: Thank you.

Operator: Our next question comes from Shaw Wu with Sterne Agee. Your line is open.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, thanks. I also have a Windows 8 question as well. Just tied in, in terms – you talked about excitement around Windows 8. In terms of – what do you see as – what's their early feedback that's – what's going to do better? Is it the convertibles in terms of hybrid, tablet PCs or they are more pure tablets, just as any color you can share there? And, also I don't know if there are any margin implications from your end. Thanks.

<A – Kevin Murai – SYNNEX Corp.>: So, it's really hard to call right now. If you just take a snapshot of the products that are available on the market today and that are already announced to be launching at the time of the launch of Windows 8, all of the hype is around the Ultrabook. There is – and then there is a couple of options around that too. Number one being does it have a removable screen that becomes a tablet, the other being around touch. So, what we're hearing right now, though, is because of the relative cost of some of those features, the sweet spot still likely is going to be in the Ultrabook with non-touch. But, I do believe that touch is really going to be the game-changer going forward. And, as new products roll out, probably shortly after the launch that's when we'll likely see touch and some of these other new features like removable screen really start to take off.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. And, any – in terms of the margin profile for you, is there any difference with these different platforms or is it going to be similar to your traditional PC business?

<A – Kevin Murai – SYNNEX Corp.>: Our expectation is that the margin profiles are going to be similar to the same types of products that we've sold in the past, difference being that for a lot of its product, the average selling price, the price point is higher, so we're able to earn more absolute gross profit dollars on the products that we sell.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. Thanks for the color.

<A – Kevin Murai – SYNNEX Corp.>: Thanks, Shaw.

<A – Lori Barker – SYNNEX Corp.>: We have time for one more caller.

Operator: Our last question comes from Ananda Baruah with Brean Capital. Your line is now open.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Hi, guys. Thanks for sneaking in the follow-up. Maybe for both Thomas and for Kevin; I just wanted to get a sense about how we should think about the levers on gross margins going into next year. And just, Kevin, to your comments about mix, if consumer is going to stay soft and if Windows 8 – let's call Window 8 consumer part of consumer and if commercial isn't going to really get adopted, it's going to follow a typical adoption curve, it feels like maybe the mix will stay about what it is or has the opportunity to stay about what it is, not really meaningfully change for the next couple of quarters. And, if that's the case, are there other levers you can pull on the gross margin? I just want to make sure that we're thinking about what – what's going to influence gross margin appropriately as we move forward here in the software side?

<A – Kevin Murai – SYNNEX Corp.>: Okay. I'll take that initially from a higher level. And, Ananda, I know you are asking specifically about gross margin; I'm going to answer it first, though, from an operating margin perspective which is really what our focus is and always has been. To start off with, before we even get into product mix, there are two key opportunities within SYNNEX that we're already on the improvement path of is we continue to see traction in margin improvement in our GBS business as well as margin improvement in our Japanese business. Everything else staying the same in how we run core distribution, we're going to see nice improvement in our overall results. So that, I think, is one of the most important levers that we have. Number two is we manage our Distribution – our core Distribution business day in and day out in my opinion better than anybody and, with the focus that we have on these higher margin technology segment, as that mix continues to shift and even though we saw a slight change in our product mix this past quarter, the overall trend over a longer term has been more towards these higher margin product categories. As we continue to see that shift that provides yet another longer-term backdrop to higher operating margin and that one in particular does also impact higher gross margin too.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: That's helpful, thanks. So – I got you. So, near-term, PCs will do what PCs will do, but the mix shift in the business is a tailwind longer term and then aside from that you have op – you have the operating margin expansion opportunities inside some of those businesses like Japan and GBS as well?

<A – Kevin Murai – SYNNEX Corp.>: That's correct.

<A – Thomas Alsborg – SYNNEX Corp.>: And, Ananda, this is Thomas. I'd just like to add a couple of comments to that too. First of all, we did not talk about a current environment where – as we showed in our introductory remarks, there is some pricing pressure. So, assuming that in 2013 we see some more stabilization or regular – returning to the norm in terms of the pricing environment that certainly represents an upside opportunity. The other thing, back on Kevin's comments which I think are very, very important when you think about the opportunity in Japan and the opportunity in GBS, two things; number one, the segment in which GBS operates, particularly the concentrics market, is actually growing at a very nice rate. So, from a very macro mix perspective that segment stands to outgrow the Distribution segment and, obviously, be one of the several drivers that we have for continuing to drive both gross margin improvement and operating margin improvement. And, then also I would just point out for the benefit of the listeners, just to put a very, very rough handle on this, if you were – we've shared our expectations again that we will be back up into the double-digit operating margin profile with GBS over time, and we've shared also that we expect in Japan that our operating margins will continue to rise to levels that are similar to the same kind of business that we have in North America. Without getting into the specific details, if you just factor what that could look like into our operating margin on a go-forward basis assuming, for example, current types of mix today, you're talking about a consolidated operating margin that is in the 2.5% to 3% range for this company. So, I think Kevin is right in pointing out that we have two very big upside opportunities here, putting aside all the other development of some of the special investments we're making on the value-add side of the business.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Thanks a lot, guys. Yeah, that's really helpful. I appreciate it.

<A – Thomas Alsborg – SYNNEX Corp.>: All right, thank you.

<A – Kevin Murai – SYNNEX Corp.>: Thank you, Ananda.

Kevin M. Murai, President, Chief Executive Officer & Director

So, in closing, I just want to say I am very pleased with our third quarter execution and market share gains. And, I do look forward to speaking with all of you in upcoming investor conferences. Thank you.

Operator: Thank you. That does conclude today's conference. Thank you all for participating. You may disconnect.