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PRESENTATION

Operator

Good afternoon, and welcome to the SYNNEX First Quarter Fiscal 2018 Earnings Call. Today's call is being recorded (Operator Instructions)

At this time, for opening remarks, I would like to pass the call over to Ms. Mary Lai, Head of Investor Relations at SYNNEX Corporation. Ms., you may begin.

Mary Lai

Thank you, and welcome to the SYNNEX Corporation earnings conference call for the first quarter fiscal 2018 ended February 28, 2018.

Joining me on today's call is our President and CEO, Dennis Polk; our CFO, Marshall Witt; and our EVP and President of Concentrix Corporation, Chris Caldwell.

Following their remarks, we will open the call to questions.

As a reminder, today's call is being webcast and recorded. Please note that some of the information you will hear today consist of forward-looking statements within the meaning of the federal securities laws. Such statements may relate to, without limitation, market, demand, investment, growth, non-GAAP net income and diluted EPS, amortization of intangibles, margin, revenue, cost, cash flows, tax rates, seasonality, integration and the overall performance. Actual results or trends could differ materially from our expectations. For more information, please refer to the Risk Factors discussed in our Form 10-K for fiscal 2017 and the discussion of forward-looking statements in our earnings release and Form 8-K filed with the SEC today.

SYNNEX assumes no obligation to update any forward-looking statements, which speak as of their respective dates.

Also, during the call, we will reference certain non-GAAP financial information. Reconciliation of non-GAAP and GAAP reporting is included in today's earnings release and the related Form 8-K available on our website at www.synnex.com. This conference call is the property of SYNNEX Corporation and may not be recorded or rebroadcasted without our specific written permission.

With that, I will turn the call over to our CFO for the financial update. Marshall?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Thank you, Mary. And first before I start, welcome Mary to SYNNEX Corporation. Glad to have you on board.

First, I'm going to review the results for operations and our key financial metrics, and then I'll conclude with guidance for the second quarter of fiscal 2018 before returning the call over to Dennis.

Our first quarter revenue and non-GAAP net income and diluted EPS are in line with our expectations. On a consolidated basis, total revenue was $4.6 billion, up nearly 30% compared to $3.5 billion in the same quarter of the prior year. Adjusting for FX, revenue increased by 28%.

Technology Solutions revenue was $4 billion, representing an increase of 33% compared to the prior-year period. Adjusting for the Westcon-Comstor acquisition and FX, revenue increased by 11%. This increase was primarily driven by broad-based growth across the majority of our portfolio.

Concentrix revenue was $508 million, up 6% from $478 million in the prior-year quarter. Adjusting for FX, revenue increased by 3%. The increase was primarily due to increased volume and expansion of services to existing customers and the impact of the Tigerspike acquisition.

Now turning to gross profit. Our first quarter gross profit dollars totaled $414 million, up 21% or $72 million versus a year ago, and our gross margin was 9.1% compared to 9.7% in the prior-year period. The increase in gross profit dollars was primarily driven by the acquisition of Westcon-Comstor as well as overall growth in both business segments. The decrease in gross margin was primarily due to the higher mix of Technology Solutions business from the Westcon-Comstor acquisition and customer and product mix within our systems design and integration business solutions.

First quarter total-adjusted SG&A expense was $274 million or 6% of our revenue compared to 6.3% of revenue or $223 million from a year ago. The increase in SG&A was primarily due to the acquisitions of Westcon-Comstor and Tigerspike.

First quarter consolidated non-GAAP operating income was $140 million, an increase of $22 million year-over-year, while our non-GAAP operating margin was down nearly 30 basis points from the prior-year period, primarily due to the higher mix of Technology Solutions business.

At the segment level, first quarter Technology Solutions non-GAAP operating income was $97 million or 2.4% of revenue, up nearly 20% or over $15 million from the prior-year period, primarily benefiting from the Westcon-Comstor acquisition. Adjusted operating margin decreased in Q1, primarily as a result of expected margin headwinds in our System Design and Integration Solutions business

For Concentrix, non-GAAP operating income in the quarter was $44 million or 8.6% of revenue, up from the prior-year quarter of $38 million or 7.9% of revenue.

First quarter net, total interest expense and finance charges were approximately $18 million, up from $8 million in the prior-year quarter. The increase was due to higher borrowings costs to fund acquisitions and ongoing working capital requirements and a higher interest rate environment.

The effective tax rate for the first quarter was 29% compared to 34% in the prior-year period. The tax rate excludes a onetime tax charge of approximately $42 million or $1.03 per diluted share related to repatriation tax and the remeasurement of our deferred tax accounts. These adjustments may change in future quarters based on additional guidance issued by regulators and may affect our financial position as the final measurement date is measured at November 30, 2018.

Moving forward, we expect the tax rate to be in the range of 27.5% to 28.5% for the remainder of fiscal 2018, excluding the onetime impact from the tax reform.

Our first quarter non-GAAP net income was $86 million, up $13 million or 18% from the prior-year period. Our first quarter diluted EPS was $2.14, up from $1.82 from the same period a year ago or up 18% year-over-year.

Turning to the balance sheet. Our accounts receivable totaled $2.6 billion on February 28, 2018, for a DSO of 52 days, up 8 days from the prior-year quarter, primarily due to the impact of the Westcon-Comstor acquisition. Inventories totaled $2.3 billion or 51 days at the end of the first quarter, an improvement of 1 day from the prior-year period, primarily benefiting from the Westcon-Comstor acquisition, but partially offset by growth in our Technology Solutions business.

Day sales outstanding was 53 days, up 10 days from the prior-year first quarter, primarily due to the impact of the Westcon-Comstor acquisition. Hence, our overall cash conversion cycle for the first quarter was 50 days, a decrease of 3 days from the prior-year period.

From a financing perspective, our debt-to-capitalization ratio this quarter was 44% and consistent with our expectations. Preliminary cash used in operations was approximately $6 million for the quarter, bringing our 12-months operating cash flow from operations to $357 million. At the end of Q1 between our cash and credit facilities, SYNNEX had over $2 billion available to fund growth.

Other financial data and metrics of note for the first quarter are as follows: depreciation expense was $22 million; amortization expense was $27 million; Capex for the quarter was approximately $22 million, primarily due to the continued Concentrix investments; trailing 4 quarters ROIC was 8%; and trailing 4 quarters adjusted ROIC was 11%.

As described in our earnings release, the Board approved a regular quarterly cash dividend of $0.35 per common share to be paid on April 27, 2018, to stockholders of record as of the close of business on April 13, 2018.

Now moving to our second quarter fiscal 2018 outlook. We expect revenue to be in the range of $4.58 billion to $4.78 billion. Non-GAAP net income is expected to be in the range of $91.1 million to $94.9 million. Non-GAAP diluted EPS is expected to be in the range of $2.25 to $2.35 per share, based on weighted average shares outstanding of approximately 40.1 million. Non-GAAP net income and non-GAAP diluted EPS guidance excluded after-tax costs of approximately $19.2 million or $0.48 per share related to the amortization of intangibles. Please note that these statements of second quarter fiscal 2018 expectations are forward-looking, and actual results may differ materially.

I will now turn the call over to Dennis.

Dennis Polk - *SYNNEX Corporation - President and CEO*

Thank you, Marshall. One month into my new role as CEO, I can confidently say it has been a seamless transition.

I want to thank all our team members for their efforts and support since the announcement of Kevin's retirement.

Regarding our first quarter performance. SYNNEX had a successful start to our fiscal '18. The momentum that we created in 2017 continued into our first quarter with revenue of nearly $4.6 billion, representing a year-over-year revenue growth of almost 30%. And with solid execution, we delivered non-GAAP EPS of $2.14 per diluted share, a record for the first quarter.

Our Technology Solutions segment revenue grew by 33%. Excluding the FX and Westcon-Comstor, growth was still over 11%, which is significantly better than the overall market. Our strong performance was broad-based with strength in systems, peripherals, networking and security.

From a customer perspective, all divisions have robust growth with commercial, DMR, public sector and SMB, all performing well.

Our Westcon-Comstor Americas business continued a strong start with another fantastic quarter. We saw a revenue growth in the Westcon-Comstor business, and both operating profit and margins were above expectations. We are very pleased with the result of this business after the first 2 quarters post acquisition and appreciate the efforts of all the Westcon-Comstor team members during the transition into SYNNEX.

Additionally, as we further integrate Westcon-Comstor North America into a single operating platform, we expect that revenue and cost synergies will grow.

Turning to our Concentrix segment. We grew revenue by 6% with strong contributions from consumer electronics, banking and financial services, travel and transportation verticals. Our non-GAAP operating margin increased year-over-year by nearly 70 basis points to 8.6%, reflecting good progress towards our target of double-digit operating margin for our fiscal 2018.

For more input on the Concentrix business, I will turn the call over to Chris.

Christopher Caldwell - *SYNNEX Corporation - Executive Vice-President*

Thank you, Dennis. Concentrix is off to a solid start for 2018. First quarter revenue was $508 million, up 6% year-over-year. We earned in $61 million of adjusted EBITDA in the period, reflecting a double-digit growth from the prior-year quarter, making us the second consecutive quarter of which adjusted EBITDA grew twice as fast as our revenue. This was helped by some better utilization in the period that was driven by additional volumes from our clients. We have also continued our focus on the right clients and the right services for sustainable growth in the first quarter. As an example, we added some key wins in our Tigerspike business from our existing Concentrix clients in the quarter, helping 2 banks advance their mobile customer offerings and growing the number of clients we are doing robotics process automation with, or RPA. Our clients in the banking, insurance and healthcare spaces are seeing the most benefit from RPA. We're seeing these platforms provide better efficiency for our clients and an enhanced end-user experience and reduced cycle times. While this integration and investment may pressure our short-term revenue, we expect this will support our longer-term stickiness with our clients and are aggressively implementing the technology across our client base.

With information security being top of mind of all of our clients, I'm also very proud that we won an award for Best Security Practices this quarter, in addition to receiving 8 other awards from industry advisers with 2 specifically highlighting our diversity. These awards continue to reflect our culture and our care for our clients.

Lastly, while we launched our temporary Jamaican site late in the fourth quarter last year, I'm very pleased to announce that we have completed our move into a permanent facility this first quarter.

In addition, we also opened a new location in Shan, China to fill current demand by our clients in these 2 markets.

Turning to the second quarter. We expect to follow our normal seasonality. We expect to continue our focus on driving the right mix of services into our client base while signing strategic clients in our key verticals. We ended the quarter with a strong pipeline of opportunities. Overall, I'm pleased with the results for the first quarter, and would like to give thanks to all of our clients and the Concentrix staff around the world who day-in and day-out deliver great innovative results for our clients. Back to you Dennis.

Dennis Polk - *SYNNEX Corporation - President and CEO*

Thanks, Chris. Now looking at our second quarter. Within Technology Solutions, we expect our Legacy Distribution business to perform in line with historical seasonality. We expect the Westcon-Comstor business to be within historical seasonal norms, which is a modest decrease from Q1 to Q2, given the Westcon-Comstor business has a more pronounced revenue month in December each year. And lastly, we expect our Systems Design and Integration Solutions business to grow slightly, both sequentially and year-over-year. This is driven by 2 main reasons: one, our Q2 '17 was exceptional from a sequential and overall growth perspective; and 2, this business is primarily bid based and could be difficult to forecast, hence, we are planning accordingly.

While our near-term profit margin is challenge in this business due to some high-volume business of a few customers, we are still excited about the long-term prospects and are investing for growth.

Overall, with regard to Technology Solutions, our goal of establishing deep and strategic relationships with our partners continues to translate to growth in our business.

In Concentrix, as Chris noted, we expect Q2 revenue and non-GAAP operating margins to grow year-over-year. Concentrix has taken a proactive approach in optimizing its portfolio, reevaluating and in some cases allowing lower-performing contracts to sunset and being selective with new business. We're also focused on productivity improvements to offset general wage headwinds and leveraging our systems and global networks to improve scale.

Overall, demand is stable and growing and our projected signings are strong. We also expect to see incremental growth opportunities with our expanded portfolio of services and the strategic complement Tigerspike provides.

One of the key elements of our success, which I mentioned in our first quarter call, is that we continually challenge ourselves to be relevant to all stakeholders, including associates, customers, partners and shareholders. We are focused on making the right investments, integrating strategic acquisitions and skilled resources, and executing our strategies in the complex and rapidly changing markets that we serve. As we continue to do so, I believe our revenues and margins will improve, which will generate strong cash flows and earnings per share growth.

In closing, I want to say, again, that I'm honored to be taking on my new role at SYNNEX. I want to thank Kevin for his leadership, his contributions over the past 10 years, and ensuring a smooth transition. The strategy developed with Kevin and the other leaders at this company will serve us well moving forward. We are excited to execute on our plan.

Lastly, I want to take this opportunity to thank all our associates around the world for their hard work and dedication, and also thank our business partners and shareholders for their support.

With that, I would like open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question, and it is coming from Matt Sheerin with Stifel.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Just actually, before I get into some questions, I just want to clarify your comments, Dennis, regarding within Technology Solutions, specifically the Cloud Systems Integration business. I think you said that your comps are going to obviously tough after a strong Q2 of last year, and that you expected it to be down slightly year-over-year and quarter-on-quarter. Was that right?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Matt, no. It's going to be slightly up quarter-over-quarter and sequentially.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Year-over-year, okay. But obviously, you've been growing that business 50%-plus, so pretty dramatic slowdown. Is the visibility in that business getting tougher? Because you've had very, very strong growth, obviously, for several quarters in a row now. And I know there's a big customer concentration issue within that business too. So has anything changed in terms visibility? Or what you're seeing from that customer or other customers in that business?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, Matt. From a visibility standpoint, no major changes over the past few quarters. As we've talked about it, it is more of a bid-based business. So every quarter, we're going to -- with each customer, we're looking at the various bids. And some we push hard to win and some we'll put back from depending on profitability. So that really hasn't changed over the past couple of quarters, really the last year. What is occurring though is, we are becoming pretty concentrated with a few customers. When those customers look at us, they obviously want to balance their business as well. So it's a little more difficult to grow with them given the size and percentage of the business we are with them today. So that's some of the pressure we have as far as growing the System Design and Integration business as well.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Is that a longer-term challenge then as those -- obviously, those customers and 1 specifically is very big, and that market is so dominated by just a few players in the hyperscale place? So what's the strategy to grow that business in that kind of environment?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, so it's a market with quite a few participants, but the largest of the large do make up the bulk of the revenue. Our revenue is, again, primarily made up of a few customers. But we've a very good pipeline of quite a few other customers that we expect to close fairly quickly. And the key thing is, once we close them, become a meaningful part of their market share.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay, that's helpful. And just on the margins in the Tech Solutions business, which were down year-over-year 40 basis points or so, and backing into your net income guidance for next quarter, it looks like it's going to be down year-over-year. I know you had a very strong May quarter last year in that business. Is that primarily due to the cloud, the [High] business? Or are there any other issues within the core Distribution business? Because you had Tech Data just a few weeks ago talk about pressures from OEM suppliers and then also competitive pressures from customers. So is that part of it, too? And could you just comment broadly about what you're seeing in terms of the competitive environment?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Sure, Matt. Yes, multiple questions there. As far as the kind of year-over-year comparison from a margin standpoint, as you noted, we did have a very solid Q2 last year, most of which was driven by our System Design Integration business. So that's probably the main reason why the compare is tough year-over-year. From a vendor program perspective, no real major changes to talk about over the past few quarters and even in the past year. Obviously, programs change from vendor-to-vendor, change from quarter-to-quarter, but we've seen no material changes in the past, again, few quarters and into the past year. As far as overall competitiveness in the marketplace, as we always said, this market is very competitive. I would say that in the recent few quarters, on higher volume larger customer bids, it's been a bit more competitive, but outside of that, the market has been pretty stable.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

And then, Matt, this is Marshall. Just to complement with what Dennis said there too. Yes, as we look to Q2, there is some margin headwind around the System Design Integration business. And as Dennis said, the rest of the business right within norms is seasonality. The other thing just to note, in some of our customers in the System Design Integration business, we have what's called an open book where we share kind of "due from, due to." There were some onetime adjustments in Q1. That represented a few basis points that we don't anticipate occurring again.

Operator

Our next question is coming from Adam Tindle with Raymond James.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I just wanted to maybe continue the conversation on Systems Design and Integration. Can you just help us with what has changed in the bid process? Is it that competitors are becoming more irrational? Is it that customers are pressuring you more? Just more color there. And how do you think about the timeline to see improvement?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Adam, this is Dennis. Yes, I'll take that. As far as the overall market, I wouldn't say it's gotten any more competitive. So from a competitor-bid perspective, it's pretty stable over the past few quarters. As far as our business specifically, as we talked about where we're fairly concentrated with a few set of customers, and within that concentration we're actually somewhat concentrated in a few number of SKUs: high-volume run rate SKUs. So when that occurs with customers, you're going to expect that pricing negotiations become pretty tough and pretty specific given the high-volume lower level of SKUs that we're servicing for the customers. So we'd experienced that over the past number of quarters, and that's the main reason why our margins have come down. As far as improving them, the key thing is what we talked about before is diversifying within the existing customers that we have, the number of SKUs that we offer to them. And then also expanding our customer base and bringing on new customers and then growing the volume with them and offsetting some of this concentration that we have.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

And then Adam, this is Marshall. Just to reiterate, we see this lasting for a couple of more quarters, but feel very positive about the businesses. And as Dennis said, our focus is on winning desirable customers. It takes a little bit longer sales cycle for that to happen. But we're quite positive about what this area in the business looks like in the next few quarters.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay, that's helpful. And maybe just TS growth and general ex-Westcon. May guidance looks like it suggests that TS is slowing to kind of a low single-digit year-over-year growth after a number of quarters of double-digit growth. But many of your vendors sound pretty bullish on IT spending. So can you just talk about how your view is different? And should we think about further deceleration in TS year-over-year organic growth as comps get tougher in the back half of the year?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Yes, I'll start, Adam, and then let Dennis comment. What I heard your question was is ex-Westcon, what does the seasonality look like? And as we said, it's right in line, maybe slightly ahead of seasonality, but right in line when you look at the various aspects and elements speaking of U.S., Canada, Japan. It's right on line. So it's hard to see that with so many different layers and companies that we brought on board. But we see that in Q2 in terms of just overall relationship from Q1.

Dennis Polk - *SYNNEX Corporation - President and CEO*

And I would just add, Adam, that it's back to our script. We try to point out that your legacy core distribution business is growing nicely from a seasonal perspective. And we actually expect to be growing faster than the market this quarter.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And maybe if I can just get 1 quick clarification from Chris. The comment on -- pressure on revenue in Concentrix. It looks like -- so Concentrix grew 6% or so year-over-year this quarter. Seasonal guidance for next quarter suggests that sort of level would continue. So could you just maybe help clarify the pressure on short-term revenue? Does that mean beyond the next quarter, we're going to see some -- that's when we'll see the pressure? Because I wouldn't think 6%-type growth is much of a deceleration there.

Christopher Caldwell - *SYNNEX Corporation - Executive Vice-President*

Yes, Adam. So what we saw that in the last sort of 2 quarters, and we see it in the next couple of quarters. We're actually eroding our revenue by putting in RPA in some of our clients, and then kind of building it back up. So clearly, frankly, we'd like to grow faster, but at 6%, that includes some of the kind of headwinds we've seen by replacing some of our existing revenue with lower revenue using RPA tools.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. So that's -- so 6% would be the type of growth rate that you would suggest as kind of exhibiting the pressure that you're talking about?

Christopher Caldwell - *SYNNEX Corporation - Executive Vice-President*

Yes. Adam, as we've talked about before sort of, we want to definitely grow sort of at market to a bit faster. Market is 3.5% to 4%. So I'd kind of use those numbers versus the 6% number. But in theory, yes, we want to continue to grow at that market, while we're implementing all this new technology for our clients.

Operator

Our next question is coming from Frank Atkins with SunTrust.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Maybe following up on that last question on Concentrix a little bit. Some nice margin improvement there. What are drivers of margin improvement, going forward, going to be? Is that more RPA work, Tigerspike? What can you do to continue to drive that margin?

Christopher Caldwell - *SYNNEX Corporation - Executive Vice-President*

Yes, so, Frank it's really a couple of problems that we look at. One is, as we continue to increase our revenue coming from our strategic verticals like insurance and healthcare and banking, that is a higher margin profile just because of the complexity of work, and sort of what we do in that space. So we continue to focus on growing in those areas. The second thing is the technology, which you talked about, the more RPA solutions we put in, the more mobility solutions we put in from Tigerspike, and the more sort of technologies that the client uses that we develop and host, we continue to see margin expansion opportunities from that. And then really the last, third part, is better utilization of our footprint. As you've noticed, we've launched a new -- a number of new geographies lately, and we continue to ramp-up. As we mentioned, they're not accretive to our business as of yet, but as we expect to exit this year, when they're fully ramped, they'll be accretive to our business and continue to expand our margins. So we've got a number of levers that we're pulling on and ensuring to drive up into the rise, as you say, from a margin expansion perspective.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay, great. And then I wanted to ask a little bit about use of cash going forward. Can you talk a little bit about kind of your comfort level with the debt, where it is? And where you might allocate those dollars in terms of -- as you look at your ROIC? And then, real quickly, if you could comment on DSOs, that would be wonderful too.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Okay, Frank. Let me first hit DSO, and then I'll do cap, and then turn it over to Dennis. So our cash conversion, which, of course, Concentrix gets woven into that and varies somewhat, was slightly better than last year. Is it where I want it to be? No. We certainly have improvements on the inventory side that we can do. On the overall capital allocation, and we'll call it dry powder. As I mentioned, we've got over $2 billion in liquidity available. And as we look at our opportunities, we further say that we're clearly focused on looking at our debt, looking at paying that down. We paid down debt $100 million in the last 3 months. Really happy about that to see interest expense come down accordingly. We expect cash flow to continue to be positive as we head up for the rest of this fiscal year. And then I'll let Dennis comment just on a rough thought on M&A.

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, as far as just an add-on to what Marshall was saying. We are comfortable with where we're at right now. And as Marshall noted, we have some improvements to make and that'll bring us to even a more positive capital position. But the overall M&A market in all of our segments continues to be a place where we want to be opportunistic. And it's -- M&A has been a key part of our growth in building our platform over the years. And nothing has changed as far as our thoughts going forward with respect to continued investment and M&A-type opportunities, and that's our plan going forward.

Operator

Our next question is coming from Shannon Cross with Cross Research.

Ashley Ellis

This is actually Ashley Ellis on for Shannon today. My first question is just around EPS guidance. I was wondering if you could walk us through the puts and takes. You just commented that Concentrix operating income should grow year-over-year, but it looks like you've also lowered the range for tax for the rest of the year. So what's kind of driving EPS to be down or below what we were expecting? And then I have a follow-up.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

All right. Ash, I'll go short and then I'll go longer as you needed. The short answer is, the biggest, call it, adjustment or headwind associated with EPS for Q2 is, what Dennis spoke to, which is the margin depression that we're temporarily feeling in our System Design and Integration business. All other aspects of our business are performing very well and healthy. But with that said, you referenced tax. We did provide in my prepared remarks comments of what the tax rate was for the quarter, which was 29%. And then we provided what the rest of the year looks like, which is 27.5% to 28%. As we announced last quarter, what that benefit meant from tax reform? It is a benefit for us. And certainly we get a share in that for the rest of this year. But Dennis, I'll let you comment anything else from an overall EPS perspective.

Dennis Polk - *SYNNEX Corporation - President and CEO*

No, I think Marshall covered the highlights well. The key is that the core business is performing quite well. We do have opportunity in our SG&A to bring a few more dollars to the bottom line as we work through the integration of Westcon-Comstor, and just execute better in a few places in our business. But the main factor right now that we're working on from a headwind perspective is profitability of the System Design and Integration business. But as we talked about before, as we diversify that business and grow outside of our few core customers, we'll see profitability return there as well.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal and Analyst*

Okay. And my second question was just regarding server demand. It's been a few months since you last spoke about the vulnerability. So I was just wondering if conversations had started to pick up with customers? If you've seen any pickup in demand or any change around those vulnerabilities?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Yes, since the last call, really nothing to call out. For us, our server demand was very stable throughout the quarter. And based on our projections today, we don't see that changing at all. So really nothing to call out on that topic at this point in time.

Operator

Our next question is coming from Lou Miscioscia with Pivotal Research Group.

Louis Rocco Miscioscia - *Pivotal Research Group LLC - Senior Analyst of Information Technology Services*

Just to tailgate on some of the prior questions on. So on servers when you say stable, do you mean that it grew? And could you mention, was it mid-singles, high single, low single? And then I guess I can get into a couple Concentrix questions, please.

Dennis Polk - *SYNNEX Corporation - President and CEO*

Sure. Yes, specific to our Server business? Not giving out exact percentages, but we did grow the Server business fairly healthily in the quarter. Pretty consistent, if you will, with the rest of our core TS business.

Louis Rocco Miscioscia - *Pivotal Research Group LLC - Senior Analyst of Information Technology Services*

Okay, great. I guess switching over to Concentrix. Could you help us out with RPA in the sense, where do you think we are with this whole process, in the sense of are we still like in the first or second innings? Or we're further along? And then tying into that please, when you look at your Concentrix business, how much of it do you think is RPA-able, if you take the whole whatever the revenue, I don't know -- $2 billion, what percent of that do you think could be RPA-ed?

Christopher Caldwell - *SYNNEX Corporation - Executive Vice-President*

So, Lou, to be quite honest, you have to go by industry, because some industries are a little more advanced, as we mentioned sort of financial services and specifically in that sort of retail banking. There's a lot of opportunities, including insurance, lots of opportunities. And I would say we're probably in the fourth inning. We're out of prototyping and proof of concepts, and we're into sort of good implementations that are driving real returns for our clients and seeing good traction with that. Some other industries are probably in the first and second inning and just kind of looking at it and then proof of concepts. But overall, a long sort of runway as in years of kind of continued improvements and betterment using the technology of businesses. So it's not something that's going to be overnight, but it is something that we see as a competitive advantage to take share from our competitors, and improve our relationships with our clients by offering them higher value sort of services. In terms of sort of RPA-able, I'd hate to call it a number, because it'd be a little misleading. I think what people are seeing is anywhere from 20% to 40% improvements on processes that can be RPA-able. But then generally, what's happening is that what's left is becoming a higher value, higher chargeable service and generally commanding additional revenue from that as well. So our expectation is, is we're forecasting internally a set headwind of cannibalization of our own revenue, and we still want to grow past that at market. And so that's how I'd look at our revenue flow for the business.

Louis Rocco Miscioscia - *Pivotal Research Group LLC - Senior Analyst of Information Technology Services*

Okay, great. And then, one of the things that came up on the Tech Data call was the specific comment that there was lower OEM payouts pretty much across the board. Obviously, you had mentioned that most of your margin degradation was in the System Design business. So were you not seeing I guess lower OEM payouts in general?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Lou, this is Marshall. We feel really good about our partnership, about the programs we have in place, and again evidenced by the commentary about seasonality. Embedded in that is also our confidence on our ability to continue to hit the various thresholds that have with our partners. So we're seeing a strong market. We're seeing, you call it good partner commitments. And other than the comment around System Design and Integration, we feel good about the rest of our business. And we do feel good about System too. It's just a headwind right now.

Operator

Our next question is coming from Sean Hannan with Needham & Company.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Thanks for taking the question here. I think a number of them have been addressed. But just, at least, in terms of looking at the Westcon business, where are you folks, in terms of cutting over looking at system integration, effectively being able to get to, say, a single invoicing? If I recall correctly, I think that was one of the key enablers in order to be able to see some revenue acceleration in kind of that combined entity in one of the key aspects of the synergy. So just trying to get an understanding of what perspective can you share around the timing for that? And how would you expect that to be an enabler and shape some improvement here through the year?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Sean, Dennis here. Regarding the synergy benefit, you're absolutely right. Once we combine systems, we do expect to get revenue synergies from this business. We are getting some today, but it's a little difficult as you could imagine working with 2 systems. So it's very manual and just not efficient at all. But still getting benefits. So that's a positive despite the headwind of 2 systems. As far as when we plan to combine systems? We've said that we want to get system combination done in the first half of this year, and that would be a calendar comment. So that's by the end of June. I can say at this point, I think we're going to beat that deadline pretty well. So in the very short term, you'll see or you'll hear about us doing a successful system integration.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay, great. And then as a follow-up here, it's kind of a high-level question, and not sure what ability you'll be able to have in terms of insight. But is there anything that you're seeing or sensing in terms of budgets opening or potentially opening more as a result of tax reform? And perhaps allowing for another revenue contributor later on in the year. Or what perspective can you share around how this recent tax reform could ultimately help your business in that regard?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Sure. Yes, the overall answer is, we haven't seen anything material to date affecting our business. We do expect when companies have more cash available to them due to lower tax rates that they'll invest them back in their business. And those investments will include technology spend. So it's our expectation that will start to occur. But we have not seen anything material to date though.

Operator

Our next question is coming from Jim Suva with Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

I know a lot of time has been focused a little bit on the challenges of operating profit margin in the System Design and Integration business. Can you just help us better...

(technical difficulty)

...is this due to SYNNEX's desire to expand its customer base? Or due to increased competition in this existing customer base?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Jim, it's Dennis. I'd say, it's no particular order here. It's due to competition in our customer base. It's also due to the fact that we've been investing in the business to scale it out to ensure we can not only handle existing business with current customers, but also to take on new business with new customers. And then the last aspect would be again just a high volume of a low amount of SKUs, which has allowed for lower pricing overall and then lower margin accordingly, in our business.

Jim Suva - *Citigroup Inc, Research Division - Director*

Got you. Okay. And then were there any vendors over 10% representing your sell-through?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

In total, we typically have 1 or 2. We disclose them in our queue. It's the same one, Jim, that you've seen in the past, [and the queue's in the] (inaudible).

Jim Suva - *Citigroup Inc, Research Division - Director*

Okay, so I'll wait for that. And then finally, there's been a lot of talk in the media about privacy impacts from some of the social media companies about using personal data. Has that impacted your order rate [or] anything, for example, accelerate them or pause them or any impact from the social media privacy?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Jim, this is Dennis. Good question. Something we thought about. But to date, we have not seen any spike, if you will, from anything related to that. Is our general business up or is part of that increase up, I should say, because of potentially related to what you're talking about? That is possible, but we have not seen anything specific that we would call it out and say this is a factor-in and why business is up.

Jim Suva - *Citigroup Inc, Research Division - Director*

Okay. And my final thing is more of a housekeeping. What type of tax rate should we look at now that tax reforms have been finalized and your integration is progressing well?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Jim, I would use 27.5% to 28.5% for the rest of the fiscal '18 for your model.

Operator

Our next question is coming from Ananda Baruah with Loop Capital.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

A few from me, if I could. Just going back to the high (inaudible) compression. Dennis, I believe that I heard you comment that you thought it would persist for a couple of more quarters. Did I hear that accurately? And if so, what's the visibility that you have for this, that it could flatten out in the next couple of quarters?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Ananda, I'll take the first part. You did hear that correctly. We expect it last for a couple more quarters, and then I think at that point I would say margins, we believe, will begin to expand again. And Dennis?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, just adding on to that, Ananda. The key for us is to diversify the business as we talked about a few times now today, but also -- and that's with new customers, but also to bring on new solutions and new offerings to the existing customers to further diversify the business that has caused our margins to come down a bit, which again is a result of a concentration of a small amount of SKUs at high volumes.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

I got it. And so that's super helpful. So I guess the visibility that you guys have that leads you to say a couple of more quarters is you laid out some investable cost. You think you'll have new customers coming on in a reasonable timeframe. So that gets you some fixed cost absorption. And then secondarily to the new products, then use SKUs of the existing customers, do you think that when that occurs they would diminish some of the pricing pressure on the original SKUs, the existing SKUs? Or do you think that continues, but you just get some lift from the incremental SKUs?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, it's the latter part of what you said. The call is to bring on new offerings and new SKUs to lift the operating profit, but that will not change the profile of the existing bids that we've won.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

I got it. Okay, that's helpful. And then to the extent -- that's really helpful, I really appreciate it. And then to the extent that you guys can, does the amplified investment from Google hyperscale, from Azure hyperscale, does that impact you at all? Or are you hopeful that you can benefit from that? I guess any context there would, I think would probably be helpful collectively to us.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Well, we love to be in growing markets, and that's one of the reasons why we invested in this business, 5 or 6 or 7 years ago now. So the fact that the market is growing and there's several players who are increasing their spend, we think is a good thing and is an opportunity for us.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

Awesome. And Dennis, I believe, there was a comment made last quarter that the [high] business had been impacted by some pull forwards. Was that material? And to the extent that -- material -- does it kind of matter? And to the extent that it did, you think that it impacted -- is that impacting the guides as well?

Dennis Polk - *SYNNEX Corporation - President and CEO*

Yes, as far as our current quarter and our current quarter guide, notwithstanding that we've always said this is a very lumpy business and hard to predict. But there really isn't any pull-forward aspect going on that's factoring into our guide for Q2 or from the results we posted in Q1.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Ananda, you might be thinking about last year, quarter 2 where we did see some pull-in, if you will, and that's making the year-on-year comparison a little bit harder.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

I bet that's what it is, Marshall. I bet that's exactly what it is. Appreciate the clarification and the reminder. And then finally, I didn't hear, can you just talk to how Westcon synergies are tracking? If it was mentioned on the call, I totally missed it, and that's on me. But I'd love just an update there.

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Yes, sure. Overall, again we're very pleased with the Westcon-Comstor business for the first 2 quarters. The business is performing well, meeting and exceeding the goals, which is fantastic. As far as synergies on the top line, we're still working through the system integration, like we talked about before. So we haven't achieved all the revenue synergies that we would hope for to date, but we do see significant opportunity to achieve the expected revenue synergies once we consolidate the systems in North America. From an expense standpoint, we didn't really call out expense being a major synergistic area in this transaction, but the reality is we are starting to see some benefits that weren't anticipated. And we do expect to see more as we consolidate the systems. So that's an added benefit to the transaction.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

And if I recall the guide upon deal closure was $0.70 for the first 12 months. Is that accurate?

Marshall W. Witt - *SYNNEX Corporation - CFO & Principal Accounting Officer*

Yes, Ananda that was what we had upon announcement.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

Got it. And Marshall, when Dennis -- well, Marshall and Dennis, when you're saying that you're tracking in line to -- in line-ish -- in line plus, let's call it, it's at $0.70. Whatever sort of track you have to that $0.70, you're in line plus with that, from an overall perspective?

Dennis Polk - *SYNNEX Corporation - President and CEO*

This is -- I'll take last question here, but I'll answer it in a different way. First of all, we're pleased with the performance of Westcon all in North America. I'm pleased with the margins. But we also have operation and sales teams that are now fully integrated from a North America perspective. So it becomes very difficult to now begin to kind of bifurcate and figure out what's Westcon North America versus -- or U.S. versus what's U.S.-50. So very pleased with the performance, exceeding expectations. I'll leave it at that.

Mary Lai

Thank you. And this concludes our call.

Operator

Thank you. And that concludes today's conference. Thank you, for your participation. You may disconnect at this time.