04-Dec-2018

# SYNNEX Corp. (SNX)

Raymond James Technology Investors Conference

# CORPORATE PARTICIPANTS

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

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

# MANAGEMENT DISCUSSION SECTION

## Adam Tindle
*Analyst, Raymond James & Associates, Inc.*

All right, why don't we go ahead and get started. Thanks everybody for joining. I'm Adam Tindle. I cover IT, supply chain, and connected devices here at Raymond James. We're very happy to have CFO Marshall Witt from SYNNEX. You probably know SYNNEX historically as a technology distributor, but the company has made some pretty transformational changes recently. So what Marshall will do will take us through kind of a PowerPoint deck background. As a reminder, the company is in quiet period so we'll certainly be respectful of that. But we'll try to do about 15 minutes or so for presentation and then about 15 minutes for a fireside chat. If you do have questions during that, feel free to please just raise your hand.

With that, Marshall, do you want to...

## Marshall W. Witt
*Chief Financial Officer, SYNNEX Corp.*

Thanks, Adam, and good morning, everyone. Thanks for having SYNNEX today. And what I'm going to do is give a brief overview of both sides of our business, touch on some more recent activity in regards to acquisitions, give you a sense of where we thought we would be as we were exiting our Q3 and the guidance related to Q4. But before I do that, in regards to our Safe Harbor statement, I'll be making comments today that are forward looking and that are covered and protected in the Securities Act, so please reference our 10-K and 10-Q for additional details around risk and uncertainties for our business.

So when you look at our company and you look at our history, a Fortune 200 company, 125 quarters of consecutive profitability which is fantastic. We have two segments which I'll go into a little bit deeper, our distribution segment which we are number three in Americas; Concentrix which is a BPO/CRM services we're number two – recently got there with an acquisition that we did on October that I'll give a little more color on. And then trailing 12 around $20 billion in total revenue.

Real strong track record which we're proud of that is sustainable, and you can see in both revenue and in margin you can see the growth rates both from a pure or an absolute revenue dollar base as well as a margin base. That's important because as we navigate in a more complicated, complex world that we're in and the acquisitions we're making, it's important to note that we can do it still with a sustained growth rate. You can see there's movement that goes up and down, but over the course of these last 10 to 15 years, we've consistently grown both revenue almost at a 10% CAGR and margins as well.

Breaking down our business into the two segments, on the left-hand side is our Technology Solutions business. About $18 billion in revenue; 400 OEMs and partners. We are intentionally deep and narrow with our vendor partners. We've been that way from the beginning. We like that intimacy that we have with those vendors, the solutions and the products that we can deliver on their behalf; and do it in a way that allows us to stay sticky and demonstrate our ability to grow their revenue and also lower their cost for their logistics supply chain.

On the Concentrix side, $2 billion in revenue. That's a Concentrix story before the recent acquisition of Convergys, and I'll touch on that in a little bit. You can see the associates there, 225,000. That does reflect the Convergys acquisition, and I'll give you some color behind that.

We did the acquisition of Convergys on October 5; and post that, we have over 650 clients. A significant amount of blue chip, Fortune 1000. And the services are provided in 70-plus languages.

On a consolidated basis, you can see the metrics that take us through fiscal 2017. I'm going to quickly go to the next slide, which shows the quarterly breakout on a consolidated basis. You see revenue continues to be double-digit, adjusted op profit and op margin dollars above 3%, and earnings per share you can see are double-digit. Our goal has been, each and every year, that we're going to outgrow the market and that our bottom line is going to outpace our top line.

Our core strategies and how we go-to-market for both Technology Solutions and Concentrix, there's a significant amount of similarities in what we do from a harvest, seed and grow. I think the takeaway for you is to realize that in both of our segments we continue to go after where the profit pool dollars are and where the growth is at. We focus on those market verticals and solutions where the margins are richer than average and that the growth rate is above current market growth.

Looking at the grow beyond the core, in both segments we have numerous adjacent markets that are not necessarily core to our business, but are core to our growth. And I'll touch on that. The takeaway for you there is that in those adjacent markets, the overall growth rate that we see from an industry perspective on the TS side is in that 4% to 5% range from a market perspective and very close to that from a Concentrix market growth.

And then, finally, we want to continue to remain and be a growth company. And so, we have to do that through optimizing the core, ensuring that we have enough liquidity and the adequate resources to dedicate and invest and grow both sides of our business.

Quick overview of the leaders in our segments. Dennis Polk was our COO up through the end of February of 2018 and is now our CEO; been with the company for over 16 years. Peter Larocque runs our North America Technology Solutions business; been with SYNNEX for 35-plus years. And Chris Caldwell been with us for 14 years, manages and runs and is the President for our Concentrix segment.

Jumping into the Technology Solutions side of the business. If you look at the annual revenue, you can see that is close to $18 billion on a trailing 12. The quarterly revenue, you can see, has continued to be in double-digit growth rate year-over-year. But adjusted operating margins continue to move up into the right, and I'll have some color behind our strategy from a margin accretion standpoint.

Here's a high level overview of the history of where we were in 2005; about $5 billion to today well over $18 billion. And the takeaway here is that whether it's through acquisitions or complementary service or product additions, we have done a tremendous job of trying to, again, get back to where those profit pool dollars are, make the right investments and execute on those investments.

I spoke earlier about these adjacent markets where we continue to invest. The most recent was the Westcon-Comstor acquisition that we did last year. And UCC and security and network, those were three areas for which we had presence, but we also knew we need to be more meaningful in those to continue to expand and grow our services to our partners. The CAGR on the right-hand side shows the growth opportunities available within those six industries, of which we participate significantly in all of them.

This slide shows what the actual spend is through the channel. It's a slide that shows that over the last nine quarters or so we continue to see a growing percentage of investments and channel spend through distribution. So this is one piece or aspect to that tailwind, if you will, in regards to where we see 2019 heading. So it's a promising trend, one in which in distribution of which from time to time there's questions of disintermediation and the ability to show that as IT becomes more complex there is more, call it, diversion and movement of dollars into the channel to grow our OEM and our partners' business.

Here's a snapshot of what our end markets look like, and they move around a lot. In essence, we've got a fairly significant SMB presence, and a lot of that has just grown through the years; that's how we structure our go-to-market solutions. And you can appreciate that in that space margins tend to be quite attractive. We have a very good and growing public sector from both federal, SLED, and education. Consumer, that has been one in which in our history we picked up and acquired a few consumer-related services and over time have grown that business quite well. And our enterprise continues to grow with Hyve Solutions and a number of other corporate and enterprise-related products and services offered in that space.

From an overall footprint, when we acquired the Westcon-Comstor Americas business we also took a minority interest in Westcon International which is primarily Europe and Asia. The partnership was important for us from an overall go-to-market standpoint on a global basis. We've been very happy with the ability for our partners to be able to seamlessly sell into all the regions for which Westcon-Comstor delivers and doing it in a way where there's very little disruption whether they're using SYNNEX out of the Americas or they're using Westcon International. So you can see our footprint from a Americas perspective on the left hand side and then our ability to work side by side with Westcon International.

These are just a high level summary of the technologies we deliver. The vendor relationships which we spoke to earlier, this is a subset of the 400 end-to-end markets that we serve.

I want to get over to Concentrix briefly before we go to Q&A and, first, just wanted to show again at the highest level the revenue growth rate. There's this timeline here that gives you a sense of where we've come from and where we are today. You can see from a quarterly revenue perspective that the revenues have come down over time. A lot of that is due to continuous strategic focus on ensuring that we're introducing productivity, RPA, IA tools to our partners and at the same time ensure that the margins for the solutions and the services that we offer continue to grow, and you can see that in the lower left hand side as margins have come up quite nicely over the last four years.

Here's the story. Similar to what we showed on the TS side, here's the story on the Concentrix side. And back to 2005 there was a staff of 50 people; today, as of October there's a staff of over 200,000 people. In terms of what Concentrix look like, I shared some of this earlier in a slide. A great footprint, 40-plus countries, six continents, 70-plus languages. A significant amount of highly credentialed professionals which is very important in this market and our services because you need differentiation and ability to show and provide value toward customers is clearly an important factor, and having those experts and the tools to deliver that continue to provide growth, and we'll call it cost solution savings to our customers is critical.

These are the verticals that Concentrix operates in. We have 10 key verticals. The top five on this list represent where a significant amount of growth continues to be produced from, and the margins are also in double-digit territory which one of our mandates, which we'll probably touch on a little bit later in our Q&A, is our goal is to get the overall Concentrix operating margins to 10% for all of fiscal 2018 and then to grow it from there, and these top five here are important aspects to that.

The model in terms of what we focus on, and you can appreciate this, a customer will come to us, they're clearly either looking for ways to be better in terms of their customer satisfaction, more efficient in terms of delivery model, or an ability to grow their revenue in ways that they can't necessarily view themselves at the cost that they need to accomplish that with.

So our Concentrix strategy does take a look at both the lifecycle, customer engagement and how we can improve business outcomes delivered through a number of different platforms, services and processes.

Another very important aspect in the BPO/CRM space is that you want to make sure that as customers are looking for new partners such as Concentrix, you want to make sure that the reputation and the ability to innovate and execute with vision becomes a critical aspect of that decision-making process.

The Convergys acquisition that we did also demonstrates that the company we purchased, and this is small dots, but trust me in the upper right hand corner there is both Concentrix and Convergys. Both ranked very high in the ability to execute and also in the ability to be complete in the vision of where they're heading.

One other look is from the Everest Group. Here, it's a matter of looking at overall buyer satisfaction. Who are the star performers, the peak leaders? Concentrix and Convergys also up on the upper right-hand quadrant.

It's important to know that one of the key elements and success factors with Concentrix is what we call new logos. It's one of many pieces to sustain and grow revenue. But, in essence, it's the customer's first time to use us. And so, it's critical because they're trusting their customer satisfaction, their revenue and their ability to execute better than the market into the hands of Concentrix.

So the big decisions that they have to make, it clearly will look at what these analysts recommend. They're clearly going to look at their peers to see what they're doing. And they're going to also look to us to see how successful – what our go-to-market strategy looks like and also our global footprint.

This acquisition of Convergys does make us number two globally in the CRM space. It allows us to be much more transformational, and it also allows us to continue to chase and grow market share.

Quickly to the deal, I just wanted to give some of the overall elements of the transaction. It was a $2.2 billion deal. We issued 11.5 million shares and the rest was paid in cash. We also identified cost synergies of $150 million for the first three years at a minimum. We do expect to achieve $75 million of savings in the first year. We're pretty confident that we're going to be able to achieve and exceed both the $75 million target and the $150 million target.

It's also important to note that even with the additional equity that is part of the transaction, we still expect a mid to high-single digit accretion in year one and also double-digit accretion in year two.

We secured this through a $1.8 billion debt financing, and our EBITDA leverage is going to be roughly around 3x. We've had numerous deals in the past, which I'll show you a quick slide on, that demonstrates our ability to bring down leverage fairly quickly in the first 12 to 18 months.

The combined Concentrix-Convergys really does expand our customer base. Convergys, a phenomenal company with great operational execution and strategies that we can leverage on the Concentrix side. The global footprint is second to none. And then, the higher value capabilities, of which I shared, those 10 verticals, will continue to be strengthened.

Similar to Technology Solutions, you can see the growth for the markets and adjacencies that we pursue and go after within Convergys and Concentrix from a CRM perspective is about a 4.5% growth rate.

So just in closing, to recap where we sit in regards to market share in both Technology Solutions in Americas, we're number three; and Concentrix, we are number two globally.

And here's a recap of just our overall capital allocation. We have a buyback program. We have a consistent dividend that's increased over the last four years. M&A strategy, you can see from both timelines, continues to be pretty consistent and one in which I think helps define one of the key aspects and elements of our success historically and moving forward.

And this is that slide I referenced earlier about leverage. Certainly, in today's market with rising interest rates, there's always a concern about our ability to take our cash flow and manage appropriately between acquisitions, debt paydown, repurchases and dividends. We think we have the right balance. You can see from our past deals that we did with IBM, with Minacs, with Westcon, they've all translated into our ability to demonstrate that we can achieve that proper balance on capital allocation.

And so, finally, just looking at where we expect to be for 2019 and beyond, we've touched on this in a little bit. In our Q3 earnings, we also gave guidance for Q4 and for the first time in the history of the company gave a 2019 guide for EPS. For a number of reasons, we become more complex with every deal we do so it's important for us to make sure that there's a line of sight to where we believe we're going to be and what we can achieve for 2019, and we gave an adjusted EPS range of $11.40 to $11.90.

And with that...

---

## Adam Tindle

*Analyst, Raymond James & Associates, Inc.*

Okay.

---

## Marshall W. Witt

*Chief Financial Officer, SYNNEX Corp.*

...I'll come on over.

# QUESTION AND ANSWER SECTION

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

Q

So, Marshall, why don't we maybe first start with the BPO side of the house since that seems to be the most topical right now. Starting with core Concentrix, so you've mentioned the goal to get to a 10% operating margin for fiscal 2018. Just talk about how you've marched that up by more than 100 basis points since you acquired that IBM business back in 2014, the logistics behind that, and then what gave you the confidence in this 10% target?

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

A

Yeah. The goal as I said in my presentation is that we will be at a adjusted 10% operating margin for Concentrix. This is pre-Convergys acquisition for 2018 and that's still our goal and our target. We acquired IBM's CRM assets back in 2014. And from that point forward, to what Adam just said, we've grown the margin well over 100 basis points from that point forward. And I think it's evenly balanced between a focus of ensuring that the customers, let's say, we bring onboard come on at the right margin. Our ability to introduce services and products into verticals that produce, call it, better than average margin growth rate. And I think the other part is scale and the ability to build that global footprint, and that scale also helps us leverage our overall SG&A. And I think the combination of those three is what's enabled us to continue to see our operating margins improve.

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

Q

Maybe bridging into Convergys, obviously the market clearly has some doubts. So what can you compare in your experience with the IBM acquisition that you mentioned where the market had a lot of doubts at that time as well? How was the plan with Convergys similar to what you actually executed with the IBM acquisition?

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

A

Yeah, it's interesting. When we did the IBM acquisition, and it was around a 4 times deal, and I think because of that there was some skepticism that there was something flawed about either the company, the assets, the people or our ability to do something with it. And I think clearly within the first 12 months, the evidence was that it was a good asset, it was a good company. One of the things that we do well on both TS and Concentrix, as we integrate very quickly we want to make sure that the culture is known and identified so that everyone understands where we're going, and so I think with that it allowed us to quickly get to where we needed to be.

I think it also addressed the skepticism and concern that the market may have had on where we're going with this company. Can we turn it around? If you think about it from an overall transformational perspective, IBM, blue-chip, well-known; Concentrix, building a brand, up and coming provider of customer care. So having that, being able to bring over those talented individuals from IBM, they're still with us today growing that. Now, we plan to do that same thing with the talented folks at Convergys, bring them on board, integrate them in. One of the things that we do in our Concentrix space is we always want to just do what's the best wherever it comes from, and so with that you'll see a collective team, solutions, and strategy that reflects both sides of the business or both companies.

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

Q

But Convergys is not a 4 times deal at the start but it could be close to that with the achievement of synergies, and you raised the synergy targets with Convergys as you mentioned. I guess what gave you the confidence to do that fairly early in the process? A lot of times we see the deal close, you get to look under the covers more and then uncover some things, but this was pretty early in the process. Maybe talk about it?

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

Yeah, Adam. It's a good question. It's part of our normal diligence. Typically, the covers are completely ripped back long before the deal is consummated or closed. And it's important for us to do that because, as I've mentioned, we integrate very quickly. And so, we can't have further discovery post-integration. It has to be an ability to execute. We're certainly going to find things along the way that could be surprises. So we were very confident in what we're able to diligence and the opportunities for spend.

And there's a few buckets that some are obvious. Two publicly-traded companies becoming one. I think there's a lot of costs that come out from that. The other is our ability to take some of the overlap as it relates to delivery centers or IT and reduce that as well. That may take a little bit more time just because our primary goal is to ensure that there's no disruptions to the customers, but with that there could be some inefficiencies early on as we make sure that we do it the right way.

And then, there's a lot of large elements where we typically, within Concentrix, have a very efficient model that we execute. We compare that to how Convergys was performing that and we're seeing opportunities there. So that's one piece. The other is looking back at the IBM deal and the Minacs deal, both of which we were taking at about 20% of, we'll call it, identifiable spend. This is very close to that. So it wasn't as if this percentage was an outlier; it's very consistent with what we've seen in the past.

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

A lot of investors don't view Convergys as an asset that was not run efficiently. I mean, it was a long-standing company; [indiscernible] (00:23:28). So maybe shifting gears into some of the pushback on the deal. Ex the synergies, to a lot of investors in the BPO space it would appear to be at full price. The trends at Convergys itself, prior to this deal, were declining revenue. So a declining asset at full price – just throwing the kitchen sink at you here.

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

Yeah.

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

But how would you respond to investors that have that view?

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

It's a fair comment. I think one of the things that we've done, whether it's intentional or not, but a lot of the assets we've gone and acquired have been in that flat to declining market, not because we're looking for that type of declines, but it just happens to be those were the assets we've taken over the last few years. But in those situations, we've been able to turn that around and put it and turn it into a growth story.

We still have that same conviction with Convergys. The platform and the verticals that they serve and the margins that we expect, of which we did speak to, Q4 guidance for the sub-period, if you will, for Convergys being at an adjusted 10% operating margin. So it's a good margin; it's one that we'll grow.

And I think the other thing too is the way that we will execute and go-to-market will be consistent with what we did with IBM and with what we did with Minacs. So that gives us the confidence to know that this is transformational. We are number two in the world. We have 650-plus clients. And I think the last thing to keep in mind, we did this with IBM, there is a significant amount of potential below the top 10. And that top, we'll call it, 11 through 120, we feel we can take the services that both companies do and develop something that actually creates cross-sell and we'll call it improved revenue growth.

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

Q

Okay. I'm going to transition into TS. But before I do, any questions from the audience? So maybe I guess most topical here recently in TS was the changes that you've seen in the Hyve business. Maybe just summarize what happened there and how you're addressing it?

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

A

Sure. Just for everyone here from a reference and a historical standpoint, Hyve is a hyperscale customized solution for which we have a fairly small customer set intentionally as we grow that model and we grow our services and we've created a global platform. Successful partnerships, successful, we'll call it, that profit pool of dollars that I spoke to earlier, and one and which has a lot of potential going forward.

Because it's been limited to a small set of customers, we also have felt that, we'll call it, that risk of not being fully diversified. There have been a couple customers with some price reductions that we felt in 2018. We've addressed them. I think what we saw as we're exiting 2018 into 2019 is that we endeavor, just like we do in other areas of our business, to find that right balance between revenue growth and returns. And we'll feel that and see that same thing in Hyve Solutions as well.

So, for us, we think that's important to balance that. Concentrix does a phenomenal job in balancing that revenue growth with margin expansion. And then, the other thing, too, is that it is still a fairly young and fast-growing company, or part of the TS division. And with that, we're always finding opportunities to optimize the network, optimize how we go to market, optimize the lines.

So, to us, it's being more efficient in our strategy, it's balancing the revenue and the margin, and the last piece which we've spoken to from time to time is continue to grow our customer base, and that will also help diversify some of that concentration risk.

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

Q

Maybe just touching on Westcon. Can you talk about the learnings with integrating more of a high-margin value distributor with kind of a core – what many people think of as a broad line distributor? How has the vendor partner response been particularly in areas like security and networking that were newer additions? Or some view that those vendors might not take so kindly to joining with what they would view as a broadline distributor?

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

A

Yeah. One of the things, just a more broader comment, is when we do acquisitions one of the important things for us is, whether it's a partner or a customer, is meet with all the large partners prior to the deal to ensure that they support it. And so we got that backing and support from the key vendors associated with Westcon-Comstor.

For us, similar to the Concentrix, we don't want to come in and disrupt; we want to come in and enhance. But we also knew that with TS, you can appreciate this, you've got to have a model for which that partner receives all the services that can be rendered in one solution. Prior to May of 2018 we were still having two models to deliver high-value services in, one, Westcon-Comstor and TS in another.

We integrated into one system in May and allowed us just to have one portal, one system, one lens that then gives a lot more power to our operations and our sales folks but also a much more easier way for our partners to sell their products and our customers to see those services and then to pick us for more than just, we'll call it, traditional TS or now Westcon-Comstor vendors. So it's allowed us to be a lot more efficient at delivery in the company.

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

Q

So you've got – I mean, we touched on Concentrix, we touched TS; two businesses with really interesting characteristics but different investor bases and it's become a very complicated story. Would seem to be a pretty significant conglomerate discount embedded. Don't want to overreact to short-term moves, but if you're still trading at 5 times EBITDA 12 to 24 months from now does it make sense to consider strategic alternatives?

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

A

Yeah. First, let's touch on one of the things that we gave, back to what I said earlier. We realized that as we get bigger we do become more complex, and with that the story has to be as clear as it can be. And so we know from an overall disclosure standpoint of the various key aspects and metrics that we think drive our business, we'll figure out ways to provide that information going forward. I think the other thing too to be mindful of is despite a lot of different aspects and businesses that SYNNEX was in, we gave a EPS guide for next year and we did that with the purpose of helping investors and analysts and the market to understand our confidence in the TS business of being at mid to high single-digit growth, the Convergys transaction and our confidence of the growth in the underlying business, the ability to do the $75 million of cost synergies, and I think finally the concern over the Hyve Solutions and where does that go. So I think when you look at our execution story, that first slide I showed, and the almost 10% growth rate over the last 10 to 12 years, we believe that that execution will help align that value back to where we think our stock should be.

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

Q

And if it doesn't?

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

A

And if it doesn't, we'll continue to be as open and we'll call it not honest but as open to what we need to do to ensure that that value disconnect isn't disconnnected.

## Adam Tindle

*Analyst, Raymond James & Associates, Inc.*

Okay. We'll have to leave it there. Marshall, thank you very much.

## Marshall W. Witt

*Chief Financial Officer, SYNNEX Corp.*

Thank you.