PARTICIPANTS

Corporate Participants

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

Other Participants

Matt Sheerin – Analyst, Stifel, Nicolaus & Co., Inc.
Brian G. Alexander – Analyst, Raymond James & Associates
Ananda Baruah – Analyst, Brean, Murray, Carret & Co. LLC
Osten H. Bernardez – Analyst, Cross Research LLC
Shaw Wu – Analyst, Sterne, Agee & Leach, Inc.
Louis Miscioscia – Managing Director, CLSA
Robbie Wilkins – Analyst, Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

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

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

Lori Barker, Senior Director-Investor Relations

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

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

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

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

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

Thomas C. Alsborg, Chief Financial Officer

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

Starting with the big picture, we are very pleased to announce that this quarter marks SYNNEX's 100th consecutive quarter of profitability, a great achievement by any measure and moreover an achievement unmatched by any major competitor in the industry. Kevin will discuss these unique drivers that enabled SYNNEX to have made this possible and more importantly talk about differentiators that make us optimistic about our future growth and success. Our second quarter of fiscal 2012 was a very solid quarter. In it, we drove continued year-over-year margin expansion and marked another quarter of a virtual four-year long string of improvements in our trailing 12-month ROIC. For the trailing 12-month ROIC of 11.7%, we have a good 2% to 3% spread over our weighted average cost of capital on which we can drive growth in earnings and shareholder value.

Let me share some details behind our Q2 performance starting with revenue. In our second quarter, total consolidated revenue was $2.48 billion. This is 0.5% lower than we reported in Q2 of 2011 due to the transition of certain customers' gross revenue business to a fee-for-service logistics relationship, a transition which began late in 2011 and one which we have discussed at length in the last two earnings calls. So I'll simply add that having not made this transition, our reported revenue would have been up year-over-year by about 2.9%, which reflects modest growth within the slow economic recovery.

Looking at the segment level, our second quarter revenue from the distribution segment was $2.44 billion, a decrease of 0.8% year-over-year because of the aforementioned transition of certain customer revenues to a fee-for-service basis. Adjusting for the approximately $85 million related to this transition during the quarter, our year-over-year revenue growth would have been a positive 2.6% for the segment.

In our GBS segment, revenues were $47.7 million, up 23.1% year-over-year due in part to the acquisitions in the second half of 2011, and up 5.9% organically compared to the first fiscal quarter of 2012, as we are just beginning to see the top-line impact of the recent wins in our GBS Concentrix business. You can expect to see this trend continue as a result of our ongoing investments in this segment. In fact, our growth in our trailing 12-month annualized contract wins has increased notably in recent quarters, going from approximately $10 million just two quarters ago to a rate of $34 million in Q2.

This quarter, SYNNEX achieved another industry-leading consolidated gross margin of 6.30% compared to 5.81% in the second quarter of 2011, and an exceptional 6.88% in Q1 2012. Our continuing favorable mix shift to margin-enhancing, value-added products and services continued to benefit our year-over-year gross margin expansion. The sequential decline from our prior quarter was as expected with the Q1 extraordinary margin benefit resulting from the global hard disk drive shortages. This is now largely behind us.

Second quarter total selling, general and administrative expenses were $97.1 million, or 3.91% of revenues. This compares with $90.9 million or 3.64% of revenues in the second quarter of fiscal 2011 and represents a decline from 4.28% in Q1 2012. Increased year-over-year spending was due to increased amounts of acquired SG&A related to the GBS acquisitions that occurred in the second half of 2011 and net increases in personnel-related costs incurred to further fuel our business growth, including our higher margin and faster growing value-added services and solutions in both business segments.

Also, please note the prior year Q2 SG&A included a benefit of a $1.3 million adjustment to contingent M&A consideration in the GBS segment. Consolidated operating income before non-operating items, income taxes, and non-controlling interest increased to $59.3 million or 2.39% of revenues, compared to $54.2 million or 2.17% in the prior year second quarter, representing yet another quarter of year-over-year margin expansion performance in our historical multi-year trend of operating margin expansion.

In fiscal Q2, on a segment basis, distribution income before non-operating items, income taxes and non-controlling interest, grew to $56.4 million or 2.31% of distribution revenues, compared to $50.5 million or 2.05% in the prior year quarter.

The GBS segment income from continuing operations before non-operating items, income taxes, and non-controlling interest was $2.6 million or 5.4% of GBS revenues compared to $3.7 million or 9.56% in the prior year quarter. Again, please note that prior year quarter included a benefit of $1.3 million for that contingent M&A consideration.

Our operating margins in GBS saw modest growth sequentially even as we continued to make investments in SG&A for both ramping new business and the driving of significant incremental wins that I noted earlier. We believe this segment continues to have significant margin upside, which will even further enhance our SYNNEX consolidated operating margin trend in the future.

Net total interest expense and finance charges for the second quarter of 2012 were $5.5 million, down about $700,000 from the prior quarter as we reduced our borrowings. Net other expense was $400,000, and is largely a netting of FX losses and gains on investments.

The effective tax rate for the second quarter of fiscal 2012 was 34.8 million – is 34.8%. Our second quarter net income for SYNNEX was $34.4 million or $0.90 per diluted share. This compares to $31.4 million or $0.85 per diluted share in Q2 2011.

Turning to the balance sheet, our accounts receivable totaled $1.1 billion at May 31, 2012 for a DSO of 41 days, which is up three days from the prior year quarter. Inventory totaled $875 million or 34 days at the end of the second quarter, which is down three days from the second quarter of 2011. Days payable outstanding was 31 days and down two days from the end of the prior year second quarter. Hence, our overall cash conversion cycle for the second quarter of 2012 was 44 days, which is up two days from the second quarter of last year.

Our debt-to-capitalization ratio was 18.9%. This is down from 27.9% in the second quarter of 2011. At the end of Q2, between our cash and credit facilities, the company had well over $600 million available to fund growth.

Other financial data and metrics of note for the second quarter are as follows. Depreciation expense was $4.2 million. Amortization expense was $2.1 million. Hewlett-Packard, at approximately 36.2% of sales, was the only vendor accounting for more than 10% of sales. Capital expenditures for the quarter was approximately $2.7 million. Preliminary year-to-date cash flow provided by operations was approximately $122 million. Q2 annualized ROIC was 10.1%, up from 9.3% in the prior year. Trailing four quarter ROIC was 11.7%, up from 10.3% as of Q2 2011.

Now, moving to our third quarter 2012 expectations. We expect revenue to be in the range of $2.55 billion to $2.65 billion. This is consistent with more recent economists forecast for the second half of 2012 economic outlook and also reflects normal seasonal trends. This guidance also takes into consideration a change of about $100 million to $120 million in revenue from gross distribution to net fee-for-service basis in Q3 as part of our ongoing 2012 transition of certain customers' business.

For net income, the forecast is expected to be in the range of $34.4 million to $35.7 million and corresponding diluted earnings per share is anticipated to be in the range of $0.91 to $0.95.

A few comments about this profit projection. The forecast reflects a more normalized profit profile of our distribution business which we think is more likely in a current economic environment relative to the same quarter of 2011. The third quarter of 2011 distribution business included the benefits of very strong vendor incentives earned in the normal course of business. Forecast also reflects some continued investments in our GBS infrastructure and cost associated with winning, restructuring and ramping of the significant new business.

Third quarter of 2011 also included the benefits of a $4 million adjustment and contingent earn-out in the GBS segment that benefited EPS by $0.11 in 2011. As a reminder, these statements of Q3 expectations are forward-looking and actual results may differ materially.

I will now turn the call over to Kevin Murai, President and Chief Executive Officer, for his perspective on the business and the quarterly results. Kevin?

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

Thank you, Thomas. Good afternoon, everyone, and thank you for joining our call today. I'll begin by sharing with you some of our second quarter highlights and our views on the demand environment. After that, I will discuss our long-term focus areas and competitive differentiators.

In the second quarter within our distribution segment, we continue to grow at above market rates. As Thomas mentioned, our Q2 revenue reflects the 2012 transition of certain customer contracts from gross revenue to a net fee-for-service arrangement. So after factoring this in on an apples-to-apples basis, we saw organic growth that was positive and better than the recent softness experienced by the overall IT channel.

In the United States, stable sales of our commercial IT products were partially offset by weak consumer spending. Once again, we achieved double-digit growth in our higher margin technical services division. In Canada, we continue to perform well and we achieved above market growth in our commercial business partially offset by the impact of a weak consumer market. In Japan, our business was about flat year-to-year, which we believe is good performance in that market. With our ERP system firmly in place, we will continue to focus on further margin improvement. Also of note for the quarter is our year-over-year margin expansion in our distribution segment.

Turning to the GBS segment, let me start by saying that I'm pleased with the progress we're making on winning new business and I continue to be optimistic about the contributions that our GBS segment will deliver in the near future. As I remarked in the prior quarter, in the short-term, as we ramp up our new business, our operating margin will be negatively impacted. I also reported that we signed a record amount of new business in Q1 and I'm pleased to tell you that our momentum has continued through Q2. As Thomas shared, the magnitude of our wins as measured by cumulative trailing12 months annual revenue signed has increased significantly in the last six months. As these new contracts become fully on board, we expect to grow our margins and revenues.

Now, turning to our third quarter guidance. Our forecast reflects strong execution in our distribution business given the more modest outlook for the second half of the global economic recovery coupled with continued progress in our GBS segment. Looking back in time from our third quarter last year and keeping in mind the year-over-year mechanics that Thomas discussed, we enjoyed significant benefits from vendor programs as we grew specific lines much faster than market. In addition, the hard drive shortage also added significant gross profit to our business over the past few quarters. Our forecast for Q3 is based on a more normalized distribution margin profile. In addition, we continue to make investments in our future, including enhancements to our cloud platform, our renewals business, our Hyve Solutions division, and our technical solutions division. Together with the enhancements we've been making in our GBS segment, our growth investments are a little higher than normal. However, we have always invested in our future and we expect to deliver continued margin expansion resulting in year-on-year EPS growth at a rate higher than our sales growth.

So now on to the headline I am most proud of this quarter. Q2 2012 marks SYNNEX's 100th consecutive quarter of profitability. That's a solid 25 years of profitability. I believe this remarkable milestone is proof of the historic success of our business model, strategy, and our undying focus on execution. It is also a key differentiator between SYNNEX and other distributors. All the credit goes to our more than 10,000 employees around the world and I want to thank the entire team for this great achievement. Although our business strategy has evolved over the past 25 years, what has remained constant is our primary goal of delivering increasing shareholder value. What's even more important than our proud past is the dedication we have to continue to grow shareholder value.

Today, we believe we are uniquely positioned not only to enhance our superior margin profile, market share gains, and other financial metrics, but also to continue to provide us competitive advantage moving forward. Allow me to elaborate. First, in our distribution business, we operate a unique hybrid distribution model offering broad-line IT products in a highly efficient way, as well as enterprise solutions that leverage our efficient logistics engine. It is through this model that we are able to manage our product portfolio and deliver a superior margin structure.

Second, we are serious about services. Our Global Business Services segment not only contributes as a high-growth high-margin business, but also has growing synergy with our distribution business.

Third, we value innovation. We believe we have taken a thought leadership role in the market in areas such as the cloud, our focus on key vertical markets, and our ongoing evolution to provide more and more valued services as part of our IT solutions.

Last but not least is the deeply embedded culture at SYNNEX that drives disciplined financial and operational performance throughout the company, which is characterized by our low cost leadership position, very disciplined M&A decisions and a highly flexible and variable cost structure, which we manage well throughout the various economic cycles, even through the great recession.

All of these differentiators combine to position SYNNEX uniquely as an innovative, disciplined financially flexible low-cost leader in our space. And again, I commend our entire 10,000 plus team of associates worldwide for their outstanding accomplishments. In celebration of our 100th straight quarter of profitability, our executive team will be ringing the opening bell at the New York Stock Exchange tomorrow.

In other news, we recently announced that our CFO, Thomas Alsborg, plans to retire from SYNNEX to spend more time with his family and to pursue new interests. He will be remaining with us through the end of November and we have begun a search for new CFO. Thomas joined the company in 2007 and has been a strong executive leader for SYNNEX, helping to oversee significant growth of our company. He has played a key role in helping us to focus on important drivers of value creation and investor returns. We will miss his contributions, but we all wish him well in his future endeavors.

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

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

Lori Barker, Senior Director-Investor Relations

Kim, we're ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Matt Sheerin with Stifel, Nicolaus.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Yes, thanks and good afternoon everyone. So my first question, Kevin, if you could elaborate a little bit more on your commentary on [ph] in demand (22:25). It sounds like consumer is a little softer; enterprise is still sort of chugging along. Could you give us a little bit more color particularly what you're seeing – we've seen some major vendors and even some resellers about some enterprise push outs. Could you just characterize in more detail the environment right now?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. Overall, when I look at the market environment today – where we saw great strengths by the way is really in our core IT distribution. SMB was strong. I would tell you our enterprise business though was probably bucking what you've heard a little bit because we did see good performance in our enterprise business. It was really more in the retail segment where we saw some softness. Part of it, I think, was driven though by some back-to-school business being pushed a little bit further out, likely driven by Windows 8 and really where PC products up until this month had not had any free or low-cost upgrade to Windows 8.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And as you look in terms of your guidance for the August quarter, Kevin, I guess the midpoint is just under 5% or 4% or so, does that take into account the still muted outlook for retail or are you expecting that back to push for the very reason you just stated?

<A – Kevin Murai – SYNNEX Corp.>: I think we do expect to see a good back-to-school season this year. So we're kind of assuming that we're hitting the ball down the middle, in terms of what retail is going to be. I do believe that with the new equipment, the new PC laptops and ultra-thins that are coming out for back-to-school, coupled with Windows 8, at least in terms of upgrade, that we should see at least a good back-to-school season.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. And just lastly on GBS, I know you have lots of encouraging signs in terms of the pipeline there and you're making investments. When do you expect – when should we expect to see that that margin expansion start to kick in when the revenue flows through and you don't have added costs? Are we talking this fiscal year or beginning of next year? If you could give us some sort of timeframe?

<A – Kevin Murai – SYNNEX Corp.>: Yes. And Matt that's – please understand, that's a bit of a difficult question for us to answer because on the one hand, when we look at the overall business, the core services business is actually performing very, very well. In fact, core services does operate at EBITDAs into the double digits already.

As we have more and more success in winning new business, for a large part of that business, the initial ramp-up of that business includes a number of months where we're paying all the costs to do the on-boarding of new people, the training in some cases, incremental facilities. And so, as we bring on more and more new sales, obviously, longer term as we get them on-boarded, the profitability does improve, as well as the top line.

However, because we've been so successful in winning that business, it's actually hard to pinpoint an exact quarter when we're going to actually see that profit margin get back up to say a double digit number.

<Q – Matt Sheerin – Stifel, Nicolaus & Co., Inc.>: Okay. That's helpful. Thanks, and Thomas congratulations on your decision.

<A – Thomas Alsborg – SYNNEX Corp.>: Thanks, Matt.

Operator: Thank you. And our next question comes from Brian Alexander with Raymond James.

<Q – Brian Alexander – Raymond James & Associates>: Yeah. Let me echo the congratulations to Thomas. And can you guys elaborate on what you mean by more normalized operating margins in distribution? I mean, do you expect operating margins in distribution to decline over the next few quarters and how does that factor in Japan? Maybe just give us an update on whether Japan profitability continued to improve?

I'm just wondering how we should think about distribution operating margins going forward, excluding the HDD benefits I know you got in Q4 and Q1. So kind of normalizing for that, are we still expecting margin expansion is the question?

<A – Kevin Murai – SYNNEX Corp.>: Right. So – and so Brian, there's a few moving parts here. I think that over the past few quarters, the benefits from the hard drive shortages certainly have provided benefit back to our gross margins and our operating margins as well.

If you go back in time and you look at what we've delivered in terms of our operating margins, we've seen a pretty good trend of increasing profitability. When you factor in the comments that both Thomas and I spoke of, hard drives being one, vendor incentives that we experienced as well for strong incremental growth in certain markets, you'll actually see that we still continue to improve our margins.

Our margins, I would tell you, have a lot of headroom in continuing to improve because the underlying business strategy that we have, more and more services being wrapped around products we sell, a continued shift of mix of our business to more technical type products and solutions as well as GBS continuing to grow and that margin profile improving over time. So you can – we do fully believe that our margins will continue to expand, but it's just been a number – a few quarters over the past year where we've had some, I guess, out-of-ordinary benefit to our gross profit.

<Q – Brian Alexander – Raymond James & Associates>: Okay.

<A – Thomas Alsborg – SYNNEX Corp.>: This is Thomas, just to tag on a little bit to that, so in addition to the obvious of the last few quarters having some of the benefit of the hard disk drive shortage, one of the reasons we called that – made out that comment too, is on a year-over-year comparison, as you look at Q3, 2012 to Q3, 2011, of course Q3, 2011 also has the anomaly of the $4 million earn-out that we called out on the call.

<Q – Brian Alexander – Raymond James & Associates>: Yeah.

<A – Thomas Alsborg – SYNNEX Corp.>: And then we also wanted to make sure it was understood that a couple quarters, including Q3 of last year but recently other quarters as well, have really benefited from normal business operations, but really benefited from some very nice vendor rebates. But as Kevin said, our expectation is that we will continue to see our operating margins moving up and to the right. So we just wanted to put it in a little bit of context because there was a few pieces in that year-over-year compare.

<Q – Brian Alexander – Raymond James & Associates>: Okay. And then I apologize if you touched on this, I did hop on a little late. But in GBS, it sounds like your significant wins continued this quarter. Did you quantify or could you quantify those new wins and maybe give us some perspective of total contract value or backlog kind of relative to the $48 million in revenue run rate that you are on as of this quarter?

<A – Thomas Alsborg – SYNNEX Corp.>: I'll start with that and then I'll invite Chris or Kevin to pipe in. So, we shared with you a trailing 12-month annual business win. So to be clear, as an example, if you look at Q2 and you look at the amount of business that we wrote or contracts that we won over the last four quarters, and this is on an annual contract basis, that number as of the end of Q3 was about $34 million worth of business. That's exceptionally high compared to our normal trend.

If you go back just six months ago, the same number, again trailing 12-month wins contracts would have been about $10 million, so we've more than tripled our run rate in terms of wins of business. And I should also point out that some of these wins are not just annual. In fact, many of them were multi-year contracts.

But the reason we wanted to share this is because we've talked a lot in recent quarters about significant investments we're making in the GBS business in order to go out and win new business and we thought it would be helpful for you to hear the kind of business we're winning as a result of those investments.

I do want to point out though that this is not necessarily a number you would add to whatever forecast you might have had for us for the next 12 months without also considering there are always puts and takes in the business and for example that is only the takes and not the puts that could be going forward, sun-setting contracts and business that we may release for one reason or another. So you have to be careful what you do with the number we shared with you.

And finally, I do also want to mention to you that this is not a metric we intend to share on a regular basis, simply because we think for competitive purposes, it's not advantageous for us to do that. But we think it's useful in the context of explaining why the investments we've made are weighing on our operating margins.

<Q – Brian Alexander – Raymond James & Associates>: So, what's kind of the average length of contract would be my first follow-up to that, Thomas? So over how many years should we expect that $34 million to be recognized? Part two; does that support double-digit growth for GBS for the foreseeable future? And part three is, could you help us understand, if not quantitatively, directionally, is that more on the renewal side or the call center side? And then I'll get back in queue. Thanks.

<A – Christopher Caldwell – SYNNEX Corp.>: Hi, Brian. It's Chris.

<Q – Brian Alexander – Raymond James & Associates>: Hey Chris.

<A – Christopher Caldwell – SYNNEX Corp.>: So the first question regards to the contract length. Most of the contracts that we are seeing now are between three and five years. While we still have some annualized, I would say that we continue to make more and more progress in multi-year deals, which tend to have a higher start-up cost just as note because you are amortizing over a longer period of time.

Also, in terms of supporting double-digit growth, our goal is always to grow faster than market and we continue to see that with the wins we are very confident that will continue along. Most of the deals that we are winning have a renewals component to it in utilizing our technology and our investments, which also tends to have a higher drag in regards to the investments we need to build out those platforms prior to them going into production.

<A – Kevin Murai – SYNNEX Corp.>: I think we're ready for the next question. Thank you.

Operator: Thank you. And our next question comes from Ananda Baruah with Brean, Murray.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Hey. Thanks guys for taking the question and Thomas, congrats and we will certainly miss working with you. It's been a lot of fun.

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

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Yeah, you are welcome. Just wondering, relative to what – for the guidance, can you give us some sense of what kind of seasonality you have for both the retail and corporate business relative to what you would typically expect? So, I guess asked another way, do you have normal seasonality baked into the corporate business even despite what's going on with macro?

<A – Thomas Alsborg – SYNNEX Corp.>: Ananda, I'm afraid I didn't quite understand the question.

<A – Kevin Murai – SYNNEX Corp.>: Well, I can start and then, Ananda, if I'm not answering it properly, please ask again. But our Q3 guidance, it's about almost a 5% growth sequentially, on top of that, obviously not answering the seasonality question, it is over 5% growth on a year-on-year basis too. And those are our apples-to-apples numbers, obviously, accounting for the gross to net change that we had.

But all that being said, at around 5% sequential growth, that is pretty typical of our seasonality. So, our guidance does reflect typical seasonality. With the new businesses that we brought on, in particular in distribution like Japan, that does start to change things a little bit. But what we actually see out there is a seasonal trend and continued market share gains in the businesses that we continue to perform strongly in.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Yeah. That's helpful, Kevin. I guess so the follow-up to that one would be, retail was a little soft this quarter and it sounds like you're expecting some bounce back in retail due to back-to-school that you're expecting to see. So, I mean, is it kind of safe to say that that's sort of the only change in what you're seeing is the softer retail this quarter and then the reversion of that back in the current quarter?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, I mean, we do expect to see continued strength in the SMB segment, so our commercial IT business, where we don't see us changing much this quarter from last quarter. But on the retail side of the business, I've spoken of some of the areas of relative softness that we saw and some of the reasons for it.

But that being said, I think that there are – I think that there are some drivers that will help the retail business coming into back-in-school such as the new products that are being launched and in addition to that the upgrade path that they can get to Windows 8 when that actually does get launched later on this year.

I think, the only thing I would add is that we also noted in our prepared remarks earlier that it just appears that the outlook on the overall economy for the second half of this year seems a little bit more modest than it might have been at the beginning of the year.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: Yeah, fair enough. And I guess, it just seems that you guys are still – you're still guiding to normal seasonality, which means you still feel pretty good, despite the softer macroeconomic outlook?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, and again I think where that comes from, Ananda is what I said earlier, which is, we do expect to continue our trend of growing faster than the market.

<Q – Ananda Baruah – Brean, Murray, Carret & Co. LLC>: And then just another one from me, how are you viewing – how do you guys see PC inventory levels right now in the channel, I guess, with you guys, relative to what you have expected at this point of the year, particularly given that the PCs are a bit softer, at least from a market-wide basis than we all expected kind of coming into the quarter?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. I mean, from our perspective, what we have to do well, of course is manage inventory, Ananda. Though we have no challenges, of course, in our own inventory, our inventory quality is very, very high. The only thing I would note is really more a Q2 comment, which is more on the shortage side, you know I think one of the drivers of relative softness in the retail segment early on in Q2 anyway was – there was still a bit of a drag from the hard drive shortage and our ability to get as many retail PCs as we could have sold.

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

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

Operator: Thanks Ananda. Our next question comes from Osten Bernardez with Cross Research.

<Q – Osten Bernardez – Cross Research LLC>: Hi, there. Good afternoon and thanks for taking the questions. My first question pertains to whether you'd be able to share with us, sort of what – what the end products or what the verticals performed well or not as expected within your commercial IT business?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So, overall, and really more at a high-level, Osten. We – from a strength's perspective, desktops actually continue to perform well and that's really more a commercial comment than it is a retail comment. Storage performed well, networking was also a strength and that was primarily for us, we continue to enhance our overall line card on networking and communications and I think our view on growth in networking is probably even a little bit better than the overall market, very similar market in Canada as well, just in terms of what I said.

On a softer side, on a relative basis, software was a little bit softer. Printers, we all – I had posted last quarter that they were a bit softer than normal that continued through Q2 and then on the gaming side of the business that was also a little bit softer than normal.

<Q – Osten Bernardez – Cross Research LLC>: Got it. Thank you for that. And turning to your Japan business, you mentioned relatively flat year-over-year from a sales perspective. Would you be able to speak to where you are with respect to your margin improvement stance?

<A – Kevin Murai – SYNNEX Corp.>: Sure. Talking about Japan, Japan is – as a geo that we operate in, we don't get the same level of market data that we get for the U.S. and Canada. And so we do have to rely on some overall IT market trends when we look at where we are, but we do believe that kind of a flattish growth is pretty good performance on a relative basis for us.

But of course, our focus is on improving overall profitability. I can tell you that we are on track to our targets. Q2 marked the first quarter where we were fully onboard with our new ERP. And that, as I said before, really does provide the foundation and toolset for us to really get that one and two layers deeper in really driving our margin profile better.

In addition to that, we're also focused on increasing our line card with an enhanced vendor assortment. I think one notable point to make about that is this quarter we actually had a vendor that we hadn't dealt with before actually appear on our top 10 list in Japan. So, I think that's a pretty significant vendor add.

And then in addition to that, as we've continued to evolve our business here in North America, adding more and more services to our overall business mix, that's also part of our strategy and on the roadmap to improve margins in Japan too.

<Q – Osten Bernardez – Cross Research LLC>: Appreciate that. And finally from me at the moment, with respect to your investments in adding sales resources, would you be able to comment on the split between the resources necessary to address your GBS business versus resources – I believe you're also planning to enhance numbers with respect to your value-added higher sort of enterprise computing business, is that correct? And secondly, sort of how – where are you in that process?

<A – Kevin Murai – SYNNEX Corp.>: So, just to be clear, what we've pointed out last quarter and today are the incremental investments in sales that we've made specific to our GBS business.

<Q – Osten Bernardez – Cross Research LLC>: Yep.

<A – Kevin Murai – SYNNEX Corp.>: As we – as – back in the – on the other side in the distribution business, whether it'd be for enterprise or other of the more high value-add service areas, it's been part of our model as we've – it's been part of our model as we've brought on our technical service division that the investment in sales has kind of been a part of what we do.

So, really nothing specifically to point out there, except we continue to grow that segment of the business. The overall SG&A structure is a little bit different than core IT, but again, it also comes with higher operating margins too. And I'll turn it over to Chris just to talk a little bit more about the incremental investments in sales on the GBS side.

<A – Christopher Caldwell – SYNNEX Corp.>: Osten, in terms of our investments in sales, certainly we're growing our sales team that's out working with opportunities. But part of the sales cycle on the services side is also making investments in term of prototyping some of the platforms for installation as well as some of the presales consulting that we do when we're building solutions for our customers.

And as we've built up the pipe, that certainly takes more resources to build that out and get those opportunities through to closure and getting contracts signed. So, we continue to make investments in that a little more aggressively than we have planned, originally just taking – being more opportunistic to the opportunities that we see in front of us.

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

Operator: Thank you. [Operator Instructions] Our next question comes from Shaw Wu with Sterne, Agee.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay, yeah, thanks. I just had a couple questions; I noticed in the quarter you announced a partnership with Huawei and then you also announced something with F5 and IBM. I guess, those are – that's more in software and services. Any color you can provide on Huawei in terms of how that's going? That's the first question. And second, just in terms of F5 and IBM, and in terms of what that does include and what it doesn't include? Thanks.

<A – Kevin Murai – SYNNEX Corp.>: Okay. So, on Huawei, Shaw, we announced the distribution relationship with Huawei for the U.S. A big part of our growth strategy on the distribution side of the business is to enhance our overall portfolio. In one area that we were a little bit weaker in, just in terms of line card, was on the networking communication side. So, over the past two years, we've had a number of additions to our line card, Huawei being the most recent one. But I think a couple of other notables are Aruba and Arista that happened over the past number of months. That, coupled with the strength that we have in our relationship with HP on the ProCurve line, makes us –

provides us with actually a pretty robust networking and communications line now. So with respect to Huawei, we just started with them. Although today we are selling the product, really we're in the early stages of recruitment of partners, and identifying where the sales opportunities are.

So, I would just say more to come on that, but I think the bigger story really is the overall focus and growth opportunity that we have in our entire networking and communications business.

With respect to F5, that really was a GBS announcement, a Concentrix services announcement. So Chris maybe you can answer that one.

<A – Christopher Caldwell – SYNNEX Corp.>: So, Shaw, for F5, we're looking after their renewals using both technologies and telesales individuals for Latin America and have put that into production in the last quarter.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. And then, I mean, since you have this deal with F5, I guess, is this – can we read that into – could that partnership expand into I guess, a full relationship or anything we can take from that or...

<A – Kevin Murai – SYNNEX Corp.>: Shaw, it's – we don't comment on any specific vendors or any specific discussions we have going on, but it's always been our goal to be very selective in the line card that we do carry and trying to pick the best-of-breed vendors in the different categories that we have. But beyond that, really can't comment specifically on it.

<Q – Shaw Wu – Sterne, Agee & Leach, Inc.>: Okay. And then just the last question, just around IBM, I see it as around Hadoop. Now is this – I guess, this is – now would this be within your – just wanted a clarification in terms of where – which unit this would be; is it services or software?

<A – Kevin Murai – SYNNEX Corp.>: So, in the past, we've talked about our Hyve Solutions division, which – the focus of that group is large-scale datacenter. And going back, I guess over a year now, we've been an active partner with Facebook in deploying their Open Compute environment, primarily starting with servers. So, since then, we've obviously expanded that business to a number of other partners.

But in the Open Compute world, of course storage and Hadoop is now a net new and growing opportunity for us. And that announcement really just talked about a partnership that we have with IBM and being able to deploy overall Hadoop solutions in conjunction with our Hyve division.

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

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

Operator: Okay, and our next question comes from Lou Miscioscia with CLSA.

<Q – Louis Miscioscia – CLSA>: Okay. Thank you. And Tom, hate to see you go once again.

<A – Thomas Alsborg – SYNNEX Corp.>: Thanks, Lou.

<Q – Louis Miscioscia – CLSA>: So, good to – a lot of obviously good questions. Maybe, if you could just comment on government – I'm not sure, if your business is more state and local or federal and obviously, we've got a couple of year-ends coming up rather quickly, if you're seeing budgets actually coming through their – for all the business you have there?

<A – Kevin Murai – SYNNEX Corp.>: Yeah. I mean, I would tell you that, the government business for us is stable, probably not a lot more color to add on that. But, as you said Lou, with the government year-ends coming up, that typically is a busy time for us in terms of increased federal spending. And so, we do anticipate to enjoy the benefit of that. In answer to the first part of your question though, the – more than half of our total government business is federal. But we also participate in state, local and education.

<Q – Louis Miscioscia – CLSA>: Okay. Maybe, you know, lot of good questions and answers on demand. Maybe, if you could just give us any kind of feel you got from visiting any of the resellers just about sentiment, obviously we stare our screens all day and they very often don't look too attractive, so sometimes it's – we buy into the doom and gloom too much.

<A – Kevin Murai – SYNNEX Corp.>: So, what was the question, Lou?

<Q – Louis Miscioscia – CLSA>: Sure, just the sentiment if you were out there talking to any of your resellers?

<A – Kevin Murai – SYNNEX Corp.>: Yeah, I mean, overall sentiment, in particular in the SMB segment tends to be positive, understand that when you – when you characterize or describe a typical VAR that sells into SMB, I mean, these guys are small businesses for the most part themselves. But very, very nimble always looking for opportunities, very agile and able to change their business model. So, they look for opportunities, they tend to be optimistic, I think, as I said earlier, SMB was a strong growth area for us over this past quarter and we expect that to continue. So, in particular from the core commercial group, we still hear more than optimistic tone out there than not.

<Q – Louis Miscioscia – CLSA>: Okay. Great. And obviously Tom, best of luck.

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

Operator: Thank you. And our next question comes from Robbie Wilkins with Goldman Sachs.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Hi. Thank you for taking my questions. Most of my questions have been answered, but just I have one follow-up on the weakness you're seeing in retail. Are you seeing any competitive pricing pressures? And then secondly, is there any product category that stands out.

<A – Kevin Murai – SYNNEX Corp.>: Yeah. So, the nature of our retail business, we have what we call our secret sauce, that in services and knowledge that we take to specific retail markets that we deal with. And so, because of that, I think our value add, our relationships with our key customers are very, very strong. So, I wouldn't necessarily characterize that market as having any change in any kind of competitiveness on pricing at all.

Just in terms of adding color to the weaknesses in retail. I think a lot of it is really drawn more out of the PC space. And there were really two things that happened last quarter. One was we started off the quarter with still feeling some of the impact of the hard drive shortage, thereby driving shortage in finished products, and then as we got towards the end of Q2, a push from the beginning of back-to-school sales into this current quarter.

And as I had noted before across retail, consistent with our first quarter, printers and the printing category was also soft.

<Q – Robbie Wilkins – Goldman Sachs & Co.>: Great. Thank you.

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

Okay. Thank you, Robbie. And my understanding is that was our last question. So, I just want to close by saying that I'm very pleased with our second quarter execution, our market share gains, and continued expansion of profitability, and we're looking forward to further speaking with you in upcoming investor conferences. Thank you.

Operator: Thank you. And this does conclude today's conference. You may disconnect at this time. Thank you for your participation.