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SYNNEX Corp. (SNX)

Q2 2018 Earnings Call - Acquisition of Concentrix Corp by SYNNEX Corp. Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the SYNNEX Second Quarter Fiscal 2018 Earnings Call. Today's call is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

Mary Lai
Head of Investor Relations, SYNNEX Corp.

Thank you and welcome to the SYNNEX Corporation earnings call for the second quarter fiscal 2018 ended May 31, 2018. Joining me on today's call is our President and CEO, Dennis Polk; our CFO, Marshall Witt; and our EVP and President of Concentrix Corporation, Chris Caldwell. The executive team will first review second quarter fiscal 2018 financial results followed by an overview of today's announcement to acquire Convergys.

Following their prepared remarks, we will open the call to a Q&A session. As a reminder, today's call is being webcast live and will be recorded. Please note that some of the information you will hear today consist of forward-looking statements with the meaning of the federal securities laws. Such statements may relate to without limitation, market, demand, investment, growth, revenue, non-GAAP net income and diluted EPS, amortization of intangibles, margins, adjusted operating margin, operating leverage, cost, tax rate, seasonality, integration, benefit, synergies, timing and other aspects of the proposed acquisition, dividends and the overall performance. Actual results or trends could differ materially from our expectations.

For more information, please refer to the Risk Factors discussed in our Form 10-K for fiscal 2017 and the discussion of forward-looking statements in our earnings release, and Form 8-K filed with the SEC today. SYNNEX assumes no obligation to update any forward-looking statements, which speak as of their respective date.

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

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

Marshall W. Witt

Chief Financial Officer, SYNNEX Corp.

Thank you, Mary, and thank you all for joining us today. As Mary said, we issued two press releases today, first being our Q2 results and Q3 guidance, and the second announcing the definitive agreement we reached to acquire Convergys. I'll cover our quarter results and guidance and then Dennis and Chris will provide their thoughts on our numbers and the Convergys acquisitions.

Our second quarter revenue, non-GAAP net income and diluted EPS, all exceeded expectations and beat the high end of our guidance. Both revenue and non-GAAP diluted EPS also set Q2 records. On a consolidated basis, total revenue was $5 billion, up 26% compared to $3.9 billion in the same quarter last year and up 25% when you adjust for FX.

Technology Solutions revenue was a record for Q2 of $4.5 billion, representing an increase of over 30% over the prior year period. Organic growth was 13%, primarily driven by broad-based growth across the portfolio. This will be the last quarter that we break out Westcon-Comstor. Concentrix performed in line with our expectations, revenue with a Q2 record of $491 million, up 2% from $482 million in the prior year quarter.

Now, turning to gross profit. Our second quarter gross profit dollars totaled $429 million, up 15% or $57 million compared to a year ago. The increase in gross profit dollars was driven primarily by contribution from the Westcon-Comstor acquisition and the overall revenue growth in the Technology Solutions segment.

Our gross margin was 8.6% compared to 9.5% in the prior year period. The decrease in gross margin was primarily due to the higher mix of Technology Solutions business with the Westcon-Comstor acquisition and customer and product mix within our systems design and integration solutions businesses.

Second quarter total adjusted SG&A expense was $277 million or 5.6% of our revenue compared to 5.9% revenue or $231 million from a year ago. The increase in SG&A was primarily due to the acquisition of Westcon-Comstor and supporting the growth in our Technology Solutions segment, partially offset by operational efficiencies in our Concentrix business and for Concentrix, we expect to capture more operating expense leverage going forward.

Second quarter consolidated non-GAAP operating income was $152 million, an increase of $11 million year-over-year while our non-GAAP operating margin of 3.1% was down approximately 50 basis points from the prior year period primarily due to the higher mix of Technology Solutions business. At the segment level, second quarter Technology Solutions non-GAAP operating income was $111 million, up 8% or over $8 million from the prior year period, primarily benefiting from the Westcon-Comstor acquisition. Adjusted operating margin was 2.5% and consistent with our expectations.

For Concentrix, non-GAAP operating income in the quarter was $41 million or 8.4% of revenue, up from the prior year quarter of $39 million or 8.1% revenue. This came in line with our expectations of operating margin expansion on a year-over-year basis and it reflected good progress towards our targeted double-digit operating margin for our fiscal 2018.

Second quarter net total interest expense and finance charges were approximately $16 million, up from $9 million in the prior year quarter. The increase was due to higher borrowing cost to fund acquisitions and ongoing working capital requirements and an overall higher interest rate environment. The current quarter interest expense benefited by a $2.6 million de-designation of an interest rate swap associated with the Westcon-Comstor debt. For Q3, we believe a range of $19 million to $20 million is the appropriate level for a quarterly net total interest expense and finance charges.

The effective tax rate of 27.7% for the second quarter was consistent with our target compared to 37% in the prior year period. The tax rate for the second quarter excludes one-time repatriation tax charge of $17 million or $0.42 per diluted share, due to an update on regulatory guidance and ongoing requirement in the computation. We expect the tax rate to remain within the targeted range of 27.5% to 28.5% for the remainder of fiscal 2018 excluding the impact of any true-up adjustments related to the tax reform act.

Our second quarter non-GAAP net income was $95 million, up $12 million or 15% from the prior year period. Our second quarter non-GAAP diluted EPS was $2.38, up $0.30 or 14% over the same period a year ago.

Turning to the balance sheet, our AR totaled $2.7 billion on May 31 of 2018 for a DSO of 50 days, up eight days from the prior year quarter primarily due to the impact of the Westcon-Comstor acquisition, but improved by two days sequentially. Inventories totaled $2.1 billion or 43 days at the end of the second quarter, an improvement of 12 days year-over-year and improved eight days sequentially. This was reflective of benefits from the Westcon-Comstor acquisition.

Days payable outstanding was 46 days, up two days from the prior year second quarter, primarily due to the impact of the Westcon-Comstor acquisition. Hence, our overall cash conversion cycle for the quarter was 47 days, a decrease of six days from the prior year period and also down three days from last quarter. While solid improvement, we believe we can continue to improve this metric.

From the financing perspective, our debt to capitalization ratio for this quarter was 43.9% and consistent with our expectations. Preliminary cash flow provided from operations was approximately $68 million for the second quarter, bringing our trailing 12-month operating cash flow from operations to $385 million. And at the end of Q2, between our cash and – between cash and credit facilities, SYNNEX had over $1.9 billion in liquidity available to fund growth.

Other financial data and metrics of note for the second quarter are as follows. Depreciation expense was $23 million. Amortization expense was $26 million. Capital expenditures for the quarter was approximately $28 million, primarily due to continued investments in geographic expansion in Concentrix.

Trailing four quarters ROIC was 9% and 11% for adjusted ROIC. We repurchased approximately $46 million or 450,000 shares of our own stock in the second quarter. At the end of the second quarter, the remaining authorization under our three-year share repurchase program is approximately $254 million out of a total of $300 million authorized by our board back in July of 2017.

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

Now, moving to our third quarter fiscal 2018 outlook. We expect revenue to be in the range of $4.8 billion to $5 billion. Non-GAAP net income is expected to be in the range of $97 million to $100.7 million. Non-GAAP diluted EPS is expected to be in the range of $2.42 to $2.52 per share based on weighted average shares outstanding of approximately $39.6 million.

Non-GAAP net income and non-GAAP diluted EPS guidance excludes after-tax costs of approximately $19.1 million or $0.48 per share related to the amortization of intangibles. Please note that these statements of third quarter fiscal 2018 expectations are forward-looking and actual results may differ materially.

I will now turn the call over to Dennis.

Dennis Polk

President, Chief Executive Officer & Director, SYNNEX Corp.

Thank you, Marshall, and good afternoon. Let me start by saying we are proud to announce the result of a strong quarter today, setting new May quarter records for both revenue and earnings as well as exceeding our guidance on all metrics. We generated second quarter revenue of $5 billion, representing 26% growth from the prior year including very strong organic growth.

Our non-GAAP EPS of $2.38 per share reflects excellent execution across both of our segments. Our financial performance demonstrates that we are continuing to see very good results from the investments we have made in recent years. Our growth led us to be recognized as number 169 in the recent Fortune 500 rankings, representing an improvement of 29 positions in one year.

Some highlights from our second quarter. Our Technology Solutions segment had a record Q2 revenue of 30% growth from the prior year period and the organic growth rate of 13% was meaningfully better than the overall market. We experienced strong revenue growth across our portfolio with strength in PCs, peripherals, networking, security and cloud-related offerings. Regarding end markets, all major verticals

we serve along with the overall SMB market performed well.

From a geographic perspective, the U.S. market led the way, with solid performance from our Latin America business as well. Our Hyve or systems design and integration solution business, also executed well during the quarter, with its revenue coming in above plan. Profitability for this business was in line with expectations and consistent with our comments during our Q1 earnings review.

Moving on to the Westcon-Comstor aspect of Technology Solutions, our Westcon-Comstor Americas business had another solid quarter, completing the third full quarter post-acquisition. The operating performance in the second quarter was in line with our internal forecast, growing year-over-year. We're also pleased to say we have completed the integration of the North American business onto a single operating platform. This effort was completed in less than nine months from the transaction close date. This integration was the most complex and by far the largest that our team has taken on, and it was not an easy task. I want to thank all our dedicated team members, vendor partners and customers for their effort and support in making this a reality.

After another 30 days to 60 days of fine-tuning and polishing our processes, we will focus our efforts to capture additional revenue and customer synergies in full force. We have gained deep capabilities in the attractive security, UCC and networking markets and now, we can leverage a seamless platform to grow our business.

Turning to our Concentrix segment, as Marshall indicated, Concentrix posted a record second quarter revenue of $491 million. This was the eighth consecutive quarter of growth on a year-over-year basis. I'm also very pleased by the profit results from the Concentrix business in Q2, growing EBITDA and non-GAAP operating income while rebalancing our portfolio by replacing short-term and lower value business has been impressive.

Now, looking at our third quarter outlook. Within Technology Solutions, we expect our legacy distribution business to perform in line with historical seasonality and expect the Westcon-Comstor business to be slightly better than its recent seasonal norms.

As Marshall indicated, it will be difficult to fully track this business and break out details moving forward as this is now being blended into our overall entity. Our Hyve business is expected to be down year-over-year primarily driven by timing, as it appears we had a sales pull in from Q3 into Q2; further evidence that this is a lumpy business profile and difficult to forecast.

The near-term profit margin profile is expected to remain challenged, which is consistent with what we said last quarter due to high-volume business with a few customers. We are continuing to invest significantly in this business, but will focus more towards margin growth over revenue growth in the coming quarters.

Overall in our Technology Solution business, we are gaining market share and our competitive advantages are increasingly evident. From a macro view, the technology sector remains healthy, and we are seeing solid demand for the technology products we offer. Our guidance reflects this but the only headwinds being the rising wage and interest rate environment. We are making our way through these – both of these aspects, as always.

For Concentrix, we expect to continue to combine excellent execution with strong signings. We believe this will keep us on track to our goal of double-digit operating margins for fiscal 2018. I want to take this opportunity to thank all our associates around the world for their hard work and dedication, and thank our business partners for their trust and support in us every day.

Now, onto the big news of the day: our announcement regarding the acquisition of Convergys. This is a very important transaction that will move Concentrix to a clear leadership position in the customer engagement BPO market. With Convergys, Concentrix will have the geographic scale and expertise to fulfill all aspects of customer experience service needs, especially in high value engagements. Equally impressive will be the combined customer list of the two organizations, spanning a multitude of the Fortune 1000 today to the disruptors who will be on this list in future years. We see many opportunities to sell deeper into the joint customer base.

In addition to the positive business aspects of the deal, the financial aspects are very good as well. The transaction will be immediately accretive in a first year post-close, moving to double-digits by year two. We believe the synergy benefits from this transaction will be achieved and hope to surpass them as we operate the two businesses. Lastly, we are pleased with the financing of this deal. Post-close, we will have the same day to day liquidity flexibility that we enjoy today.

Before I turn the call over to Chris for his comments on our Q2 and this transaction, I want to say how pleased I am that we will now have two business segments with respected industry-leading profile and solid financial returns. Chris?

Christopher A. Caldwell

Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

Thank you, Dennis. I'll first review our Q2 results briefly, and then discuss the exciting announcement to acquire Convergys. Our focus in Concentrix this quarter continued to be around driving leverage in our business, bringing on strategic new logos and being disciplined in maintaining the health of our overall portfolio so we were very happy with how we executed along these lines.

Q2 revenue was $491 million, with EBITDA of $59 million. Our year-over-year revenue growth was 2%, but our EBITDA growth grew almost 4 times faster at nearly 8%. As we mentioned in prior quarters, we have been rebalancing our portfolio and strategically replacing it with higher value services which position us well for the future.

From an expense perspective, our operating expenses were actually down year-on-year. As we turn to the third quarter outlook, we expect to see year-on-year improvements in operating leverage in line with what we have accomplished year-to-date. Some of our newly expanded countries are performing above our expectations including strong growth in Vietnam, Thailand, Jamaica on a relative basis.

Now, moving on to the announcement of the acquisition of Convergys. We are very excited about Convergys joining the SYNNEX Concentrix family. Convergys is a pioneer in our industry and fits the strategic need, bringing a very talented team which services a strong client base over a broad and complementary footprint.

We believe today's announcement provides a strong opportunity to drive growth by cross-selling within our joint client base, leveraging the incredible talent pool and being able to support many of our clients on a more robust geographical footprint. In fact, we will be adding 12 new countries, bringing our new total footprint to 40 countries around the world, servicing clients in 70 different languages.

Convergys clients will receive similar benefits with our presence in Asia-Pac, Middle East and Brazil. This is a unique set of assets we are adding for our portfolio and this greatly enhances our global leadership position. This transaction continues to also strengthen four of our strategic verticals, particularly banking and financial services, healthcare, technology and automotive. We add to our already strong portfolio of clients comprising of Fortune 1000 clients with high growth market disruptor companies. We are able to leverage our investments in RPA, Chatbot and our recent Tigerspike enterprise mobility acquisition now across the much broader client base as we believe it will drive value add for our clients and take share.

This announcement also brings significant and immediate accretion to our financial profile. It is expected to increase our revenues by $2.7 billion adjusted EBITDA pre-synergies by approximately $330 million and accretive to non-GAAP EPS in the first year after close. We also anticipate significant cost synergies which we will realize over the first three years and approximately $50 million per year for a total of $150 million.

Cost savings will primarily come from delivery center alignment, rationalization of third-party spending and the leverage associated with our global infrastructure. Our primary focus is to ensure there is no disruption for our clients and we look forward working with all of our new team members. We expect to close this transaction by the end of 2018 calendar year and expect the integration to take up to 12 months after close which we will provide new updates on. We have talked to Convergys clients and joint clients with Concentrix and they are very excited about the deal and see growth opportunities available in front of us.

I will now turn the call back to Dennis.

Dennis Polk

President, Chief Executive Officer & Director, SYNNEX Corp.

Thanks, Chris. We know it's quite a bit of news to digest today. We look forward to answer your questions now and we'll turn it back to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question is from Adam Tindle from Raymond James. Your line is now open.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks and good afternoon. Right, a lot of information to digest. So, maybe I'll start with the synergies on the Convergys acquisition. Can you just maybe talk about how you arrived at those numbers because I look at it and your core business is approaching the double-digit operating margin for this year, so wouldn't think there is a lot of excess capacity to layer additional business into, so maybe talk about what you can do differently with this asset versus what they did as a public company and if there is any tie-ins to what you did with the IBM BPO acquisition historically, that would be helpful.

Christopher A. Caldwell

Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

A

Yeah, for sure, Adam. So, first off, I mean, this is a joint exercise that we did with the Convergys senior executive teams to make sure that we are aligned both on what was required to support the clients as well as what was a key to support the staff going through. And where we saw savings, frankly, were some central rationalizations where we're literally located across the street from each other, where we have duplicate infrastructure around our networks and some of the other global infrastructure that we have.

And then in terms of our third-party spend are a fairly significant portion of the rationalization. And then frankly, by having a global footprint that's even enhanced by bringing the two organizations together, we also are able to lower our costs just by what we've been doing over the last 12 to 24 months by increasing our own operating income levels by on a larger scale.

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Q

Okay. And maybe just as a follow-up separately on the near-term trends in the third quarter revenue guidance. I don't think we've seen a sequential decline in revenue in 3Q in quite some time on an organic basis. I know it's normally a strong public sector quarter in the distribution business. Just talk about what's driving the 3Q revenue guidance, please?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Hi, Adam. This is Dennis. Yeah. I understand that it's somewhat unusual for our Q3 to be seasonally lower than Q2. There's really nothing going on with regards to our guidance. It is reflecting very normal seasonality. The only unusual factor this quarter is what we talked about in our script in that we had a significant pull in, in our Hyve business and that caused the Q2 revenue to be much more than we expected and then that now reflects into our guidance into Q3.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.
A

And then Adam, one other thing, we clearly had a strong, call it, U.S. TS business in Q2 as well.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

So, that's – this is Dennis one more time, Adam. That's another way to say we're just being conservative as always in our guidance.

Adam Tindle
Analyst, Raymond James & Associates, Inc.
Q

Okay. That's helpful. Thank you.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.
A

Thank you.

Operator: The next question is from Matt Sheerin with Stifel. Your line is now open.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Yes. Thank you. Just a couple on both the acquisition and the core business. Regarding your commentary on Hyve and some of the issues; the margin pressures and I think you said revenue was down year-over-year although it was up more sequentially than you had expected, in terms of the margin pressure within that business overall, I know, Dennis, you talked about diversifying the customer base so that you would see margins start to come up toward the end of the year. Is that – do you have any visibility into some of those new programs that would help support that or is the visibility limited because it is so lumpy in terms of when customers spend?

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.
A

Matt, this is Marshall. The Q2 overall revenue performance with Hyve was up year-over-year and as Dennis had mentioned in his prepared remarks, we had some pull in from Q3 into Q2. So just want to clarify that Dennis's comment in regards to Q3 compares is that some of that did pull in being lumpy, but nothing reflective of overall demand environment for Hyve.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

No. I know, I understand that, but in terms of the – but it sounds like you said Hyve was going to be down year-over-year in the August quarter?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

That's correct. I think Marshall was just reacting to the first part of your question, but...

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Got you. Got you.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

...you are correct in that it will be down in the current quarter Q3 that we're talking about. As far as your question regarding visibility, we have limited visibility to the business as we talked about in the past as far as what we expect to shift in the coming quarter and the quarter beyond that. So, it's hard to guide and give any forecast beyond that. So what we see in this quarter, again, as a reduction versus the prior year, but again, primarily due to the fact that it seems like Q2 is going to be or is that normally high due to the pull in.

As far as working with new customers, we are doing that consistent with what we talked about last quarter. We're very focused on bringing on a new set of customers to diversify the existing business that we have and try to move away from the current high volume with just a few set of customers. We've made some progress in Q3 and we expect to make more in the rest of Q3 and then Q4 and then in 2019 as well.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Thank you. And regarding the transaction that you announced. You said half of it was going to be in stock, the $2.4 billion and the half in cash. Could you give us some parameters around the cost to capital and what in interest rates might look like on that debt?

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.
A

Yeah, Matt. This is Marshall. From a very high level preliminary, we're thinking the cost to capital probably somewhere between 4.5% to 5% and we plan to do what we've always done in the past which is look at the overall interest rate environment and do the right amount of fixed versus floating.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Okay. Great. And if I can just – one quick third one, just regarding your commentary on Westcon-Comstor looking better than seasonal for the August quarter. Is there any specific reason for that? Is it just good demand for security products or any new products or is it also because of the fact that you're on one system and that to the fact that you're on one system and that's making it easier to cross-sell?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Correct, Matt. I think it's a little bit of what you just said as far as being on the same system. Although as I said, we're still going to do some polishing and what have you, so we expect that to be more evident in Q4. It's also the fact that another quarter under the SYNNEX umbrella, so we're all working together more and working on opportunities together on a more easier manner. And the last one is the quarter last year was their last quarter under the prior management. So, we're going through a transition there as well. So, when you add up those three items, we think we'll be better this quarter than last year.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Great. Thanks a lot.

Mary Lai
Head of Investor Relations, SYNNEX Corp.
A

Thank you, Matt. Next question, please.

Operator: The next question is from Shannon Cross with Cross Research. Your line is now open.

Ashley Ellis
Analyst, Cross Research LLC
Q

Hi. This is Ashley Ellis on for Shannon today. My first question is on the transaction. If you look at Convergys guidance, it looks like they have two large customers that are really impacting the revenue growth. So I'm curious after the transaction closes if you're going to have the same sort of exposure and if there's any significant customer overlap.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

All right. Thank you, Ashley, it's Chris. So first off, we expect the two clients that they call out on their earnings call to continue to decline as sort of in-line rates, with what they have publicly broadcast. But really when you put the whole company together, $4.7 billion, this only dilutes the impact to that and we believe that we can outgrow that decline. We also believe that bringing these services to those types of clients that are looking for new consumption of digital services and some of RPA and some of the AI technology, we actually believe we can start to incubate some more growth in those particular clients.

There's not a significant client overlap in terms of revenue concentration and the client combination is actually extremely complementary. As we mentioned from the prepared marks, they bring a significant number of Fortune 1000 companies to the table as well as good market disruptors that have high growth and the management team have done a good job of growing those clients despite some headwinds from some of the two clients that they have called out the past.

Ashley Ellis
Analyst, Cross Research LLC
Q

Okay. Great. Thank you. And then, switching to your other acquisition, it's been about a year since you acquired or since you announced the acquisition of Westcon-Comstor. So, I'm just wondering through that time, is there anything that surprised you or unexpected? And then how are you thinking about the growth opportunity for Latin America going forward? And that's it for me. Thank you.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Sure, Ashley. This is Dennis. Thanks for the question. As far as after the nine-plus months now, nothing materially has surprised us as we've acquired this company and integrated into our business. I think that the evidence of our disciplined due diligence process when we acquire companies. So, that played out well in this transaction with no surprises.

As far as the Latin American business of Westcon-Comstor, we're very pleased with the performance of that part of the business to date. With each passing quarter, the business has improved its growth rates and profitability and we believe with some investments in that business by bringing additional North American lines to that part of our entity, we can grow that business even faster. So, we are excited about the Latin American part of Westcon-Comstor.

Ashley Ellis
Analyst, Cross Research LLC

Q

Okay. Thank you.

Operator: The next question is from Ananda Baruah with Loop Capital. Your line is now open.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hi. Good afternoon, guys. Congratulations on the transaction.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Thank you.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey, you're welcome. Two, if I could. The first is just going back to the Hyve conversation. I believe you guys said last quarter that you had anticipated it would be, I think, you said a few quarters for new designs to get to the market. I think you'd made mention of some new customers coming on in the fall as well. Do those timelines for those two things, do they still in line with what your expectations have been and I'm just asking because I believe there is a comment about focusing the next few quarters on profit as opposed to revenue. So, I thought to get the context there and I have a follow-up. Thanks.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Sure. This is Dennis. Yeah, we still are working with several new customers. We're still in, call it, proof of concept or test rack phase, if you will. That can take some time. I think as we talked about the Hyve businesses similar to our Concentrix business where the sales cycles tend to be much, much longer than our distribution business and that's playing out in the recent quarters for our Hyve business. But we do have a good list of customers that we're working and we're exchanging systems once again and we do think we'll get the benefit of those sales cycles in the coming quarters.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

And Dennis, how about new designs, to for – well, I think there is the conversation last quarter also included new designs that exists that you're expecting existing customers to take to second half of kind of say this calendar year and that was the cause for some of the – sort of waiting on those designs that some of the cost of the pricing pressure you would see in the last couple of quarters. Has that dynamic altered it all or is that still in line with what your expectations have been, the timing of it?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Yeah. The dynamic has not changed at all. We still are an environment where most of our business with a few large customers is higher volume, lower margin. But it's a similar process to working with new customers where we're working on a proof of concept type systems. And just like in new customer business, we expect those to take hold and provide benefits to us in the future as well with existing customers.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

One more, Ananda.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Yeah. Well, okay, guys, well – I'll take the rest offline with that. Just with regards to Convergys, the $150 million, your next three years synergy or three years post-closing, the $50 million annually, are those all costs or are there revenue synergies in there as well? And if those are all cost and not revenue, just give you sort of -- give us a sense of what are some of the dynamics that need to occur to get the revenue synergies going? Thanks.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

A

Yeah. Ananda, those are all costs, the $150 million straight out of the sort of SG&A. Frankly, we expect revenue synergies from this. As we have mentioned, they've got a client base that is looking to expand across a footprint that we can offer.

We similarly have a great client base just looking to expand across some of the places that they offer. And then combined, we have almost 6,000 – about a little over 6,000 sort of highly credentialed individuals that know RPAs, that know Six Sigma, that know a degree in analytics. They are really driving a lot of value across the combined client base. On top of that, we also have our Tigerspike business as well. So, frankly, we expect a lot of potential in the cross-selling and upselling in the client base and helping really future proof our clients as they go forward supporting our customer base.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey, Chris, with that, would you expect those to begin to occur relatively immediately upon close?

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

A

So, as always in this business, it takes a while to kind of build in those cross-sell opportunities because we are literally changing how some of our clients operate in order to achieve those. But we do expect them to start to impact within a couple of quarters after close.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

That's great. Thanks a lot.

Mary Lai
Head of Investor Relations, SYNNEX Corp.
A

Thank you, Ananda.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

Thanks.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Thanks.

Operator: The next question is from Frank Atkins with SunTrust. Your line is now open.

Frank C. Atkins
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thanks for taking my questions. Wanted to kind of ask a little bit more kind of a strategic question as this fits in with SYNNEX, the acquisition, why make this acquisition now and how do the two cultures come together?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Hi. This is Dennis. So I'll start with the first part and then Chris can talk about the culture side. Why make this acquisition now? It's a opportunity that presented itself. And when we looked at our overall business and where we wanted to take the Concentrix business, our initial plan was to do smaller tuck-in type acquisitions. But when the Convergys asset came to the table, we saw a way to immediately get to where we wanted to go with the business. For all the reasons that Chris talked about and I talked about in our prepared remarks, it made sense to invest in this business. And as far as the culture side, I'll turn it over to Chris.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

Yeah. Certainly, Frank. I mean, from a culture perspective, both organizations are extremely focused around execution to the clients. That was some of the resounding message coming out of both the joint calls as well as the Convergys calls prior to closing the deal. And really when the focus is on the clients and focus on the people, the cultures will match and grow and we spent a lot of time with the senior executive team of Convergys to know that we're aligned and how we see the market, how we see the changes in the market and how we both feel that can grow within the market.

Frank C. Atkins
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. Great. That's helpful. Can you give us an idea of the industry exposure of the Concentrix side with the Convergys assets included? It's going to – broadly how much telecom exposure or how much financial services exposure, et cetera?

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

Yeah. So, Frank, they are going to come and put that out. There is some sort of non-public information that [ph] well, what's getting (37:35) the public domain [indiscernible] (00:37:35). Overall, roughly increases our share in financial services, increases our share in healthcare. It keeps about the same consumer electronics, increases our share in automotive, and as a consolidated business, it decreases our concentration in telecom pretty significantly.

Frank C. Atkins
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. And do you expect any integration costs that you could call out and then lastly, just talk about the pricing environment on the Technology Solutions side? Thanks.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

So, in terms of the costs, Frank, we'll continue to keep the public notified as we go through our calls with where we are at. But generally, what we see is about $1 for every savings, there's about $1 of one-time costs that are associated with those savings. And so through the next three years, we expect that be around $150 million.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

And as far as the pricing question for the Technology Solutions business, throughout Q2, the pricing environment remained very consistent with Q1 in prior quarters. As we always say, we are in a very competitive business. And things tend to be more competitive in the higher volume transactions, but nothing materially changed from a competitive environment in the last quarter.

Frank C. Atkins
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. Great. Thank you very much.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Thanks, Frank.

Mary Lai
Head of Investor Relations, SYNNEX Corp.
A

Thank you. Next question, please.

Operator: The next question is from Jim Suva with Citi. Your line is now open.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you very much. Can you comment a little bit about the process for the acquisition? Was it a full-blown bidding process? Was it privately negotiated and then are there stops or breakups in place should something occur whether it be government or another bidder coming in to protect the entities?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

This is Jim – this is Dennis, Jim, sorry. I'll go in reverse order. There are standard closing conditions that occur in a transaction like this, primarily around HSR in the U.S. and in other countries with similar laws. And then each set of shareholders have to vote on this transaction. So that is also a aspect of the sale process. But all of that is typical and normal in a transaction like this and we expect things to process in an orderly fashion.

As far as the process that was run, that's really a question for the Convergys management team. But we can say that we believe there were multiple parties bidding for this asset.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Great. And Convergys is on the line, right? So the question is can you talk about the bidding process?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

There is no one from the Convergys management team on this call today.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Oh, sorry. I thought the – okay, then I'll ask a different follow-up. Regarding the stock buyback, did it get put on hold given the pending M&A or how should we think about that?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

No. This is Dennis again. We did – it's not put on hold. We saw the active plan that we have. As you've seen, we've been pretty opportunistic in our stock buyback. We took advantage of what we thought was an attractive price in the last quarter and executed frankly, a record amount of buy shares repurchased in the quarter. And we'll stay opportunistic in the coming quarters and to the transaction.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

And Jim, the price averaged around $101.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

No, I meant going forward, no. I got the backward, going forward, it's like since you've been happy to take out half debt and half stock, it sounds like you're still going to keep buying back stock. You're not putting in a future stock buy back on hold till the transaction closes?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

No, we are not. Again, we'll stay opportunistic in our repurchase program.

Jim Suva
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thank you so much for the detail. That's greatly appreciated.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Thank you.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

Thanks, Jim.

Operator: The next question is from Lou Miscioscia with Pivotal Research Group. Your line is now open.

Lou Miscioscia
Analyst, Pivotal Research Group LLC
Q

Okay. Great. Thanks, folks. So, just some more Convergys questions I suppose for someone that hasn't covered it before. Obviously, it looks like there are revenue in margins from the last three years have been flat to down. Maybe help us with the due diligence you did on that and obviously, the prior question about the two customers that are decreasing could mention why and then what's the comfort level, I guess, with the rest of the customer base?

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.
A

Yes. So, Lou, I mean, the declining customer is very, very targeted to the talk of segmentation and well-documented in the Convergys public call and public report. The Convergys team have done a very good job of sort of growing other business. They just haven't been able to outrun some of the decline within the telecom sector and that's primarily focused around a large movement by two of their clients to move work offshore where they kept the work but just the dollar diminishes as it moves from an onshore model to an offshore model. So, doing that due diligence first has we got very comfortable with the dynamics of the business, where they're growing their market, the clients that they are attracting and how we can continue to help that grow and certainly grow the combined business.

Lou Miscioscia
Analyst, Pivotal Research Group LLC
Q

Okay. One of the things that you mentioned obviously is EPS accretion of mid-single digits in the first year and double-digits in the second year and I assume you're referring to the current run rate EPS level. Correct?

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.
A

Yes. That's correct on a pro forma basis.

Lou Miscioscia
Analyst, Pivotal Research Group LLC

Q

Okay. Now, one of the concerns, I guess, about -- Chris, we've talked about before and it sounds like you guys are managing it pretty well. It was just with automation coming in, the concern is that the revenue trajectory of the call centers would be down and even though possibly the margin on the business that is converted over with the RPA automation could be better, but still the net operating margin down – dollars could be down. So, just give us, I guess, one more current refresh on both SYNNEX and then Convergys's situation with that, please?

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

A

Yeah. For sure, Lou. So, if you look at the Concentrix business, I mean, as Dennis pointed out, expense was eight consecutive quarters that we continue to drive revenue and also improve our operating income to our goal of double-digit by the end of this year. And part of that is by implementing RPA and digital technology and all the services that we've talked about that other people might see as a hindrance, but we actually see as a benefit for our overall business and we're going to continue to see more concentration of that come in to our business.

With the Convergys business, I mean, they similarly are doing similar things. I think together, we can speed it up. I think together, we can actually drive some of those changes a lot faster within the client base. And where we see it really taking traction is we actually are growing net revenue because we are taking more share from our competitors within those existing clients where we might share a client with other competitors.

Lou Miscioscia
Analyst, Pivotal Research Group LLC

Q

Okay. Last one. Thanks for taking my questions. Obviously, this would take you out on the Convergys size M&A for quite a while, while you integrate, at least a year I would assume. How about on the TS side? Would a deal like this take you out of, I guess, anything other than sort of a small tuck-in? It's just the M&A strategy, I guess, on the other half of the business? Thank you.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Sure. This is Dennis. So, I'll take that one. As far as the TS side of the business is concerned, as we talked about or I talked about in my script, Marshall and his team did an excellent job in financing this transaction and leaves us in a very good liquidity position. So should an opportunity come up on the TS side, we're not precluded from doing it because of this transaction.

Lou Miscioscia
Analyst, Pivotal Research Group LLC

Q

Hey, guys, good luck with everything.

Dennis Polk
President, Chief Executive Officer & Director, SYNNEX Corp.

A

Thank you.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

A

Thank you.

Christopher A. Caldwell
Executive Vice President & President-Concentrix Corporation, SYNNEX Corp.

A

Thank you.

Operator: We show no further questions in queue at this time. Speakers, I will turn it back to Mary for closing remarks.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

Thank you, everyone, for joining us today. We appreciate your time and we look forward to speaking with you next quarter.

Operator: That concludes today's conference. Thank you for your participation. You may now disconnect.