

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SNX - Q3 2017 SYNEX Corp Earnings Call

EVENT DATE/TIME: SEPTEMBER 25, 2017 / 9:00PM GMT



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNnex Corp Earnings Call

CORPORATE PARTICIPANTS

Christopher Caldwell SYNnex Corporation - Executive Vice-President

Dennis Polk SYNnex Corporation - COO & Director

Kevin M. Murai SYNnex Corporation - President, CEO & Director

Marshall W. Witt SYNnex Corporation - CFO

Mike Vaishnav SYNnex Corporation - Senior VP of Corporate Finance & Treasurer

CONFERENCE CALL PARTICIPANTS

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

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

Jim Suva Citigroup Inc, Research Division - Director

Matthew Sheerin Stifel, Nicolaus & Company, Incorporated, Research Division - MD

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

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

PRESENTATION

Operator

Good afternoon. My name is Givi, and I will be your conference operator today for the SYNnex 2017 Third Quarter Earnings Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect. Thank you.

At this time, I would like to pass the call over to Mike Vaishnav, Senior Vice President, Corporate Finance and Treasurer at SYNnex Corporation. Please go ahead.

Mike Vaishnav - SYNnex Corporation - Senior VP of Corporate Finance & Treasurer

Thank you, Givi. Good afternoon, and welcome to SYNnex Corporation earnings conference call for the fiscal 2017 third quarter ended August 31, 2017. Joining us on today's call are Kevin Murai, President and CEO; Dennis Polk, COO; Marshall Witt, CFO; and Chris Caldwell, EVP and President of Concentrix Corporation.

Please note that some of the information you will hear today consists of forward-looking statements within the meaning of the Federal Securities Laws. Such statements may relate to, without limitation, market, including incremental distribution TAM, demand, sales, investment, growth, non-GAAP net income and diluted EPS, amortization of intangibles, margin, profit, revenue, costs, shares, tax rate, profitability, customer pipeline, cash flow generation, adjusted operating margin, strategy, overall performance, new geography and acquisition impact. 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 2016 and discussion of forward-looking statements in our earnings release and Form 8-K filed with SEC today. SYNnex assumes no obligation to update any forward-looking statements which speak as of their respective dates.

Also during this 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 is available on our website at www.synnex.com.

This conference call is the property of SYNnex Corporation and may not be recorded or rebroadcast without our specific written permission.

SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

Now I would like to turn over the call to Marshall Witt for an update on our financial information. Marshall?

Marshall W. Witt - SYNEX Corporation - CFO

Thanks, Mike. First, I will review our results of operations and key financial metrics, and then I'll conclude with guidance for the fourth quarter of fiscal 2017, before turning the call over to Kevin.

Our Q3 revenue, net income and EPS all exceeded our expectations. On a consolidated basis, total revenue was \$4.3 billion, up 16.5% compared to \$3.7 billion in the same quarter of the prior year. FX had minimal impact on the current quarter. Technology Solutions revenues were \$3.8 billion, representing an increase of 15.8% compared to the prior year quarter. The TS revenue increase was due to continued demand for our systems design, integration and cloud services business solutions and across-the-board growth in the majority of our product categories. Concentrix revenues were \$496 million, up 21.9% from \$406.7 million in the prior year quarter. The Minacs acquisition in August of 2016 contributed to the increase in revenue.

Now turning to gross profit. Our gross profit on Q3 revenues was \$374.9 million or 8.8% of revenues compared to \$326 million or 8.9% of revenues in Q3 of 2016. The increase in gross profit dollars was due to higher sales in our Concentrix segment and increased cloud-based solutions platforms services.

Q3 total adjusted selling, general and administrative expenses were \$235.4 million or 5.51% of our revenue compared to 5.79% of revenue or \$212.3 million in the third quarter of fiscal 2016. The Minacs acquisition contributed to the increase in selling, general and administrative expenses. Both segments effectively managed support costs while growing revenue.

Consolidated non-GAAP operating income was \$139.9 million or 3.27% of revenue compared to \$113.6 million or 3.10% of revenue in the prior year third quarter, and \$141.2 million or 3.59% of revenue in Q2 of 2017.

At the segment level, Q3 Technology Solutions non-GAAP operating income was \$101.3 million or 2.68% of revenue, up 27% from the prior year quarter result of \$80.1 million or 2.45% of revenue due to higher value-added services and scale efficiencies.

For Concentrix, non-GAAP operating income in the quarter was \$38.6 million or 7.78% of revenue, up from the prior year result of \$33.5 million or 8.24% of revenue. Non-GAAP margin declined year-over-year primarily due to revenue mix of ramping clients and new country openings as discussed in quarter 2. Net total interest expense and finance charges for Q3 were \$9.8 million, up from \$7.5 million from the prior year quarter due to higher borrowings to fund business growth and the Tigerspike acquisition.

Net other income was \$1.9 million in the third quarter of 2017 compared with net other expense of \$0.4 million in the prior year quarter. The increase is primarily due to foreign currency exchange losses in the prior year quarter.

The tax rate for the third quarter of 2017 was 34.2% compared to 34.9% in the prior year period. For the remainder of fiscal 2017, we anticipate the tax rate will be in the range of 35% to 36%.

Our third quarter non-GAAP net income was \$86.8 million or \$2.16 per diluted share.

Turning to the balance sheet, our accounts receivable totaled \$1.9 billion on August 31, 2017, for a DSO of 40 days, which is down 1 day from the prior year quarter. Inventories totaled \$2.2 billion or 53 days at the end of the third quarter, up 10 days from the third quarter 2016 but down 2 days from Q2 of 2017.

Consistent with our Q2 commentary, inventory remained elevated due to our continued investments in cloud-based solutions and platforms to meet the rising market demand.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

Days sales outstanding was 43 days, up 1 day from the prior year third quarter. Hence, our overall cash conversion cycle for Q3 2017 was 50 days, an increase in 8 days -- or of 8 days from Q3 of 2016 but down 3 days from Q2 of 2017.

From a financing perspective, our debt-to-capitalization ratio this quarter was 32%. Preliminary cash flows generated from operations was approximately \$65 million for the third quarter.

At the end of Q3, between our cash and credit facilities, SYNEX had approximately \$1 billion available to fund growth.

Other financial data and metrics of note for the third quarter are as follows: depreciation expense was \$20 million; amortization expense was \$17 million; CapEx for the quarter was \$27 million, primarily due to continued Concentrix investments; trailing 4 quarters ROIC was 10.8%; and trailing 4 quarters adjusted ROIC was 11.7%.

As described in our earnings release, the Board of Directors approved a regular quarterly cash dividend of \$0.30 per common share to be paid October 27, 2017, to stockholders of record as of close of business on October 13, 2017.

Now moving to our 2017 fourth quarter expectations. We expect revenue to be in the range of \$4.75 billion to \$4.95 billion. For non-GAAP net income, the forecast is expected to be in the range of \$106.1 million to \$110 million. Q4 guidance reflects Westcon-Comstor Americas revenue of approximately \$550 million and non-GAAP diluted EPS of approximately \$0.17 per share.

Non-GAAP diluted EPS is anticipated to be in the range of \$2.63 to \$2.73. Non-GAAP net income and non-GAAP diluted EPS guidance exclude after-tax costs of approximately \$20.5 million or \$0.51 per share related to the amortization of intangibles and \$0.4 million or \$0.01 per share related to the acquisition -- or acquisition-related and integration expenses. We anticipate acquisition and integration costs related to Westcon-Comstor Americas to be \$20 million to \$25 million over the next 12 months with the majority starting December of 2017.

Weighted average shares estimated for diluted EPS are 39.9 million.

Please note that these statements of Q4 expectations are forward looking and actual results may differ materially.

I will now turn the call over to Kevin.

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Thank you, Marshall, and good afternoon to everyone on the call. During the quarter, we concluded 2 strategic acquisitions: Tigerspike in our Concentrix business segment; and Westcon-Comstor Americas in our Technology Solutions business segment.

As technology continues to transform our markets across all our businesses, these investments highlight our focus on evolving our value proposition and being where growth is happening. I want to officially welcome the Westcon-Comstor Americas team and the Tigerspike team to the SYNEX family.

On September 1, we announced the close of the Westcon-Comstor Americas acquisition. We believe this deal brings \$2.2 billion of accretive margin revenue to our distribution business and is highly complementary, filling key vendor and capability gaps for SYNEX in the growing network, UCC and security markets. Both organizations are extremely well aligned in culture. And now, with a common vision and strategy, we believe SYNEX will greatly enhance its capabilities, solutions and value that we bring to the market, ultimately creating significant revenue synergies.

Earlier in the quarter, we completed the acquisition of Tigerspike, a high-value digital products and strategy company. This transaction aligns with Concentrix' strategy to further invest in digital and enabling technologies to create effortless, personalized customer engagements and improve business intelligence and performance for its clients.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

I'll now share my thoughts on our third quarter. At the consolidated level, SYNEX achieved record revenue of almost \$4.3 billion, representing an increase of over 16% year-on-year. With this growth came exceptional leverage in our business, resulting in non-GAAP EPS growth of approximately 25% or \$2.16 per diluted share. Within our Technology Solutions segment, we observed solid market demand in all our geographies and market. Competition was slightly elevated in the broadline market. However, we maintained our strong discipline and captured revenue growth while maintaining healthy margins.

Our Technology Solutions segment grew revenue almost 16% year-on-year and an adjusted operating margin of almost 2.7%, representing the strongest Q3 margin in our company's history. Our performance clearly demonstrates the success of our business strategy to differentiate SYNEX through new business models, value-added solutions and capability.

At the product level, most categories grew year-on-year, and the momentum in our systems integration and design and cloud services business continued through our third quarter. In addition, we experienced better-than-average growth in network, security and software, while demand for client devices and peripherals improved.

From an end-market perspective, demand in commercial and SMB continued to be strong, with U.S. Federal and education reflecting double-digit growth.

At the country level, Canada and Japan grew revenue modestly in constant currency.

Now turning to our Concentrix segment, we had a record quarter, achieving nearly \$500 million in revenue at 7.8% adjusted operating margin.

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

Christopher Caldwell - SYNEX Corporation - Executive Vice-President

Thanks, Kevin.

This was a very good quarter for Concentrix as we focused on growing our value services and footprints for clients. First, let me start off with our recent acquisition of Tigerspike that closed at the end of July. This acquisition brings a strong team of over 300 staff with expertise in the enterprise mobile digital space and gives our clients access to new capabilities around digital strategy, development and design. The global breadth of Tigerspike is a great complement to our current portfolio and we are already seeing traction with the new offerings across our client base. It allows us to continue to extend our services around all channels of customer engagement our clients are looking for.

Operationally, we also performed in line with our expectations this quarter. Our revenue for the quarter was \$496 million, which includes 1 month of Tigerspike. Revenues grew 22% year-over-year, and adjusted EBITDA also grew 22%.

As mentioned in our Q2 call, the third quarter results include ramps of seasonal staff ahead of last year's schedule that will start to generate revenue in Q4.

We also mentioned last quarter that we are entering some new geographies of Vietnam, Thailand, Indonesia, and I'm happy to say we are on track. These new geographies will start to generate revenue late in the fourth quarter and we already have attracted additional clients to these locations which we believe will allow us to see faster contribution to our earnings earlier Q3 next year, based on our current forecast.

From a sales perspective, we added 17 new clients to the period. Five of these were added by Tigerspike after the acquisition closed, which was a record for them. That brings the full year total to 34 new clients, which is already well ahead of last year's pace. We've been very happy with the quality of clients we are onboarding, which is a mix of traditional enterprise and disruptive new business models around the world. Our team's hard work continued to be recognized by industry body analysts for our leading performance in vision, execution and great places to work this quarter.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

As we look forward to fourth quarter, we expect to see the seasonal uptick in our business aligned with the ramp costs we have seen in Q3.

We will also be opening in a new geography, Jamaica, in Q4, which won't contribute to our revenue until early Q1. This additional expansion of our footprint is again driven by new business wins.

I'd like to thank all our staff for what they do every day and for delivering great value to our clients.

Now Kevin, back to you.

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Thank you, Chris.

Now I'd like to provide some highlights on our fourth quarter outlook. Overall, we're forecasting continued strong revenue and profit performance in both our business segments.

Within the Technology Solutions segment, we expect the solid market demand to continue, providing a good foundation for growth. Consistent with recent trends, we expect third platform and enabling technology, such as communications and security, to grow faster than the overall market. We also expect Public Sector demand to be strong.

As Marshall mentioned, we anticipate Westcon-Comstor Americas will contribute Q4 revenues of around \$550 million and about \$0.17 of non-GAAP diluted EPS.

Our enhanced line card and network UCC and security will enable us to more than double down in the markets that have been growing faster than overall technology.

The synergy opportunity going forward is significant, and we estimate that our increased coverage will add approximately \$10 billion of incremental distribution TAM for SYNEX. We will preserve the specialized capability and brands of Westcon-Comstor which will enable our partners to leverage the strength and collective value of our 2 great companies.

We expect Concentrix to execute well and continue its path of improved profitability. And as Chris stated in his remarks, we believe the full complement of Minacs, the acquisition of Tigerspike, a record number of new logos, combined with a strong pipeline and a strong operational performance, will position Concentrix well for Q4 and beyond.

As announced in our press release, we will be increasing our quarterly dividend to \$0.30 per share, representing a 20% increase from a year ago. This highlights SYNEX' financial strength and our confidence in our future cash flow generation.

Based on our Q4 guidance, 2017 is expected to yield another record-setting year for SYNEX. We anticipate revenue of over \$16.5 billion and adjusted operating margin over 3.5%, and will achieve this through our exceptional people and capabilities SYNEX has invested in over the years.

Our partners expect us to help grow their businesses and to provide the compass to navigate them through all the changes to a successful future. The intimate approach we take in managing every transaction on a global basis from over 110,000 dedicated employees, providing unique and differentiated products and services, is why we are the clear leader in our marketplace.

Recently, there has been a number of national disasters that have impacted many of our employees, business partners and friends. Hurricanes Irma and Jose, typhoons and flooding in India and South Asia, and earthquakes in Mexico. I'm pleased to report that all our employees are safe. However, many incurred damage to their homes and property. Our hearts go out to all those affected, and our company is participating in fundraising to help recovery efforts.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

I would like to thank all of our associates around the world for their contributions in our success. I would also like to thank our existing and new business partners and shareholders for their continued support and trust in SYNEX.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Adam Tindle of Raymond James.

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

I just wanted to start, Kevin, maybe, one of your major competitors on the TS side attributed disappointing results to an increasingly competitive environment and industry-wide vendor rebate changes. I'm just hoping that you can comment on what you're saying related to these 2 areas, particularly given TS operating income this quarter declined sequentially despite strong revenue growth.

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

Yes, thanks, Adam. As I mentioned in my prepared remarks, over the last quarter and, frankly, even the quarter before that, we have seen a moderate increase in competitiveness, in particular in the broadline part of the distribution business. But as I also said, we take a very disciplined approach to pricing. We have the ability to be very selective in the business that we do take. I think it's just a testament to the business model that we have, a hybrid model, where we have a large and growing part of our business that is in the higher value add part of the overall technology marketplace, and in addition to that, bringing in new capabilities that really help our partners grow. The net result of all of that is that I think our partners depend on us more than just for pricing availability and allows us to continue to take advantage of strong demand in the marketplace while still maintaining strong margin.

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

Okay. And maybe on Westcon, you've had about a month to look a little bit more deeply at it since closing the acquisition. I'm hoping you can speak to anything that has surprised you during this time, your level of confidence on the \$0.70 in EPS accretion given, I think, if we just annualize the \$0.17 that you've guided to for the Q4 period, it's about \$0.70, but I would have thought Q4 is seasonally strong, so any comments on that.

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

Yes, I mean, we're excited about the Westcon-Comstor acquisition. To me, when I look at really the headline coming out of that, it's all about revenue synergies. It fills in significant gaps that we've had in our line card as well as brings on what I consider to be the strongest specialty distributor in the market on communications and security. All that being said, it's early days in the acquisition. I think anything that was perhaps not fully anticipated has been positive. Positive in the strength of the people that we've been able to get much closer to, positive in the strong relationships that Westcon-Comstor has with vendors that we didn't have a relationship with, and also stronger in terms of opportunities that we see going forward. All that being said, we haven't -- we haven't taken into account any of the significant revenue synergies into our current quarter guidance that we see ahead of us really focused much more on, I guess, a bit of a conservative aspect on what we see in terms of the business carrying forward into this quarter.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

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

Okay, that's helpful. And if I could just sneak in one last one for Marshall. You've had a number of quarters of strong double-digit inventory build, but free cash flow looks to have improved on a trailing 12-month basis this quarter. So I'm just trying to get a sense if you think this working capital cycle is in the late innings to where you're expecting cash flow to continue to improve on a trailing 12-month basis because Q4 is typically a seasonally positive cash flow quarter.

Marshall W. Witt - *SYNEX Corporation - CFO*

Yes, Adam. We definitely expect positive cash flow to continue and improve heading into Q4.

Operator

Our next question is from Matt Sheerin of Stifel.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just another question regarding the strength in Technology Solutions, and Kevin, you talked about the strong demand for the cloud business which, obviously -- the Hyve Solutions business, which I know has been growing significantly. I know you don't break that out, but could you give us an idea of the contribution both to revenue growth and to the profitability? And as you look forward, it sounds like, given the inventory build that you're expecting that continue to grow, what's the capacity situation in terms of your ability to continue to grow with your existing infrastructure in that business?

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

Yes, so Matt, I mean, overall, we've seen pretty strong demand environment. And I'm really talking across our entire Technology Solutions segment pretty much since the beginning of the year, and that momentum has really continued. We expect that to continue through our fourth quarter as well. With that as a backdrop, it really has, I think, contributed to our growth across the board. And in particular, this past quarter, third quarter, we did see strength even in some product categories that historically have been relatively flat such as client devices. So we're able to capitalize on all of that. In addition, as we continue to see a shift more and more to third platform technologies and cloud in particular, the capability that we have in our systems integration design business really is a huge differentiator for SYNEX as a company because we're able to participate, really, across the breadth of where technology is growing. We've made significant investments over the years in building up capability and capacity in that business. You do see from our balance sheet that we also continue to invest in inventory in anticipation of where we see the growth in our forecast. So I'd tell you, at least in the near and midterm, we are well equipped in our capacity.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And in terms of seasonality, I know that Hyve business has been fairly lumpy, and it looks like you're guiding -- if you take out Westcon. Although, you didn't give specific guidance for Technology Solutions, it sounds like you're expecting normal seasonality. So I guess the question is, will you be able to continue that mid-teens organic growth year-over-year going into November in tech solutions? And on the Concentrix side, on an organic basis, do you expect to grow the business? Or are there still some ramps in terms of investments that you won't see the organic growth until a later quarter?

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

Yes. Again, as we provide our guidance at a consolidated level, we do take into account the different aspects of both seasonality as well as project-oriented business or markets that we see in other parts of our business. So overall, I can tell you what our guidance reflects, and frankly,



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

what we've seen so far this year is about normal seasonality. We do expect to grow our businesses at or above-market growth across all of our businesses. But as our systems integration design business is more of a project-based business, that does actually have an impact both up and down, depending on which quarter we're talking about, sequentially. So that certainly does come into play as well. But the, I guess, short answer to that question, Matt, is we expect normal seasonality.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

But do you have visibility? Because it looks like in the last 2 or 3 quarters, you've beaten your revenue projections pretty handily. It looks like -- it sounds like a lot of that is coming from that integration business. And is it such that as you enter the quarter, your visibility is somewhat limited and you can see some spikes during the quarter one way or the other?

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

We don't have perfect visibility in any business that we have. And frankly, our -- any overachievement that we've had, as I look back on not just this last quarter but past number of quarters, we've had contributions from different parts of our business, not just systems integration. And I'll tell you, in fact, last quarter, we grew our traditional distribution business kind of a little bit higher than our own expectations. So we do expect that demand to continue, but again, it's hard to call because we don't have perfect visibility into all of the markets that we do business in.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And if I can just quickly just ask regarding the P&L given the -- with your guide, given Westcon. And I believe that you talked about that business being somewhat accretive to gross margin but higher SG&A. So in terms of what we should be thinking about the gross margin in the November quarter or year-over-year given the seasonality of Concentrix, and also, last year, you had a very, very strong quarter in terms of margins, what should we be thinking about gross margin?

Marshall W. Witt - *SYNEX Corporation - CFO*

Matt, this is Marshall. So on Westcon, we do expect that the adjusted operating margin to be above the TS average.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. But with a higher gross margin and higher SG&A too, right?

Marshall W. Witt - *SYNEX Corporation - CFO*

Yes. I'll just speak to the adjusted op margins.

Operator

Our next question is from Jim Suva of Citi.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

Jim Suva - Citigroup Inc, Research Division - Director

A question for you on the outlook. Maybe my math is wrong, but it looks like the EPS growth year-over-year is kind of decelerating meaningfully to like 4% versus a 26% this quarter and 51% year-over-year or the quarter before. So can you help us understand about why such the deceleration year-over-year in earnings growth?

Marshall W. Witt - SYNEX Corporation - CFO

Yes, Jim, so first of all, I'll just tie back to our overall performance and expectations for Q4. We expect it to be at or above seasonal norms but as Kevin had said, the Hyve business is a little lumpy, so sometimes that can play into the overall performance. But we don't see what you're referencing in regards to the EPS percentages.

Jim Suva - Citigroup Inc, Research Division - Director

Okay. Maybe we can take it offline, but I think you guided to \$2.63 to \$2.73. And last year, you were, I think \$2.57. So I think that, that just shows year-over-year deceleration in earnings.

Marshall W. Witt - SYNEX Corporation - CFO

Yes. Jim, just to remind you, we had a \$0.17 kind of one-time benefit in EPS in Q4 for tax rate.

Jim Suva - Citigroup Inc, Research Division - Director

Got you. Okay. So that's helpful. So if I back out the \$0.17, then that helps out a little bit. So that gets you closer to kind of -- probably now a double-digit growth a little bit but still gets you to about 14%. So still decelerating, so any thoughts on that?

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Jim, just a high-level comment I would make is we actually feel quite positive about the current quarter across all our businesses, but with the puts and takes that do happen throughout the quarter, we guide conservatively.

Jim Suva - Citigroup Inc, Research Division - Director

Got you. Okay, and then a quick question, on the revenue upside this quarter, which was quite remarkably big, you mentioned several areas of strength. Anything that you kind of want to call out to, to allow us to better grasp about where the strength really surprised you this quarter?

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Yes, I mean, I guess, Jim, the strength was pretty much across the board, and really, driven more -- obviously, our biggest revenue lever's going to be on the Technology Solutions side of the business. Just the ongoing continued strength of demand in technology across the board really was higher than where we expected it to be.

Operator

Our next question is from Sean Hannan of Needham & Company.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

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

So I suppose, the first question is relevant to the Westcon-Comstor acquisition. Trying to get a sense of the synergies that we're looking at here. You've laid out operationally, and really, on a more on a cost basis, what you think you can accomplish. So part a of this is now you have them under the hood, per se, for about a month's period, do you feel that there's anything that you could perhaps drive upside within those synergies? And then on the revenue side of the equation, you seem to be much more excited about this. How quickly do you feel we should see the more additive impacts in the results? Is this something you feel materializes very quickly within a few quarters? Or is really the grand prize something that evolves more over a multi-year basis when we look at an outside aggregate result versus how we're layering the 2 businesses together today?

Kevin M. Murai - *SYNEX Corporation - President, CEO & Director*

Yes. Sean, I think the revenue synergies with Westcon-Comstor to me -- I mean, that is, as I said, before the headline. I think that we'll be able to capture those revenue synergies relatively quickly. Right now, and more in the short term, we -- there are a number of things that we have to integrate operationally between the 2 companies to really capture the full extent of what those synergies are. But we fully expect that we're going to gain significant traction on those synergies at some point in 2018. Although the synergies today are real, it's just something that we're not counting on in our guidance right now.

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

Fully understood. Okay. And then the next question, a little bit more color on the Hyve business perhaps. Obviously, it's growing well at a high level, continuing to scale, but to what extent do you folks feel that there's a level of scale that you can achieve where perhaps the lumpiness from some of the projects orientation starts to become a little bit more muted? Or do we feel that we still maybe very far away from that? Any more sense that we can get on that aspect?

Dennis Polk - *SYNEX Corporation - COO & Director*

Hi, Sean, this is Dennis. I'd say the answer to the question is the latter part of what you said regarding that we're still in the early innings of this business. So we do expect to see the lumpiness, if you will, continue for some time just given the nature of the business overall, and also the way our customers acquire the product that we manufacture for them. So for the foreseeable future, we do see it as a project-type business with occasional lumpiness from quarter-to-quarter.

Operator

Our next question is from Ananda Baruah with Loop Capital.

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

It's pretty crazy, present guide. Yes, stair step present guide, no doubt, and a lot going on. So I guess I'll just ask a few to start and then we can take the rest offline. But Kevin, with regard to TS, broadly, like what in the business that has been driving the upside strength could you see subsiding from an impact perspective? And you mentioned -- I remember you mentioned this actually coming into this year that you were sort of feeling very good about the demand environment in general, which seems to be more SYNEX-specific comments. I mean, you were saying that when not everybody was feeling that. So what is it -- is there anything about the environment, you've mentioned it a couple of times in this call, that you guys could see subsiding that could impact the velocity of sort of the revenue, let's call it, acceleration? And include Hyve in that as well. And I guess, I have a part B to Hyve also, but I'd just like to get a sense of that.



 SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Yes. I mean, the sense right now, Ananda, is that the strength in market demand has quite a bit of an inertia. So we feel that there's good stability in that demand. Of course, that being said, at the macro level, anything can happen. And there's -- there could be a number of things going on in the world that could -- has some level of impact on what we see in demand right now. But as far as we could tell right now, demand will continue to be pretty stable and solid, at least for the foreseeable future. And again, as I said, that really much -- that pretty much cuts across all of technology. I think the real key here, though, goes beyond what could happen. The real key for us is how well our -- prepared are we as a company to play a significant role in where technology is heading to. And when I look at our systems integration design business, Hyve Solutions, the business that we created there, the growing market that we participate in. In addition to that, it may sound like a subtle change, but over the past few years, we've made significant changes to our go-to-market. Our overall portfolio of business is not as dependent on headline business as it was a number of years ago, which is why we're able to weather storms like we've have seen over the past couple of quarters. And where we truly create value in creating growth opportunity for our vendors and our customers alike, that's where we get rewarded. And ultimately, what it comes down to is the focus that we have on -- as a business partner, being more than just a point of supply. We do bring capabilities to the relationship that our partners depend on. And that really is what creates more stickiness, and it also creates a growth for both us as well as for our business partners.

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

Got it. Yes, that's helpful. And it's always good to hear the -- kind of hear you walk through it again. And then just with regards to Hyve, specifically, like what have been the things that has been prominently driving this sustained growth? Do you see this as -- primarily see it, the investment cycle -- have there been -- have you been getting deeper in existing customers? Is it sort of adding numerous new customers, sort of here and there? Is it getting new large chunks of business and sort of existing -- getting new, big customers, sort of like that, that would be -- that would be useful context.

Dennis Polk - SYNEX Corporation - COO & Director

Hi, Ananda, this is Dennis. You've actually summarized it pretty well. There's obviously an investment cycle going on in the CSP business, so we're benefiting from that. This is a business that has, at least for us, a relatively small set of customers that do acquire quite a bit of product. So our goals have always been to acquire as many of those large customers, one; and then two, take as much share from them as possible. And we've been successful in doing that in the past couple of years, and our intention is to be successful going forward.

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

And Dennis, what's the --- as you guys see it, the drivers of the share take inside of your bigger customers?

Dennis Polk - SYNEX Corporation - COO & Director

I'd say, the main couple of things are, one, just overall execution. Delivering large amounts of product at the right time, at the right place is very important in this business. And we've been successful in doing that. Then also just being innovative in our engineering capabilities and offerings. That's helped us gain share as well.

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

Okay. Okay, great. And last one for me guys. So just on Westcon, I believe -- and you may have provided these numbers. I believe that they did -- was it \$89 billion in EBITDA in the last 12 months, kind of pre-acquisition. I think when I worked the math, I came out around \$1 in earnings, and so your next 12 month's surge you got, I think, is for \$0.70. And so if the \$0.70 sort of offset -- and so saying not like \$1, \$0.70. Is that offset by



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

integration costs? Or is there some -- am I doing the math wrong, I guess, could also be sort of an answer. But if I'm not doing the math wrong, sort of -- can you foot it to the \$0.70 as opposed to the \$1, which is the last 12 months EBITDA?

Marshall W. Witt - SYNEX Corporation - CFO

Yes, Ananda, this is Marshall. I'll speak to the \$0.70. And as Kevin had said, for Q4, with the \$0.17 that we've shown, that is a conservative start for which we believe we will certainly hit and achieve and exceed that \$0.70 for the next 12 months. Just to remind, the revenue synergy commentary that was discussed earlier, we believe that will continue to be the reason why we have so much confidence in exceeding that number.

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

Got it, got it. And then, one more I'll sneak in for you, Marshall, there. It doesn't seem as though there should be revenue dis-synergies with this -- I mean, not revenue, but dis-synergies with this deal. Is that accurate?

Marshall W. Witt - SYNEX Corporation - CFO

Yes. I think with any deal, we -- you're going to have some level of revenue dis-synergy. But I got to tell you, minimal compared to the opportunities that we have on positive revenue synergies.

Operator

And the last question we have on queue is from Shannon Cross of Cross Research.

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

Just a couple of questions. I'm curious as to what you're seeing in terms of component costs and access of components, if you're -- just in terms -- on the Hyve side as well as sort of in general. And then also if you could talk a bit about any initial responses from your customers in terms of some of the price increases that have gone into place to offset some of these component costs with your partners, just -- obviously, your numbers were strong, so I'm trying to see if there was any pushback from that or -- anyway, so...

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

I guess, at the high level -- and I'll have Dennis speak with respect to component costs within the Hyve business itself. But when we look at our traditional distribution business, and some of this issue goes back to much earlier in the year, what we have seen are more of the consequential impacts of component shortages and increase in component costs. And we have seen some price increases at the finished goods level, in particular with client devices as well as traditional servers that we sell as well. But within the components part of our business overall, yes, we've seen the same thing, too. It's really been more of the shortage issue that we've had to manage our business through.

Dennis Polk - SYNEX Corporation - COO & Director

Just on the Hyve side, really, there's been price increases going on for several quarters now, with the most pronounced being in and around memory products. But overall, price increases have incurred across the board in many of the components that we build. They're put into the build for our customers.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

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

And have you -- I guess what I'm trying to figure out is, has there been any slowdown in terms of demand or any impact to demand? Again, it's tough to see, given your numbers. But just in your conversations, do you think that's impacted your potential growth at all on either of those businesses as customers look at the price increases? Or are they just willing to accept them because of better economy or better end demand on their side?

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Yes -- no, I can tell you we haven't actually seen that. And you're right, I mean, it's certainly reflected in our numbers. We've continued to see the growth. I don't know that end markets graciously accept price increases, but certainly, it hasn't seemed to impact our revenue.

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

Okay. And then can you talk a bit about how you're thinking about acquisitions going forward? You did Tigerspike. Obviously, you've got Westcon to integrate, and then the board just increased the dividends. So I'm curious about thoughts on cash flow and/or cash usage, shall we say, and then what your appetite is to continue. Or should we assume you're kind of done for a while given what you need to integrate?

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

Shannon, I don't think we're ever done there. We have a strong history of investing in growth in our business. It's served our shareholders very, very well. Yes, we've made a big acquisition in Westcon-Comstor. We've made a smaller but very strategic acquisition in Tigerspike this past quarter, and you'll continue to see us do that. Obviously, we've got to digest what we have to more operationally than anything, but where we do continue to see good opportunity is to continue to evolve our business. We'll make those investments.

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

Okay. And then, as my last question, you talked about a \$10 billion TAM increase from the Westcon deal. Can you maybe bifurcate that a little bit in terms of geography versus customer size or vertical versus product line? I'm just trying to figure out how to think about where you're seeing the most opportunity for an increase in TAM.

Marshall W. Witt - SYNEX Corporation - CFO

Yes. And so without getting too specific, categorically, I think you pinpointed most of it. We opened up an incremental market, geography for us with Latin America. Now Westcon-Comstor in Latin America is also a specialty, so they don't participate in the larger broadband market that we do here in North America. So that is a mid- to longer-term opportunity for us as we leverage the relationships that we have here in North America to take to the customers at Westcon-Comstor have that, frankly, would like to buy that but product from them if it were available. In addition to that, though, when we look at the gaps in our line card that we've been able to fill with Westcon-Comstor store, there's a significant incremental TAM, even in North America, that we now have access to. We were growing our business in security and in communications with a limited line card. Today, we have a significantly better offering to take to the market, and that just opens up billions of incremental TAM for us.

Operator

We show no further questions on queue at this time.



SEPTEMBER 25, 2017 / 9:00PM, SNX - Q3 2017 SYNEX Corp Earnings Call

Kevin M. Murai - SYNEX Corporation - President, CEO & Director

All right. And I'd like to thank everybody for joining our call today.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.