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SNX - Q4 2017 SYNNEX Corp Earnings Call

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PRESENTATION

Operator

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

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

Mike Vaishnav - *SYNNEX Corporation - Senior VP of Corporate Finance & Treasurer*

Thank you, Cindy. Good afternoon, and welcome to the SYNNEX Corporation Earnings Conference Call for the Fiscal 2017 Fourth Quarter and Full Year Ended November 30, 2017. Joining us on today's call are Kevin Murai, President and CEO; Dennis Polk, COO; Marshall Witt, CFO; and Chris Caldwell, EVP and President of Concentrix Corporation.

Please note that some of the information you will hear today consist of forward-looking statements within the meaning of the federal securities laws. Such statements may relate to, without limitation, market, demand, investment, growth, non-GAAP net income and diluted EPS, amortization of intangibles, margin, revenue, costs, expenses, shares, tax rate, tax savings, seasonality, profit, [budget], adjusted operating margin, strategy, overall performance and succession plan.

Actual results or trends could differ materially from our expectations. For more information, please refer to the risk factors discussed in our Form 10-K for fiscal 2016 and discussion of forward-looking statements in our earnings release and Form 8-K filed with the SEC today. SYNNEX assumes no obligation to update any forward-looking statements, which speak as of their respective dates.

Also, during this call, we will reference certain non-GAAP financial information. Reconciliation of non-GAAP and GAAP reporting is included in today's earnings release and related Form 8-K on our website at www.synnex.com.

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Now I would like to turn our call to Kevin Murai for the business update. Kevin?

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

Thank you, Mike, and thanks to all of you for joining our call today. As you've seen, in addition to our fourth quarter results, today, SYNNEX announced board and leadership changes that will be effective March 1 of this year. I will be retiring as President and CEO, and Dennis Polk will take on this role.

The last 10 years at SYNNEX have been nothing sort of spectacular, and I am so fortunate to have been able to work with an incredible team and the best individual leaders in our industry. Together, we accomplished great things. Dennis has been a great partner to me and has played a key role in establishing our strategy and overall execution of the business. I am confident that under Dennis's leadership, SYNNEX will continue to grow and flourish. And I am excited that I will be able to continue to play a role in the company's strategy and growth as Chairman of the Board.

Now I would like to discuss Q4 and full year 2017 highlights before turning the call over to Marshall. After Marshall, Chris will provide an update on Concentrix, and then Dennis will discuss his thoughts on the business.

For our fourth quarter, revenue was a record $5.3 billion driven by strong market demand across the majority of products and services. Our Technology Solutions business turned in another strong performance, growing over 20% when excluding Westcon-Comstor. By product segments, we experienced broad-based growth, including client devices, peripherals, servers, networking and print and cloud-based software with softer demand in on-premise software and components. All of our market segments experienced growth, including SMB, public sector and retail.

The Westcon-Comstor team hit the ground running and for Q4 experienced double-digit revenue and GP dollar growth in the [Comstor] and security division. Concentrix delivered another record revenue of $534 million, record adjusted EBITDA of $82 million and achieved non-GAAP operating margin of 12.1%.

Our strategy to invest in digital and enabling technologies is paying off as we continue to leverage these capabilities across the clients in our portfolio.

On a consolidated basis, we achieved a record non-GAAP operating income of $193 million, representing a 24% improvement from the prior year, and generated preliminary cash flow from operations of $250 million.

As I reflect back on full fiscal 2017, we have a lot to celebrate. We completed our largest acquisition in the history of SYNNEX with Westcon-Comstor. This highly complementary business brings on $2.2 billion of accretive margin revenue to our distribution business and fills key line card and capability gaps in the growing network, UCC and security markets. Technology Solutions revenue exceeded $15 billion, and non-GAAP operating income was $413 million, representing a 30% increase over the prior year with non-GAAP operating margins of 2.7%.

Concentrix revenue was about $2 billion, which put them solidly at the #5 spot globally for CRM BPO companies. Non-GAAP operating margin was above 9%, and adjusted EBITDA was $246 million, positioning Concentrix well to achieve double-digit non-GAAP operating margins for fiscal 2018.

Looking forward, SYNNEX has never been in better shape. With the talented leadership team, a strong bench that's driving exceptional execution and a unique and differentiated strategy that continues to enhance and profitably grow our partners' business, I believe 2018 represents another year of momentum and margin expansion.

Over these last few years, I've had many business partners and investors ask me how SYNNEX is able to consistently maintain above-market growth and performance. I tell them it started 37 years ago, and has been built on a foundation of hardworking, innovative and talented individuals and leaders. I am grateful to have been part of the SYNNEX story for the last 10 years.

Before I turn the call over to Marshall, I want to congratulate Dennis on his appointment to President and CEO. It gives me great comfort in knowing that the company is in very capable hands under Dennis' leadership. I also want to thank a number of others that have contributed to our success during my time at SYNNEX: our executive leaders, Marshall, Peter, Chris and Simon; our leadership teams in Technology Solutions and Concentrix; and all our associates around the world. I also want to thank our business partners for their ongoing business and support and the investment community, shareholders and analysts that I've enjoyed working with over the years.

So now I'll turn the call over to Marshall.

Marshall W. Witt - *SYNNEX Corporation - CFO*

Thanks, Kevin. First, I'll review our results of operations and key financial metrics, and then I'll conclude with guidance for the first quarter of fiscal 2018 before turning the call over to Chris.

Our Q4 revenue, net income and EPS, both GAAP and non-GAAP, exceeded our expectations. On a consolidated basis, total revenue was $5.3 billion, up 36.7% compared to $3.9 billion in the same quarter of the prior year. Adjusting for FX, revenue increased 36.3%.

Technology Solution revenues were $4.8 billion, representing an increase of 41%, compared to the prior year quarter. The Westcon-Comstor acquisition performed well and exceeded expectations. Adjusting for the acquisition and FX, revenue increased by 22%. This increase was primarily due to continued demand for our system design integration solutions and broad-based growth across the rest of the TS portfolio.

Concentrix revenues were $534.4 million, up 6.8% from $500.4 million in the prior year quarter. Adjusting for FX, revenue increased 5.8%. The increase was primarily due to increased volume and the expansion of services to existing customers and the impact of the Tigerspike acquisition.

Now turning to gross profit. Our gross profit on Q4 revenues was $462 million or 8.7% of revenues compared to $378.8 million or 9.7% of revenues in Q4 of 2016. The increase in gross profit dollars was primarily due to the acquisition of Westcon-Comstor. The decrease in gross margin was primarily driven by the higher mix of TS business due to Westcon acquisition and customer and product mix in our systems design and integration solutions business.

Q4 total SG&A expenses were $269.4 million or 5.07% of our revenue. That compared to 5.74% of revenue or $223.2 million in the fourth quarter of fiscal 2016. The increase in OpEx was due to the Westcon-Comstor acquisition, investments in our system design integration solutions business and continued geographic expansion in Concentrix. Both segments continue to effectively manage support costs while growing revenue.

Consolidated non-GAAP operating income was $192.9 million or 3.63% of revenue compared to $156.1 million or 4.02% of revenue in the prior year fourth quarter.

At the segment level, Q4 Technology Solutions non-GAAP operating income was $128.2 million or 2.68% of revenue, up 37% from the prior year quarter result of $93.3 million or 2.75% of revenue due to the Westcon-Comstor acquisition and overall growth in our legacy TS business.

Adjusted operating margin slightly declined in Q4 compared to the prior year, primarily due to products and customer mix in our systems design and integration solutions business and investments in infrastructure and resources. This was partially offset by increased adjusted operating margin from Westcon-Comstor.

For Concentrix, non-GAAP operating income in the quarter was $64.7 million or 12.11% of revenue, up from the prior year quarter result of $62.8 million or 12.55% of revenue. Net total interest expense and finance charges for Q4 were $18.5 million, up from $8.7 million from the prior year quarter; the increase, due to higher borrowings to fund our acquisitions and our ongoing working capital requirements, organic growth in our Technology Solutions segment and higher interest rates.

The tax rate for the fourth quarter of fiscal 2017 was 35.5% compared to 30.5% in the prior year period. And for the fiscal year, it was 35.2% compared to 34% in 2016. The prior year fiscal fourth quarter tax rate was benefited due to certain tax incentives and tax credits and income mix in the various tax jurisdictions. Our fourth quarter non-GAAP net income was $112.4 million or $2.79 per diluted share.

Now turning to the balance sheet. Our accounts receivable totaled $2.8 billion at the end of November for a DSO of 49 days, up 8 days from the prior year quarter, primarily due to the impact of the Westcon-Comstor acquisition. Inventories totaled $2.2 billion or 41 days at the end of the fourth quarter, down 4 days from the fourth quarter of 2016 and down 12 days from Q3 of 2017.

The decrease reflects anticipated working capital improvements in our systems design and integrations business as well as the addition of Westcon-Comstor. Days payable outstanding was 50 days, up 6 days from the prior year fourth quarter, hence, our overall cash conversion cycle for Q4 2017 was 40 days, which is a decrease of 2 days from Q4 of 2016 and down 10 days from Q3 of 2017.

From a financing perspective, our debt-to-capitalization ratio this quarter was 45.9% and consistent with our expectations and up from the prior year primarily as a result of the Westcon-Comstor acquisition.

Preliminary cash flows from operations were approximately $250 million for the fourth quarter. And at the end of Q4 between our cash and credit facility, SYNNEX had over $2.2 billion available to fund growth.

Other financial data and metrics of note for the fourth quarter are as follows: depreciation expense was $22 million; amortization expense was $30 million; CapEx for the quarter was approximately $26 million, primarily due to continued Concentrix investments; and trailing 4-quarter ROIC was 10.3%; and trailing 4-quarter adjusted ROIC was 11.3%.

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 January 31, 2018, to stockholders of record as of the close of business on January 19, 2018. Part of our anticipated tax reform savings will be returned to our shareholders through an increase of $0.05 a share in our quarterly dividend, and the remaining estimated annual benefit will be reinvested into the business and to pay down debt.

Now moving to our 2018 first quarter expectations. We expect revenue to be in the range of $4.35 billion to $4.55 billion. For non-GAAP net income, the forecast is expected to be in the range of $83.2 million to $87 million. And non-GAAP diluted EPS is anticipated to be in the range of $2.06 to $2.15 per share.

Non-GAAP net income and non-GAAP diluted EPS guidance excludes after-tax costs of approximately $19.2 million or $0.48 per share related to the amortization of intangibles. Weighted average shares estimated for diluted EPS are $40 million.

Now for tax reform. For fiscal 2018, we anticipate the tax rate to be in the range of 28% to 30%. Fourth quarter 1 -- I mean, or excuse me, for quarter 1, we anticipate the tax rate to be 30% to 31%. The tax rate does not include onetime impacts related to repatriation tax and remuneration of our deferred tax account. These 2 tax reform items are currently being evaluated and are effective for Q1 of 2018.

The other tax reform provisions will be effective for fiscal 2019, and we are in the process of analyzing impacts of these items.

Please note that these statements of Q1 and fiscal '18 expectations are forward-looking, and actual results may differ materially.

Now I'll turn the call over to Chris.

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

Thanks, Marshall. I'm really pleased with how we closed the fourth quarter and our fiscal year for Concentrix. In Q4, we achieved some important milestones highlighting the growth and success of our business. As Marshall mentioned, revenue for the quarter was $534.4 million, the highest amount achieved in any quarter. The majority of the 6.8% year-over-year growth reflected new client additions as well as additional business from our existing clients.

EBITDA for the quarter was $81.5 million, a 13.7% increase over the same period last year, growing twice as fast as our top line. This was the higher -- highest-ever quarterly EBITDA for Concentrix.

We added 22 new accounts to our portfolio this quarter, 10 of which were from our recently acquired digital team, Tigerspike. Although some of these deals are smaller in size, they provide an entrée into new relationships. We're excited about our existing client base as seeing value in our digital offerings.

This past quarter also featured Double 11 Day in November in the Asian region, and I'm happy how we've helped some of our clients manage their significant volume peaks for that day.

Finally, this quarter, as like others, we are proud to have received 17 new awards, including the Asia's Best Company to Work For in the Philippines region. Our over 100,000 team members are key to our success.

As I reflect back on 2017, I'm pleased with the progress we're making. We've added to our differential offerings, which has helped us reach the $2 billion revenue mark. We have done that by making strategic decisions on which clients and geographies to engage with, sometimes eroding our revenue base in the short-term for longer-term benefits.

We've grown our EBITDA over 44% this year while continuing to make investments in staff development, infrastructure in new countries and the development of software and intellectual property to support new offerings. We expect these investments will have long-term benefits for our business.

Looking ahead, I see the demand environment to be solid. However, we'll be making selective decisions on each opportunity we are in front of. We'll continue to help our clients reduce their workload through the utilization of RPA, which could impact short-term revenue growth but help our long-term margin growth.

We're also making decisions with our clients on navigating some of the regional impacts on labor costs. This year, we've begun to see some mandatory wage increases, which are significantly above the historical norms. We expect this to continue in 2018 in places like Ontario, Canada, India, and the Philippines.

Now turning to Q1 2018. We anticipate the seasonality impact on revenues will be slightly higher due to change in the mix of our client base and scale of some programs than what we experienced last year. We expect some impact from the new Ontario minimum wage increase that we are in the processor of mitigating with our clients.

Our new country expansion is going well, and we're ahead of schedule in bringing them in line with our overall business profitability, although they won't be accretive in Q1.

I'm very pleased with the year and want to thank all our clients for successful 2017 and our staff around the globe for what they do every day. I am -- sorry, delivering great results for our clients and for Concentrix. I also want to take a moment on behalf of all the Concentrix team members globally to thank Kevin for his support and guidance over the years both to the team and myself, personally. It has been very much appreciated.

And now I'll hand over the call to Dennis.

Dennis Polk - *SYNNEX Corporation - COO & Director*

Thank you, Chris. First and foremost, I want to thank Kevin for his leadership and direction over the last 10 years, during which, shareholder value increased significantly, and SYNNEX continued as a premier company in each of our business segments. I also want to thank our Chairman, Dwight

Steffensen, and the rest of the SYNNEX board for their support, insight and confidence in me. Their guidance has provided a steady compass for SYNNEX leadership to successfully transition from Bob Huang to Kevin and now to me.

I'm honored to be the next CEO of SYNNEX, and I accept this role with gratitude. And my commitment to our associates, partners, customers and shareholders will be to continue to successfully navigate SYNNEX through an ever-changing and complex global marketplace.

As Kevin stated, and I reiterate, you're only as strong as the leaders that support you. I am fortunate to continue with a team that is the best in the industry and is one of the primary contributors as to why I'm so confident in our ability to continue our momentum into 2018 and beyond.

Our foundation, built under Bob and then Kevin, is strong and something that I plan to leverage. We will continue with our drive and entrepreneurialism that Bob instilled from day 1 and still exists through today. We will also continue with a partner and associate focus, along with the business diversification strategy that Kevin brought to our business. This all goes along with our excellent leadership team in place that has been very important in shaping our culture.

In a sense, it's business as usual, but this shouldn't be taken that we will remain static. One of the key elements of our success at SYNNEX is the continual challenging of our business to be relevant to all stakeholders, including investors, associates, customers and partners.

We recognize that all our business segments are in rapidly changing markets, and we will continue to invest in each organically and inorganically to ensure we maintain and grow our market leadership positions.

Now for some thoughts on our Q1 guidance. In Technology Solutions, we expect the positive momentum of the overall market to continue. We also expect another solid quarter from our Westcon-Comstor business as we build on the positive first quarter post acquisition.

The market continues to remain competitive, and we have a few expense headwinds from recent investments in our business, but our belief is that we will continue to deliver strong performance given our focus on investing in where the growth is at.

In Concentrix, as Chris noted, we expect Q1 to be within normal seasonal ranges. We have some Q1 wage and investment headwinds, but we also expect that our profitable growth will help to offset these challenges.

Overall, the base fundamentals of our business segments are strong and position us well as we enter 2018. In addition, we have a new U.S. tax act that will benefit SYNNEX, as Marshall noted. We are pleased to return part of these expected savings to our shareholders.

On behalf of Kevin, Chris and Marshall, I want to thank all our associates around the world for their incredible effort and results delivered in 2017. I also want to thank our business partners and shareholders for their ongoing support.

And with that, let's turn the call back to Mike, so we can transition to Q&A.

Mike Vaishnav - *SYNNEX Corporation - Senior VP of Corporate Finance & Treasurer*

Thank you, Dennis. Before I turn over this call to our operator for the question, (Operator Instructions). And with that, let's turn over the call over to the operator for the questions. Cindy?

QUESTIONS AND ANSWERS

Operator

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

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

First of all, Kevin, congrats on a stellar run in the CEO seat, and congrats to Dennis on the new role. Just wanted to start maybe first on Q4 results. I know gross margin is typically up sequentially, and I would have thought that adding Westcon would have been even more of a tailwind this year, but it looks like gross margin was actually down slightly on a sequential basis. Could you just give us a sense of what's contributing to this? Others are talking about a difficult competitive environment. And how we can think about a normal gross margin?

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

Yes. Adam, first of all, thank you for your congratulations as well. Q4, really, when you break down the different businesses, Concentrix, we do reports separately, so you do see where our operating performance is there. Within Technology Solutions, if I do break down, our distribution business grew at a clip, we believe, faster than overall market, but our gross margins held relatively steady in that part of the business. Westcon-Comstor was accretive to that overall business, and it was really our systems design and -- our systems design business that, on the one hand, had much higher-than-forecasted revenue, and a big part of that was due to some unanticipated acceleration of shipments into Q4. But with that, it was really the mix of customers and products that we had in that incremental revenue where the margins were on the lower end of what we actually supply on that business. And that really was the reason that our margins were somewhat lower than in Q4 for TS.

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

Okay. And just one for Chris, when you think about the double-digit operating margin for fiscal '18 in Concentrix, it implies nearly 100 basis points of margin expansion, which is above growth in recent years. Can you just walk us through the key drivers in how you arrived at that goal? How much is mix? Operating leverage? Ramp costs attenuating, et cetera?

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

It's a couple of things. First of all, as we made in the prepared remarks, we are being very selective on the types of the clients we're driving as well as bringing new technology into those clients, which tends to erode some of our standard revenue but drives a higher operating margin for us. And so that's been planned and kind of baked into our operating results of where we see the business going. Also, as we talked about in the last couple of years, by focusing on insurance and banking and health care in some of the higher-margin, more stickier verticals, we've seen better growth in those areas because of our effort, and we're starting to see the returns of some of those into our operating performance as well. And then clearly, we're just being very focused on continuing to drive operating leverage in the businesses as we manage our costs effectively and get scale in some of the jurisdictions that we've opened up in, which is just sort of the blocking and tackling of day-to-day business.

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

Okay. So just to be clear, I know in the past, you've had a goal to grow revenue like 7% to 10% in Concentrix, but it sounds like the margin could be achieved through that actually if revenue doesn't even grow and potentially declines in 2018.

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

Our goal is always to continue to grow, but we're more focused on getting operating leverage and margin expansion that we've talked about. And that's really been in the plans to drive that through this year.

Operator

And our next question is from Matt Sheerin from Stifel.

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

Just following up on Adam's question regarding some of the margin pressures that you saw in TS relative to the Hyve business. You haven't really talked about big mix issues in that business in the past. So could you elaborate on that? And is that also because you're broadening your product portfolio and your customer set? Or are there some competitive issues in line with that?

Dennis Polk - *SYNNEX Corporation - COO & Director*

Matt, it's Dennis. It really comes down to mix, like we talked about before. And what we mean by mix is the mix of customers. We had a concentration in just a few of our larger customers in the quarter. As you expect, larger customers typically have a little more pricing power, and that will bring margins down. And that's what occurred in the fourth quarter.

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

And you said that there was -- it looks like some pull-in on to Q4, but it sounds like you're guiding TS overall to seasonal trends. In fact, Kevin sounded relatively positive or continued to be optimistic in terms of growth opportunities in the core business. So are you expecting that Hyve business to continue to have a good strength? Or could it be lumpy and maybe down a bit sequentially as you've seen in the past?

Dennis Polk - *SYNNEX Corporation - COO & Director*

Yes, Matt, understand it is -- given the pull-in, if you will, that occurred, we're a little more cautious on Q1. But I think we've -- what we talked about in the past, this is a business that's very hard to predict. So right now, we're staying conservative on the first quarter but also ready for an increase in business as well.

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

Okay. And just quickly, as quick follow-up, you mentioned due to the lower tax rate that you would be giving some of that benefit back to shareholders. Could you be more specific about that? Does that mean that you might increase dividends? Or look at a buyback?

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

Yes, Matt, in -- as part of our earnings press release, we also announced an increase in our quarterly cash dividend to $0.35 per share. So that is one component, of course, of what we will do with the benefit coming from lower tax rates. Obviously, the other 2 key areas are continued investment in the growth of our business as well as paying down debt.

Operator

And our next question is from Frank Atkins from SunTrust.

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

Congratulations from me as well. Wanted to ask a little bit about Concentrix. Any areas of strength or weakness by industry, sector or geography?

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

So Frank, we saw strength in Asia, primarily driven by Double 11 Day within the quarter. And then we are also seeing sort of some strength in the health care space. That's more of a North American comment.

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

Okay. That's helpful. And then if I could ask a little bit more about the tax issue. What is baked into that forecasted rate and some of those numbers you gave? Is that just the reduction in the corporate tax rate? Does that include some of the territorial-oriented provisions? If you could walk us through kind of preliminary thinking on that tax rate.

Marshall W. Witt - *SYNNEX Corporation - CFO*

Frank, this is Marshall. The Q1 forecast is 30% to 31%, and that reflects the reduction in the corporate tax rate. As I've mentioned in my prepared remarks, we anticipate in Q1 to make the adjustments associated with repatriation and with deferred taxes, but we are still looking at that to ensure we understand it fully before we make an adjustment there. That will be considered onetime.

Operator

And our next question is from Shannon Cross from Cross Research.

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

Kevin, congratulations. Enjoy your retirement. And Dennis, congratulations to you, too. I guess, my first question is, from a tax perspective, more on the business side and also the increased minimum wage and some of the changes that you talked about at Concentrix, how are you thinking about geographic position of headcount? Was there any slowdown during December in terms of maybe RFPs in that as people are trying to understand the implications of what it could be? And then maybe a pickup afterwards? I'm just -- I'm trying to think about how both of these things sort of have impacted how you're thinking about running Concentrix in 2018. And then I have a follow-up.

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

So Shannon, just from a Concentrix standpoint, it doesn't really change our strategy. Some of our clients have looked at it to see what the impact is, but it doesn't necessarily change where they're putting staff or anything else. Really, the focus from most of our clients is adopting more technology, focusing more on RPA and other things that will kind of change their business overall as a whole, and we don't expect to see any material impact from our clients changing their buying habits.

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

Okay. And -- but I guess, from a -- you talked about again on Ontario, I mean, do you anticipate having to shift headcount around? Or are customers more willing to give back, for instance, on pricing, in order to offset the pressure you might feel from a higher minimum wage?

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

Yes. And specifically in Ontario, we're seeing a bit of a combination of both. We're seeing some clients who understand the benefit of being in that local market and, therefore, are looking at making adjustments to their cost models for that. We are seeing some clients that over the next number of months will migrate out to other markets that are more cost-effective for the work that they need to be done. Overall, in our portfolio, that does have an impact, but it's not a substantive headcount. It's just that the labor costs tend to be higher within that marketplace.

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

Okay, great. And then I have a question. I'm not quite sure, I mean, TS and Hyve, and I'm not quite sure where it would hit, any thoughts on Intel and Meltdown in some of the comments, some of the concerns that are out there just in terms of capacity? I mean, it seems sort of at a quick brush that maybe if capacity is an issue with regard to some of the data center servers, that could be a positive for Hyve, maybe overall, it could be positive for the server market over time. I'm just curious to think about and maybe, I don't know, services it could drive some incremental revenue. Is that just stretching it too much? Or is there something there that we should think about?

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

Yes. Shannon, we've certainly seen all the same things that you have. Frankly, I think it's a little bit early to really understand if there's going to be a positive or negative implication on that. We certainly haven't heard a lot yet from the market. But certainly, as we do, we'll be ready to reap the benefit, if there is any.

Operator

And our next question is from Ananda Baruah from Loop Capital.

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

Kevin, we're going to miss you. I don't know what to say.

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

Thank you, Ananda.

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

I'm down, but I'm happy for you. And great job, obviously. It's been a pleasure working with you. Look forward to hopefully working with you going forward as Chairman and Dennis, congrats. I guess, just a couple, if I could. Clarification, the 22% adjusted TS growth that's in the press release and adjusted for Westcon, is that apples-to-apples as if Westcon were with you a year ago? Or is that without Westcon?

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

Ananda, that's without. It's excluded completely.

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

Okay, got it. And then you said Westcon was going double -- grew double digits itself, I believe.

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

Yes, specifically in the security and [Comstor] divisions.

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

Okay, great. And I guess, what are you guys seeing as general demand drivers? Obviously, demand has been pretty sticky for you guys. What dynamics are you seeing? What specific dynamics in the marketplace would you tend to attribute the ongoing strength to?

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

Yes. I think from an overall macro level, the economy has continued to be very strong. And you see it in so many other areas, low levels of unemployment, more reinvestment back in the business. And so the overall watermark, I'm sorry, overall water level of demand has increased. In particular, when we continue to see strengthened demand in some of our Broadline product categories like print, as an example, I think that is a good sign that the overall market continues to be very healthy, and that's what we've seen for the better part of 2017 and certainly through our fourth quarter. Strategically or when you look at technology trends and growth drivers there, those continued to be the same. We're continuing to see more and more investment shift towards cloud-based compute. More and more investments shifted towards more end-to-end solution, IoT-type solutions, and that is adding another layer of growth and a growing part of our overall portfolio. So that's really where we're seeing growth come from right now, Ananda. And I think the overall message on market growth on -- in the technology business is that it's been strong, and it remains strong right now.

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

All right, Kevin, appreciate the context. And with regards to Hyve, I guess, and then just kind of cloud, CSP and general public cloud, 2 questions. What's your expectations for project build-out in calendar 2018 relative to calendar 2017 from an industry perspective?

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

From an overall industry perspective, that -- we expect -- especially where our business is focused more on the hyper scale market, we expect to continue to see that market continue to grow and grow faster than the overall technology market.

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

Got it. Okay. So it's a follow-through. And then just with regard to the Hyve specific, best you can tell the mix dynamic, do you think -- do you view those as being more temporary? Or is there something contextual going on inside of the customers that you won deal -- that you did business within Q4 inside of the product portfolio that could have some kind of a tail to the mix dynamics for a little while here?

Dennis Polk - *SYNNEX Corporation - COO & Director*

Yes, Ananda, this is Dennis. So I think it will exist for a while, this dynamic, where we're more concentrated on a few customers as those customers are growing quite quickly. And then as we -- we have a good pipeline right now. But as we bring that pipeline in, it does ramp slowly. So again, the dynamic of the larger customer will survive that for some time. So I think for the next couple of quarters, we'll see similar circumstances.

Operator

And our next question is from Jim Suva from Citi.

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

As a quick follow-up to the server demand and the chip security vulnerabilities around like Meltdown and Spectre, have you seen like a pause at all? Or just continuing? I know it's kind of relatively new, but I'm just wondering, I mean, some industries are talking about a slowdown of 10% to

30%, which could be a big uptake to the demand. But others are saying well, maybe the paths will then alleviate that and back your status quo or enterprises slowing down or we're just -- even though it's only been a few days, any type of change of behavior or none, whatsoever?

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

Yes. Jim, it still is too early to tell. Our -- the view that we have on the pipeline is relatively short, and so we haven't seen any notable change. And so I don't know what the implication will be.

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

Okay, great. And for cash flow on this quarter, can you comment on that about any puts or takes for this quarter versus maybe, say, normal a year ago?

Marshall W. Witt - *SYNNEX Corporation - CFO*

Jim, it exceeded our expectations. We knew would be positive, but happy with the $250 million for the quarter.

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

Okay. Congratulations, and Kevin, we'll be in touch with you soon.

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

Great. Thank you, Jim.

Operator

And our next question is from Lou Miscioscia from Pivotal Research Group.

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

Kevin, again, congratulations from my end, too. Just curious how you plan to spend your time, and why now as you're moving on, I guess, to other things?

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

Yes. Well, I'll tell you, Jim (sic) [Lou] , I've built up such a list of things that I need to get done kind of my honey-do list that I've got to start tackling at this point. But I got to tell you, I am so grateful for the time that I've been here at SYNNEX, and the last 10 years have really been the highlight of my career. So worked with great people, great leaders and -- but I have every confidence that Dennis and the team will continue to take this company forward the way that we have over the past 37 years. But I am looking forward to my retirement, and it would be golf, and it would be many other things on that task list.

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

Okay, great. Enjoy that. Marshall, I guess, when we look at the tax rate, can you help us understand 30%? And obviously, why not lower? And if you could help put it in context, you're one of the first companies to report here in calendar year '18, so any insights or thoughts you had would be helpful to us as analysts.

Marshall W. Witt - *SYNNEX Corporation - CFO*

Yes, Lou, so just as a reminder, it's effective January 1, 2018, so it's the blended rate for Q1. So that's why when you look at the range for the full year, 28% to 30%, that has a lower end, if you will, than Q1, which is 30% to 31%. And again, as I said earlier in the conversation, it's the corporate rate that is reflected right now as we're doing further analysis on the repatriation and the deferreds.

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

Okay. And then over to Chris, you mentioned RPA. Could you tell us how that's playing out in the sense are clients starting to push it a lot harder for you? And are you all getting some revenue as you're creating the applications in a robotic process automation process? But unfortunately, once you get that, it then drops the revenue. And if you could mention maybe a typical product project, I guess, once implemented drop by 25%, 35%, 40%, is it pretty material?

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

Yes. So Lou, we've been doing it for sort of almost 16, 18 months, and have it in most of our accounts where we're seeing traction. And generally, we're taking it into the accounts versus letting a competitor take it into the accounts, or we're using it for new accounts. We're winning business by showing how it can drive savings. The savings can be pretty material. Generally, they are smaller projects, but it can be anywhere from 40% to 60% of savings. And we tend to see it as a benefit because it gets rid of some of the very monotonous work. It tends to allow our staff to do higher-value processes, and we tend to make a higher margin off of it because there is technology involved. So it's a little painful going through, but frankly, it produces a much better result both for the client and for us on the exit of it.

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

Okay. Last question, just tied to that, and good luck, guys, on the new year, Chris, when you look at your, let's say, the 100% of revenue stream, how much can be RPA-ed over time? And how much has been? And is it a very high number in comparison to all the different work you're doing?

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

It certainly can -- it's a material number for us in terms of our work can be RPA-ed, but obviously, as we're doing that, we're getting new work into the business. You haven't seen our revenue decline by 40% because we're filling it up with other new deals and continue to share within our clients. I think, overall in the market, RPA will continue to grow through the course of this year. I think next year, it will probably have a much more meaningful impact because a lot of the projects that are in the industry tend to be 8-month payback, year paybacks. And then after that goes, it will be a much more [transformital] change that will happen, but I see that more as a 2019 comment. Clearly, if you talk to a lot of the industry analysts, they feel like this market is big and continue to grow quite robustly over the next sort of 24 to 36 months.

Operator

And we show no further questions on queue at this time. I'll now hand it over back to Kevin.

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

Thank you very much, Cindy. And thank you, everybody, for joining our call today. Have a good evening.

Operator

That concludes today's conference. Thank you all for joining. You may now disconnect.
