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SYNNEX Corp. (SNX)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jessie and I'll be your conference operator today I would like to welcome everyone to the SYNNEX First Quarter Fiscal 2019 Earnings Call. This 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.

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

Mary Lai
Head of Investor Relations, SYNNEX Corp.

Thank you. Good afternoon. Welcome to the SYNNEX Corporation earnings call for the first quarter fiscal 2019. Joining me today to review our financial results are Dennis Polk, President and CEO; Marshall Witt, CFO; and Chris Caldwell, President of Concentrix.

After their prepared remarks, we will open the call to a question-and-answer session. Please note that some of the information you will hear today consists of forward-looking statements within the meaning of the federal securities law. Such statements may relate to without limitation market, demand, growth, revenue, non-GAAP net income and diluted EPS, shares, amortization of intangibles, acquisition-related and integration expenses, margin, adjusted operating margin, cost, tax rate, seasonality, synergies, integration, net interest expense and charges, inventory and 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 2018 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 of their respective date. Also, during the call, we will reference to our non-GAAP financial information. Reconciliation of non-GAAP and GAAP reporting is included in our press release and the related

Form 8-K.

The conference call is the property of SYNNEX Corporation and may not be recorded or rebroadcasted without our permission.

And now, 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. Before we discuss our first quarter financial performance, we would like to inform you that we have adopted the new revenue recognition standard, ASC 606, under the full retrospective approach effective as of December 1, 2018 or for our Q1 fiscal 2019.

My comments today in regards to revenue trends reflect the adoption of ASC 606, and we will also discuss gross and net revenues to assist in understanding these revenue trends. Unless specified, the results referenced on the call today reflect the net revenue treatment. As expected and previously stated in our Form 10-K, the impact from this adoption is not material. Please refer to the revenue reconciliation tables included in the earnings press release.

So, let's go ahead and review our first quarter results followed by second quarter guidance before turning the call over to Dennis. Q1 revenue, non-GAAP net income, and diluted EPS all set first quarter record highs. On a consolidated basis, total revenue was a first quarter record of $5.2 billion, up 17% compared to $4.5 billion in the same quarter last year. Adjusting for FX, revenue increased 18%.

At the segment level, Technology Solutions revenue was $4.1 billion, an increase of 2% compared to $4 billion in the prior-year quarter. This includes roughly $157 million of gross-to-net revenue headwind. On a year-over-year basis, in constant currency, gross revenue increased approximately 6%. The year-over-year increase in revenue was supported by solid demand across the portfolio of products and services. Concentrix revenue was $1.2 billion, up 131% or $508 million in the prior-year quarter. The Convergys acquisition completed in October 2018 and broad-based industry vertical strength contributed to the revenue growth.

Our first quarter gross profit dollars and margin set all-time record highs. Gross profit dollars totaled $679 million, up 64% or $265 million versus a year ago. The gross margin was 13%, an improvement of 373 basis points from the prior-year quarter. Several factors contributed to the gross profit dollars and margin increase most notably the positive contribution from our Convergys acquisition, combined with an expansion of Technology Solutions gross margin and an overall revenue growth from the company.

Technology Solutions gross margin of 6.1% increased 45 basis points from the prior-year quarter mainly due to strong performance in several Technology Solutions product lines and services. Concentrix's gross margin was 36.9%, down slightly from the prior year quarter mostly attributable to revenue mix.

Total adjusted SG&A expense was $437 million or 8.3% of revenue, up $163 million in absolute dollars and up 222 basis points as a percentage of revenue compared to the year ago quarter. The increase in SG&A was largely due to Convergys acquisition which was partially offset by ongoing cost synergies.

First quarter consolidated non-GAAP operating income of $243 million was the 11th consecutive quarter of year-over-year growth, an increase of $103 million or 73%. Non-GAAP operating margin of 4.6% was 150 basis point expansion from the prior-year period. At the segment level, Technology Solutions non-GAAP operating income was $113 million, up 17% or $16 million over the prior-year quarter. The increase was primarily due to product mix, improved efficiencies and proactive cost controls.

Adjusted operating margin was 2.8%, up 34 basis points compared to a year ago. For Concentrix, non-GAAP operating income in the quarter was $130 million, up $86 million or 198% in absolute dollars year-over-year. Adjusted operating margin was 11.1%, up 250 basis points from the prior-year period. The increase in both profit dollars and margin was primarily from the Convergys acquisition, as well as balanced contribution from a number of industry verticals.

First quarter net total interest expense and finance charges were approximately $42 million, up from $17 million in the prior-year quarter. The year-over-year increase was due to borrowings to fund the Convergys acquisition. We remain well-positioned from a liquidity standpoint while fixing approximately 57% of our vertical debt. For the second quarter of fiscal 2019, we believe a range of $41 million to $43 million is the appropriate level for our quarterly net total interest expense and finance charges.

The effective tax rate for the first quarter was 27% compared to 29% a year ago. For the second quarter of fiscal 2019, we anticipate the effective tax rate to be in the range of 26% to 28%. Non-GAAP net income was $146 million, up $60 million or 70% from the prior-year period, reflecting balanced contributions from both business segments. Our first quarter non-GAAP diluted EPS was $2.84, up $0.71 or 33% over the same period a year ago. This marks the 11th consecutive quarter of growth year-over-year.

Turning to the balance sheet, our accounts receivable totaled $3.2 billion and inventories totaled $2.4 billion on February 28 of 2019. Our cash conversion cycle for the first quarter was 59 days, up 12 days compared to the prior quarter which was on ASC 605 basis and up 15 days compared to the prior-year period. The increase over last year was primarily due to the timing of payment of accounts payable and inventory positioning expected to benefit the business in the coming months. Our portfolio remains healthy and expectations are that inventory levels will come down in Q2.

Preliminary cash used in operation was approximately $160 million for the first quarter. Concentrix generated preliminary cash flows from operations of approximately $111 million, while Technology Solutions was a net user. At the end of Q1, between our cash and credit facilities, SYNNEX had over $2 billion in liquidity available to fund growth. Other financial data and metrics of note for the first quarter are as follows: depreciation expense was $42 million; amortization expense was $53 million; capital expenditure for the quarter was approximately $29 million.

Trailing four quarters ROIC was 8.7% and 10.9% for adjusted ROIC. The board of directors approved a regular quarterly cash dividend of $0.375 per common share to be paid on April 26, 2019 to stockholders of record as of close of business on April 12, 2019.

Now, moving to our second quarter fiscal 2019 outlook, we expect revenue to be in the range of $5.4 billion to $5.7 billion. Non-GAAP net income is expected to be in the range of $134.9 million to $143.5 million. Non-GAAP diluted EPS is expected to be in the range of $2.62 to $2.78 per diluted share based on weighted average shares of approximately 51.1 million. Non-GAAP net income and non-GAAP diluted EPS guidance excluded after-tax cost of approximately $49.6 million or $0.96 per share related to the amortization of intangibles and acquisition-related and integration expenses.

Please note that these statements of second quarter fiscal 2019 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. Thank you as well to everyone joining our call today. As you may recall, fiscal 2018 was a record year for SYNNEX as we made significant investments in both our Concentrix and Technology Solution (sic) [Solutions] business segments. These investments have continued to pay off as our first quarter performance was a great start to our fiscal 2019. With solid execution, our revenue of $5.2 billion delivered a 17% year-over-year top line growth and we earned our highest ever gross profit dollars and margin.

We also generated strong earnings leverage in our business as both non-GAAP net income and diluted EPS represented the highest first quarter levels of all time. We are proud to have completed 127 consecutive quarters of profitable results, now with a more balanced profit contribution from Concentrix and Technology Solutions.

Moving to business highlights from the quarter. Our Concentrix team continues to execute very well while managing a major acquisition integration. Concentrix delivered nearly $1.2 billion in revenue and an adjusted operating margin of 11.1%. The team is also ensuring we have the right go-forward business mix for ongoing success.

Similar to the fourth quarter, Concentrix has many areas to highlight from its Q1 results, and I would like to now turn over the call to Chris to do so. Chris?

Christopher A. Caldwell

Executive Vice President & President of Concentrix, SYNNEX Corp.

Thanks, Dennis. The team at Concentrix is pleased with our start to 2019. We delivered very solid results in the quarter with revenue slightly above our expectation, adjusted gross margin up 200 basis points and strong cash flow generation. These results couldn't have been possible if we hadn't made significant progress in our integration of the Convergys business, executed well in delivering on the strong value proposition of the combined capability set, while achieving our costs synergy plan.

First quarter revenues for Concentrix totaled $1.17 billion, an increase of approximately 131% on a reported basis. On a like-for-like constant currency basis, revenues were up approximately 1.7% with currency fluctuations causing about a 2% headwind on this measure.

While we're operating the business as one integrated entity, we saw a constant currency growth in both the existing Concentrix client portfolio and the newly acquired portfolio. Revenue from our top five clients totaled 28% of revenue in the quarter, in line with our comments in Q4. Consistent with our rationale for this transaction, we see a very strong pipeline across the majority of our verticals in general and in particular for situations where we are selling a capability or footprint that came from one side of the transaction to the other side of the transaction.

I'm particularly pleased that the transaction and integration efforts have not caused a delay in sales efforts or client buying decisions. Adjusted operating income for the quarter was $130 million, up from $44 million in the year-ago period. Adjusted operating margin was 11.1%, up from 8.6% the prior year.

The improved profit margins as a result of progress on integration synergies, strong cost containment efforts and continuing efforts to improve the profit profile of our client portfolio. On the transaction synergy front, we exited the quarter on an annualized run rate or synergies of approximately $65 million and we are confident that we will meet our year one target of $75 million.

We have seen strong progress in the integration of Convergys. Today, we are operating as one combined organization, 225,000 strong with back office systems and facility consolidation, the bulk of what is left to integrate. Our GAAP results for the quarter reflect approximately $28 million of integration-related expenses, primarily related to severance for duplicate positions, costs incurred in integration project and site closure cost related to the rationalization of our combined footprint.

We continue to expect that the majority of the integration activities will be complete by the end of this year within our previously discussed budget. As we continue with our integration activities, we can now see that our alignment on a common set of network, customer experience and back office tools will generate further opportunities for additional cost savings. The visibility that we have into these efforts provides us with confidence that we will achieve our year three synergy target that of $150 million annually that we announced at the time of the transaction.

Moving to cash flows. We have a strong operating cash flow quarter even with the spending on integration activities. This is consistent with our view that the Concentrix business has strong, long-term cash generation capabilities.

Cash flows from operations in the quarter totaled approximately $111 million. Additionally, we spent $20 million in capital expenditures this quarter. This was relatively light quarterly spend. Capital expenditures in this business can vary between quarters. That said, we continue to believe that long-term capital spending in the business should approximately be 3% to 4% of revenue.

Now, turning to Q2, we expect to make further progress on the integration in achieving our synergy target and in ramping new client wins. We expected that the typical seasonal pattern of Concentrix revenue and profitability will continue. Specifically, this means we would expect to see a slight sequential dip in revenue and in adjusted profitability margins in Q2.

Through the first quarter with changes in our portfolio of business, we do anticipate an impact of approximately $50 million of revenue that we recognized in Q1 that will ramp down through the rest of the year starting in Q2. These changes will improve our profitability mix and solution for long-term growth and come from both the legacy and new portfolio. These ramp downs are included in our thinking of being able to have Concentrix growth and rate approaching industry growth rates on a pro forma constant currency basis by the end of 2019 while increasing our non-GAAP operating margin as we go.

As I conclude, I would also like to thank all the Concentrix team members who are working to meet our clients' needs while completing the integration. The market positioning of our capability set in conjunction with the team's hard work and dedication give me confidence in the success for 2019 and beyond.

Back to you, Dennis.

Dennis Polk

President, Chief Executive Officer & Director, SYNNEX Corp.

Thanks, Chris. Regarding our Technology Solutions business, the first quarter was a solid start to our year as well. While our reported revenue of $4.1 billion was affected by our adoption of the new accounting standard that Marshall noted, I am pleased our gross revenue, the amount we invoice and collect from our customers, grew approximately 6% year-over-year in constant currency. Our non-GAAP operating margin of 2.76% in TS reflects our ability to continue to generate leverage from our growth, business mix, and our continual drive to ensure we are securing the appropriate returns for all of our investments. For Technology Solutions, the majority of our offerings perform well with reasonable demand across our customer portfolio and their end markets. From a region standpoint, North America, LatAm, and Japan delivered to expectations.

Transitioning into our second quarter outlook, overall, our thoughts about the markets we operate in are similar to our comments in January during our Q4 results discussion. We remain optimistic about our ability to execute and continue our growth in the coming year. The markets we operate in are sizable and offer many opportunities for us.

For Concentrix, as Chris noted, we expect the overall business to perform in line with historical, seasonal trends for Q2. We are encouraged by the progress we are making towards fully integrating Convergys and expect these efforts to continue as planned. As we balance growth and generate new pipeline through our cross-selling efforts, we remain confident that Concentrix revenue is expected to approximate market growth as we exit fiscal 2019. Growth in an integrated business will certainly be a positive for us to leverage.

In Technology Solutions, we expect Q2 to be in line with seasonal norms on a gross revenue basis that should translate to the same growth on a net revenue basis but ultimately will be driven by the mix. Within Technology Solutions, we expect the underlying market and channel to grow as we focus on incremental revenue opportunities. The technology sector remains stable and we continue to see constant demand for the products and solutions we offer.

Looking ahead, as we approach the second half of fiscal 2019, our goal to achieve the upper end or slightly above the fiscal 2019 EPS target we provided remains the same. Our success in 2019 is underpinned by three specific key areas. First, focusing on return from major investments we've made in recent years. Second, committing to the integration of Convergys. And third, continuing our ongoing goal to grow faster than the markets we participate in.

I am proud of the 203,000-plus (sic) [230,000 plus] associates that helped shape this company and I want to thank all of them for their hard work and commitment. I also want to take this moment to welcome Michael Urban, our new President of Worldwide Technology Solutions Distribution. Michael joined officially on February 1. I'm confident he will bring a tremendous amount of value to SYNNEX. Michael is making his way to the SYNNEX onboarding, deep-dive learning, and customer vendor engagement process, and he will join these calls sometime in the future.

I also want to take this opportunity to thank all of our business partners and shareholders for their trust and support in us every day.

With that, I would like to open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Matthew Sheerin with Stifel. Your line is open.

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

Q

Yes. Thank you and good afternoon. Just a couple of questions from me, just starting off with the core Tech Solutions business. The margin profile obviously significantly up year-over-year. You talked about mix and execution. Could you elaborate more, Dennis or Marshall, on that and particularly as it relates to the Hyve business which I know has been going through some pruning and some shuffling? So could you just give some more color on the margins and then also on Hyve and where we stand there?

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

A

Hi, Matt. It's Dennis. I'll start off and then Marshall, I think, will add some commentary as well on the margin portion of your question. The increase in margin that we had in Q1 2019 over 2018 was really many things and all are around that aspect of us continuing to work on our business. Hyve was a part of that. As you recall, in prior quarters, we've talked about really working on the returns in that business. Looking back to Q1 last year, they were not at a level we would like them to be at.

In Q1 this year, the margins were much closer to we expect them to be at for Hyve. I'll also add, for Hyve, our revenue was right in line with expectations as well for the quarter. So that's a reason – one of the reasons why our margin improved year-over-year. It also improved a little bit from tailwinds from the tariff that occurred in our quarter. We got a little bit of tailwind from markup in inventory that we've actually sold through. So that was a benefit and then just the overall mix in our business was a positive to our margins in the quarter that drove the year-over-year benefit.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Yeah. And Matt, the only thing I'd add to that is as we continue to grow those cloud-based security solutions that is another piece of that gross versus net that Dennis called out last quarter. It's not a big piece but it's an element to the year-over-year benefit.

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

Q

Okay. Fair enough. And the Hyve business you said was in line with expectations. But was that down year-over-year? Because I think last quarter it was down. Is that still – is still down on a year-over-year basis?

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

A

Hi, Matt. This is Dennis again. As far as Hyve is concerned, we're not going to break out components of Technology Solutions and talk about year-over-year changes. But I will say and reiterate what I've said in the last couple of quarters. We're working on this business to ensure that we are diversifying the customer base and getting the right returns from an asset perspective and growing our operating margins like I mentioned in commenting on the Q-over-Q change from 2019 to 2018. I will say in Q1 2019, we continued to make progress on those goals and I'm very encouraged by our prospects going forward with regards to our Hyve business.

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

Q

Okay. Thank you. And just on the follow-up regarding the Tech Solutions business and the strength you're seeing particularly as it relates to hardware refresh and we've seen a strong refresh cycle for two or three years now both on servers and PCs. What's your sense there? There's some concern that, given the Microsoft expirations at the end of this year, a lot of that upgrade cycle will have played out. What's your take on that whole cycle?

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

A

Well, a couple of things there, I think, you're asking about. As far as the overall business environment, as we noted earlier this year and just now a couple of months later, we're still positive on technology spend and definitely the channels that were in, the amount of spend that's going to the channel. So that's definitely a positive for us.

Second of all, the customers that we've been meeting with and speaking with over the past two months since our last conversation with you reiterated that they're feeling very confident about their business in 2019. So, we expect to grow with our customers. As part of that aspect related to refresh, sure. But it doesn't mean it's going to end at the end of 2019. As always, company's benefit from investment in technology and we think that it will occur in 2019 and we expect that will continue on to 2020 and beyond.

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

Q

Okay. Fair enough. Thanks very much.

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

A

Thanks, Matt.

Operator: Your next question comes from Adam Tindle with Raymond James. Your line is open.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks and good afternoon. I just wanted to – cash flow and leverage first. Marshall, I think post the Convergys acquisition, you talked about a goal to get leverage down a full turn to about 2.5 times within the first 12 to 18 months. Given what you've seen so far, is this still the right way to think about the magnitude and timing for delevering would be the first question.

And secondly, obviously, seems like this temporary issue is concentrated in TS from a cash flow standpoint. But I thought you were working on asset returns in Hyve, so I'm just a little confused there. Maybe what can you change to achieve this given, I think, you need close to $1 billion in cash generation over the next 12 months or so?

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

Yeah. Adam, so, you're exactly right. Our goal is still to get down to 2.5 times as we exit 2019. No change there. You're also right that it's isolated to the TS side. Mostly as we spoke to in my prepared remarks around working capital, AP being one of the drivers. And the other is that we've made some investments in our inventory that we think will reap good benefits over the coming months. So long way of saying, temporary, we saw confidence in the comment we made last quarter of bringing down debt roughly about $400 million over 2019 in total.

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

Okay. Maybe also a combination of EBITDA growth helping in that ratio.

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

Very good point. Yes. Both help.

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

Okay. Got it. So, second question, I just wanted to touch on the EPS guidance. First, the sequential decline from February to May is a little bit steeper than we've seen in the past. Can you just touch on the reasoning for that? It sounds like things are pretty stable, nothing like another falloff in Hyve or something like that. Is it just conservatism? Maybe just touch on the May guidance first.

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

Yeah. Adam, I think the first thing is – in our position we stay pretty conservative in our outlook. Back to Dennis' comment, we feel good about the overall TS segment as well as Concentrix segment. The other thing too that you mentioned is that we continue to make investments in our business and that's a piece of consideration as we look to Q2 but nothing unusual in terms of EPS seasonality typically from Q1 to Q2. Dennis?

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

Yeah. The one other thing, Adam, that I would offer is, as you know, we've changed this business quite a bit in the last 18 months so the seasonality isn't quite what it was if you look back three, four or five years. And I think our guidance is reflective of that especially when you factor in the Concentrix and Convergys aspects.

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

Okay. That's helpful. Maybe just on the full year guidance, confidence in being at the high end of that $11.90 initial guidance, as you think about that comment on being at the high end, can you just touch on how Q1 and Q2 guidance has played out relative to your initial expectation? Is this kind of the cadence of the year that you were expecting?

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

Hi, Adam. This is Dennis again. Yes, I think that's a fair way to say it. We're just, again, less than three months since the last time we talked to you and provided that updated guidance. And our quarter was a little bit better than we expected and we're looking at a Q2 that's in line with what we expected. So the year is projecting out to be in line with how we see the goal being achieved in 2019 overall.

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

And Adam, as you think about just what we've acquired over the last 18 months to 24 months, there is a tilting, if you will, to H2. And so as we move forward, we'll probably see heavier weighting towards H2. But that – back to your initial question, first half of the year, what we find – second half of the year continues to be more seasonally strong and we expect that going forward.

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

Great. That's helpful. Thank you.

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

Thank you.

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

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

Thank you for taking my questions and nice job on the quarter. Wanted to ask quickly on Concentrix, can you talk a little bit about the mix in terms of voice versus non-voice? What are some growth areas as you look at that division going forward?

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

So Frank, in terms of our voice/non-voice, clearly with the acquisition of Convergys, we had a larger concentration of voice than what the historical Concentrix business had. But our goal and what we've seen is more non-voice going into the business that's helping us grow our margins and some of the bigger growth areas that we see versus the traditional voice. So we'll continue to focus on driving that mix back up with the non-voice being a greater percentage of our revenue as we go.

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

Okay. That's helpful. And then still on Concentrix, could you talk a little bit about some of the trends in terms of operating metrics? Any color you could give on utilization, wages, attrition, head count, and how those are driving margins going forward?

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

So, in terms of sort of the operational metrics, clearly, we monitor various data-intensive business, all the different metrics. In terms of sort of high-level comments that we haven't broken out before, I can say generally we see some wage pressure and resource constraints within the North American marketplace. I think that's pretty consistent out there as the economy has been doing well and minimum wages have been going up or costs are higher, it's been going up.

But primarily when we look at it from a global nature, we're seeing good flow of staff. We're seeing relatively sort of consistent wages. And last year, our attrition was actually sort of all-time low and we continue to drive that down across the enterprise by not only the mix of business but getting the right mix and also the right types of services, So, frankly, we see ourselves well-positioned from that standpoint.

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

Okay. And the last one from me, can you talk a little bit about the anticipated currency impact on revenue guidance going forward?

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

Yeah. Frank, this is Marshall. As you saw on the tables, we've got a little bit of headwind in Q1, so it's difficult to project that going forward. In terms of the overall impact on both top line and bottom line, nothing material. But because Chris' organization has significant presence outside the U.S., that always is a risk that we have to make sure that we effectively monitor and manage.

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

Okay. Understood. Thank you very much.

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

Thank you.

Operator: Your next question comes from Tim Yang with Citi. Your line is open.

Zhen Yang
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Thanks for taking the question. Just to clarify, you mentioned the number of 6% of growth in your TS segment excluding accounting change in the FX. Is that 6% the right number for us to think about going forward for the TS given that you have the second half easy comp from 2018?

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

Hi, Tim. This is Dennis. Well, so that was our first quarter gross revenue constant currency growth rate. We're not projecting by individual segment what our growth rate plans are going forward, but I will offer that SYNNEX always thrives to grow faster than the market and market is generally around the 3% or 5% area, and we'll do our best to continue that.

Zhen Yang
Analyst, Citigroup Global Markets, Inc.
Q

Got it. This is for TS segment. Is that right?

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

A

Yes. This generally flows to the Concentrix segment as well.

Zhen Yang
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you so much. These are all my questions. Thanks.

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

A

Thanks, Tim.

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

Shannon S. Cross
Analyst, Cross Research LLC

Q

Thank you. I have a couple of questions. The first, can you talk a bit from a geographical standpoint what you're seeing in Japan and some of the other regions? And was there any change in linearity during the quarter in terms of off of sort of normal historical trends?

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

A

Hi, Shannon. It's Dennis. As far as geographical, I assume you're asking about the TS business specifically.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Yes. Yes.

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

A

Thank you. As I said in my prepared remarks, every geo performed right in line with expectations so with a good across the board performance from the team. I will say that our Japan business really excelled in the quarter. We expected them to. That's why I said they're in line with expectation, but it's been an improving business for us the past few quarters and it's really a result of a lot of hard work and effort by our leadership team to rightsize that business and get on the right trajectory. Because as you probably recall, we were struggling a little bit in the recent past. So in Q1, Japan really performed well and we are encouraged by those prospects going forward. But overall, each of our regions executed well from a TS perspective and we expect the same going forward.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Okay. Thanks. And I'm curious when you – I think I'm not sure, I think it was Marshall who stated confidence in reaching the high end or maybe it was you of the EPS range for the year. Obviously, you're one quarter through, you've guided to the next. How much of the upside is really driven or your expectation of moving up is your confidence in the cost reductions and what you have in place there versus on the Concentrix side versus underlining improvement in the core business or your business pre-acquisitions?

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

A

Hi, Shannon. This is Dennis. I think it's a balanced aspect to one obviously getting benefit from the Convergys acquisition within the Concentrix business. But also back to Chris' prepared remarks, we talked about getting benefits from the combined company wining new business and growing as a result of that and getting more leverage out of that business. So that's on the Concentrix side. And the same thing is really true on the Technology Solutions. We expect to grow that business, gain from the leverage of that and bring additional profit to the bottom line as well.

We are now about a year and a half into the Westcon-Comstor acquisition. And as you probably would expect in the second year is when you really start to get the real solid benefits from any acquisition. As most integration is complete, people are familiar with each other and cross-selling really can take hold. And we expect that to benefit us in the second half of the year as well.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Okay. And then I guess my final question is more of a macro or a trend question. I'm curious. I mean every quarter, we sort of talk about as a service, and ratable billing and a movement more to netted down revenue and all of that. Have you seen any kind of inflection point with customers in terms of their willingness to shift from straight out capital purchase to more of an operating expense? I'm just kind of curious as to what the conversations with the customers are like. Is it still more of a push than a pull from them or are they starting to realize the benefits? Thank you.

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

A

Sure. This is Dennis again. Thanks, Shannon. It's not an inflection point I would say in that, all of a sudden, people say, okay, now it's happening and it's going to ramp up significantly. I would say though that the conversations are becoming more consistent, obviously, more often we're having these conversations and this is more on as-a-service primarily is what I'm speaking to right now.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Yes.

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

A

So whereas if I reflected back to a year ago, I would tell you it wasn't really much of a daily conversation of our business. A year later, it's much more of a daily part of our conversation and the feeling out there at least from my perspective in talking to customers that's going to keep building from here.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Okay, great. Thank you.

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

A

Thank you.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey. Thanks, guys, for taking the question. Congrats on solid quarter and it sounds like a solid foundation to the year. Could you just talk a little bit about the mix dynamic, Dennis, that you that you highlighted for the quarter? Is there anything – I guess sort of what is – is there anything structural to that and what are the components that go into that and should we expect that to continue in a way that could show up in the margins the way it showed up this quarter?

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

A

Hi, Ananda. Yeah, this is Dennis. So, the mix dynamics is really all around our effort to offer the most services and products to our customers with the most value add. And that has been from the perspective of where we've been making investments in for quite some time now and that continued to play out in Q1. The more we make these investments, the more we work on our business, the more we improve our mix towards higher value services, we should see our margins improve from there.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

And Dennis, is there anything more to it? I don't want to read more into it than it is. Is there – are we really just talking about sort of getting kind of right product, kind of right price, right time, the customers as you kind of mix up the portfolio? Or is there something more sophisticated to it as well, say, with regards to kind of service offerings as you wrap around those products, solutions offering that you wrap around those products, taking them to market or at least training the VARs in a more sophisticated way they being able to do it? So, is there anything more sophisticated than just having the right product and the right product in the right place at the right time?

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

A

Ananda, yeah, this is Dennis again. Thank you. You went through a lot of the aspects of what we think about on a daily basis which is what services are needed by our customers so they can service their end customers in the most positive way possible to land and close deals. In some cases, the services aren't at the most high end and so it's more of a transaction relationship. And in some cases, it's a much higher level of service that has to be wrapped around that transaction and that's what we get paid for and that's where our margin is going to improve. So that's been a focus of ours to ensure that we're participating in as many of those deals as possible. As we are in those deals, we realize there's additional service we can add on top of that. And then that's where we make investments to have additional services and capabilities for the next transaction.

All that being said, it's a balanced approach when it comes to improving operating margins. We're working on what we deliver to the customer and getting paid for that, but we also have to run a very efficient machine. I think we've done a very good job working on the cost side of our business as well and that adds up to the improved margins overall.

Ananda Baruah
Analyst, Loop Capital Markets LLC Q

Got it. So this all sort of falls under the game plan playing out?

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

I think that's a fair statement. Yes.

Ananda Baruah
Analyst, Loop Capital Markets LLC Q

Okay. Okay. Cool. And just a quick follow-up, you mentioned quickly Westcon-Comstor. Is that – how is that tracking? I mean how -I know you lapped the year now. But how should we think about it in the context of providing benefit relative to your expectations both on the revenue and on the cost side, margin side?

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

Sure. Regarding Westcon-Comstor, being that we are now a year and a half later into the transaction, it's a little harder for us to break it out as an individual entity relating back to the transaction date because we have done a very good job, I think, integrating the business. So you have to take my comments with somewhat of a grain of salt because, again, we don't have perfect visibility into the former business that we acquired.

All that being said, I think the business is performing well. What we were looking for in the transaction, we're getting. And key to the transaction was growing our revenue from a cross-sell perspective. And as I indicated before, we're a couple of quarters into that full cross-sell mode in North America and we're really starting to see benefits from that.

Ananda Baruah
Analyst, Loop Capital Markets LLC Q

Okay. Great. Thanks a lot. I appreciate it.

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

Thank you.

Mary Lai
Head of Investor Relations, SYNNEX Corp. A

Thank you.

Operator: Your next question comes from Matthew Sheerin with Stifel. Your line is open.

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

Oh, yes. Thanks. Just a quick follow up regarding your commentary on inventory and selective inventory build for future quarters. Could you elaborate on that? What areas you have been building inventory? And related to that, obviously, there's been widespread reporting about Intel's CPU shortages and some of the ODMs in Taiwan have been warning about not getting enough parts. You didn't call that out and some of the other large distributors and resellers have not seem to have issues getting product. But could you talk about that and whether that's playing into your inventory builds or other things?

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

Sure, Matt. This is Dennis. I want to be very clear. It's not the latter of what you said.

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

Okay.

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

This is not something unusual about we're doing. Back to Marshall's comment, a lot of cash conversion cycles can be just pure timing. In addition to regular timing issues around where the quarter ends and how much inventory we have, we did have a little bit extra inventory this quarter because we were planning for a few certain things with customers primarily integration of rollouts that tend to take four to six to eight weeks versus typical buy-sell transactions that go out the next day. That's all what's going on in our inventory. Nothing more than that.

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

Okay. Fair enough. And just related to you talked about some at least modest margin benefit from the tariff passing along where you had inventory. Has that pretty much played out at this point or do you still see some benefit there?

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

Yeah. Matthew, our expectations has played out.

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

Okay. All right. Thanks a lot.

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

Thank you.

Operator: That's all the questions that we have for today. With that, I'll turn the call back to Ms. Mary Lai for closing remarks.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

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

Dennis Polk

President, Chief Executive Officer & Director, SYNNEX Corp.

Thank you.

Mary Lai

Head of Investor Relations, SYNNEX Corp.

Thank you.

Operator: This concludes today's conference call. You may now disconnect.