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SYNNEX Corp. (SNX)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Chris, and I'll be your conference operator today. I would like to welcome everyone to the SYNNEX Second Quarter Fiscal 2019 Earnings Call. Today's call is being recorded, and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

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

Mary Lai
Head of Investor Relations, SYNNEX Corp.

Thank you, Chris. Good afternoon, and welcome to the SYNNEX Corporation earnings call for the second 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 the prepared remarks, we will open the call to a question-and-answer session. Before we begin, we remind everyone that today's discussion contains forward-looking statements within the meaning of the federal securities law. Statements include any predictions, estimate, projections or other statements about future events, including the company's projected financial results.

Actual results may differ materially from those mentioned in these forward-looking statements as a result of risks and uncertainties discussed in today's earnings release in the Form 8-K we filed today, in the Risk Factors section of our Form 10-K, and other reports and filings with SEC. We do not intend to update any forward-looking statements.

Also during this call, we will reference certain non-GAAP financial information. Reconciliation of non-GAAP and GAAP reportings include in our earnings press release and the related Form-8K available under the Investor Relations section of our website. This conference call is a 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 updates. Marshall?

Marshall W. Witt

Chief Financial Officer, SYNNEX Corp.

Thank you, Mary, and thank you, all, for joining us today. Our Q2 revenue, non-GAAP net income, and diluted EPS all exceeded our expectation. On a consolidated basis, total revenue was a second quarter record of $5.7 billion, up 17% compared to $4.9 billion in the second quarter last year. Adjusting for FX, revenue increased 18%.

At the segment level, Technology Solutions revenue was $4.6 billion, an increase of 3% compared to $4.4 billion in the prior-year quarter, which includes roughly $159 million of gross-to-net revenue headwind. On a year-over-year basis, in constant currency, gross revenue increased by 7%. Concentrix revenue was $1.2 billion, up 136% from $491 million in the prior-year quarter, primarily due to the Convergys acquisition, which was completed in October of 2018.

On a pro forma basis and constant currency basis, revenue grew above 3%.

Our consolidated gross profit dollars totaled $698 million, up 63% or $269 million versus a year ago, and gross margin was over 12%, an improvement of 346 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 and overall strong revenue growth in the company.

Technology Solutions gross margin of 5.9% increased 32 basis points from the prior-year quarter mainly due to mix and balance growth across our portfolio. Concentrix gross margin was 37.1%, down slightly from the prior-year quarter driven by revenue mix.

Total adjusted SG&A expense was $455 million or 8% of revenue, up $178 million in absolute dollars and up 230 basis points as a percentage of revenue compared to the prior-year quarter. The increase in SG&A was largely due to the Convergys acquisition and Technology Solutions revenue growth, and investments in the business mostly related to compensation.

Second quarter consolidated non-GAAP operating income was $244 million, up $92 million or 60% year-over-year. Non-GAAP operating margin of 4.3% was a 116 basis point expansion from the prior-year period. At the segment level, Technology Solutions' non-GAAP operating income was $124 million, up 12% or $13 million over the prior-year quarter. The increase was primarily due to mix. Adjusted operating margin was 2.7%, up 21 basis points compared to a year ago.

For Concentrix, non-GAAP operating income in the quarter was $120 million, up $79 million in absolute dollars or 189% year-over-year. Adjusted operating margin was 10.3%, up 189 basis points from the prior-year period. The increase in both profit dollars and margin was mainly due to Convergys acquisition. Second quarter net total interest expense and finance charges came in line with our guidance and was approximately $43 million, up from $16 million in the prior-year quarter. The year-over-year increase was due to borrowings to fund the Convergys acquisition and growth in our Technology Solutions business.

We remain well positioned from a liquidity standpoint by fixing approximately 57% of our variable debt. For the third quarter of fiscal 2019, we expect our quarterly net total interest expense and finance charges to be approximately $42 million. Second quarter net other income was $22 million compared to a $1 million net expense in the prior-year period. This was primarily due to a $19 million benefit recorded upon the settlement of contingent consideration related to our Westcon-Comstor Americas acquisition.

The effective tax rate for the second quarter was 25% compared to 12% a year ago. The prior-year quarter was impacted by a true-up of $17 million related to the U.S. tax reform act. Excluding the impact of the U.S. tax reform in the prior year and the non-taxable contingent consideration benefit in the current year, the effective tax rate was 27.8% in the current-year period compared to 27.7% in the prior-year. For the third quarter of fiscal 2019, we anticipate the effective tax rate to be approximately 27%.

Non-GAAP net income was $147 million, up $51 million or 54% from the prior-year period, reflecting balanced contribution from both segments. Our second quarter non-GAAP diluted EPS was $2.86, up $0.48 or 20% over the same period a year ago.

Now, turning to the balance sheet. Our accounts receivable totaled $3.5 billion and inventories totaled $2.6 million on May 31, 2019. Our cash conversion cycle for the second quarter was 53 days, down 6 days compared to the prior quarter and up 12 days compared to the prior-year period. The increase in DSO over last year was primarily due to the larger contribution of Concentrix to our overall business and timing. The increase in DIO was primarily due to business growth.

Preliminary cash generated from operations was approximately $117 million for the second quarter. At the end of Q2, between our cash and credit facility, SYNNEX had over $2 billion in liquidity available to fund growth.

Other financial data and metrics of note for the second quarter are as follows. Depreciation expense was $43 million. Amortization expense was $53 million. Capital expenditure for the quarter was approximately $32 million. Trailing four quarters ROIC was 8.2% and 10.8% for adjusted ROIC. We repurchased over $15 million worth of shares or 160,000 shares of our stock in the second quarter. As described in our press release, the Board of Directors approved a regular quarterly cash dividend of $0.375 per common share to be paid July 26, 2019 to stockholders of record as of close of business on July 12, 2019.

Now, moving to our third quarter fiscal 2019 outlook, we expect revenues to be in the range of $5.55 billion to $5.85 billion. Non-GAAP net income is expected to be in the range of $144 million to $150 million. Non-GAAP diluted EPS is expected to be in the range of $2.80 to $2.92 per diluted share based on weighted average outstanding of approximately 51 million. Non-GAAP net income and non-GAAP diluted EPS guidance excluded after-tax cost of approximately $45.2 million or $0.88 per share related to the amortization of intangibles and acquisition-related integration expenses.

Please note that these statements of the third 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; and good afternoon. I'm very pleased to report that we completed a strong Q2 and first half of fiscal 2019. For Concentrix, on a pro forma constant currency basis, our Q2 revenue was better than anticipated and we continued in delivering a double-digit operating profit margin profile for this business. For Technology Solutions, we saw reasonable demand trends in IT spend and, coupled with a solid distribution channel and excellent performance by the TS team, revenue and profit growth was better than expected as well.

Overall, we set records for the May quarter for both revenue and earnings. Revenue was $5.7 billion, representing 17% growth from the prior year. Non-GAAP EPS of $2.86 per diluted share was 20% higher than Q2 2018. More importantly, these results demonstrate our ability to operate at a differentiated business process services provider with a significant profit contribution from both Concentrix and Technology Solutions.

Some additional highlights from Q2, beginning with Concentrix. Our Concentrix business delivered a solid quarter, while making very good progress on the successful integration of the Convergys business. Our thesis supporting the Convergys transaction continues to play out in our excellent results.

I would like to now turn over the call to Chris to discuss Q2 results and Q3 outlook. Chris?

Christopher A. Caldwell

Executive Vice President & President of Concentrix, SYNNEX Corp.

Thanks, Dennis. Concentrix delivered solid results in the second quarter for the business, driving constant currency, like-for-like revenue growth. Our synergy attainment, combined with disciplined cost management, has resulted in a nearly 200 basis point expansion in our adjusted profit margin year-over-year with strong free cash flow. These solid results reflect the power of bringing two world-class providers together as one business to deliver a strong value proposition to our clients.

Second quarter revenue for Concentrix totaled $1.16 billion, an increase of approximately 136% on a reported basis. On a like-for-like constant currency basis, revenues were up approximately 2.8% with currency fluctuations causing nearly a 3% headwind on this measure. We continue to see a very strong pipeline across most of our verticals in general and are pleased that a majority of the opportunities take advantage of a capability or footprint that came from one side of the transaction or the other. I'm particularly pleased that the transaction and integration efforts have not caused a delay in sales efforts.

Adjusted operating income for the quarter was $120 million, up from $41 million in the prior-year period. Adjusted operating margin was 10.3%, up from 8.5% last year. The improved profit margins are the results of progress on integration synergies, strong cost containment efforts, and continuing to improve the profit profile of our offerings, footprints and clients.

On the transaction synergy front, we exited the quarter at an annualized run rate for synergies of approximately $85 million, well ahead of our year one target of $75 million. We have now entered the last major phase of integration of the Convergys acquisition, which is now focused on our back office. In the third quarter, we will migrate most of our back office functions on to a common set of tools which will allow us to achieve additional synergies.

We have achieved all milestones on time or earlier than anticipated to our initial integration plan. Our GAAP results for the quarter reflect approximately $16 million of integration-related expenses primarily related to severance for duplicate positions, cost incurred in integration projects and site closures related to the rationalization of our combined footprint.

We continue to expect that most of the integration activities will be completed by the end of this year and that the total spend on transaction – on integration costs will be approximately $100 million, including approximately $40 million spent last year. In keeping with this expectation, we anticipate lower integration spending in the third and fourth quarter than we incurred in Q2. As we continue with our integration activities, we believe that we will overachieve our year three synergy target of $150 million annually.

Moving to cash flow, we had strong operating cash flow this quarter even with the continued spending on integration activities. Cash flow from operations in the quarter totaled approximately $108 million. Additionally, we spent $24 million on capital expenditures this quarter. While our capital expenditures have been relatively light for the first half of 2019, we expect an increase in capital spending during the remainder of the year. We continue to believe that on a long-term basis, capital spending in the business should approximate 3% of our revenue.

Turning to Q3, we expect to make further progress on the integration in achieving our synergy targets and in ramping new client wins. We expect that the typical seasonal pattern of Concentrix revenue and profit ability will continue. While we believe that we will see profitability gains from further synergy attainment in Q3, we will also see increased investment in client programs in support of sequential revenue growth in Q4, which you have historically seen. We expect Q3 revenues to reflect our efforts to refine our portfolio of clients and projects to ensure we have the right profitability mix and solution for long-term growth.

For clarity, these portfolio changes are included in our thinking of being able to grow Concentrix at a 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 I conclude, I would 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 every confidence in our success in 2019 and beyond.

Back to you, Dennis.

Dennis Polk

President, Chief Executive Officer & Director, SYNNEX Corp.

Thanks, Chris. Moving on to our Technology Solutions business, revenue of $4.6 billion was a second quarter record. Our strong non-GAAP operating margin of 2.7% in Technology Solutions reflects our continued commitment to drive leverage and secure the appropriate returns for our investment.

Overall, we delivered strong revenue growth in the TS business, particularly in the U.S. As Marshall indicated, our Q2 non-GAAP gross revenue was up nearly 7% year-over-year at constant currency. Benefiting this growth were ongoing cross-selling efforts in our Westcon-Comstor business and some larger volume project wins. Revenue growth and solid profits were delivered in the majority of our products and services.

Turning to our third quarter outlook, for Concentrix, as Chris indicated, we expect all key metrics to track in line to above our expectations, including Convergys' integration, revenue growth, new logos, expense management, and cash flow generation.

We also expect the overall business to perform in line with historical seasonal trends for Q3 and achieve double-digit non-GAAP operating profit margin. In Technology Solutions, we expect Q3 to be consistent with seasonal norms on a gross revenue basis. This should translate to about the same growth on a net revenue basis that we experienced in Q2. But ultimately, it'll be driven by mix. Within the TS business, we expect the tech sector and its channel to remain healthy with a reasonable demand level.

Overall, we are positive about the markets that both Concentrix and Technology Solutions participate in. While we acknowledge there are always macro challenges at play, especially in the current environment, we remain optimistic that our balanced portfolio, geographic reach, and the sizable markets of both businesses will support our growth. We are proud to have completed 128 consecutive quarters of profitable results. Our growth has also led us to be recognized as number 158 in the latest Fortune 500 ranking, representing an improvement of over 200 positions since our debut on the list in 2007.

In closing, I want to thank all our associates around the world for their hard work and commitment to our company, and I want to thank our business partners and shareholders for their continued trust and support.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from Shannon Cross with Cross Research. Your line is open.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Thank you very much for taking my question. I guess the first on – from a TS perspective, there are so many, I don't know, data points that are roaming around out there, whether it's Brexit and currency and tariffs and trade and all the macro that you were talking about. Maybe if you could kind of dig down a little bit and if you could give us some idea of what your customers are saying, what they're wanting to purchase, why they're wanting to purchase, because clearly your numbers were better than people had expected and, obviously, the guidance was strong. So, it seems like the trajectory is solid from your perspective. And then, I have a follow-up. Thank you.

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

A

Hi, Shannon, this is Dennis. From an overall standpoint, I'm just off of actually several partner events. The mood is positive. As we've always talked about in our discussions with you and with the rest of our investors, technology improves customers' efficiency and businesses overall. And there's always a desire to invest in technology as a result. So, in recent conversations with customers, I'm hearing that again and again and again. So, that's one reason why we're optimistic about our go-forward results.

Taking up a one level, if you look at our business over the past couple of years, we made some major investments in both sides of the business, but specifically on Technology Solutions, we made the Westcon-Comstor acquisition. That brought a significant number of new lines to our company. And with that we were able to leverage a larger offering to our customer base. I think that's another reason why we've been able to grow a bit more quickly than folks expect.

And then, lastly, we're always working on our business as well. We've made a lot of improvements in the efficiency of our business, and that's helped us to attract and win larger deals, as I mentioned in my script, where in the past maybe we couldn't compete as well.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Okay. Great. And then, I guess one of the questions I had with [indiscernible] (19:45), but just with regard to the gross margin improvement in TS, which you referred to as mix, how much of that do you think is sustainable or – we'd seen some server pricing come down and, again, I know it's pass-through for you, but I guess just when we think about what products are selling right now and the benefits of netted down revenue in that, do you think you can continue to see strong gross margins within – more of the – I don't want to say commodity business, but it was the TS business?

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

A

Hi, Shannon, Dennis here again. So, you hit the two high points of why our margin in the TS business improved in Q2, the mix of the business, so, higher content of margin-rich business, where we have a high service content that led us to improve our margin; and also just this gross/net aspect that's playing through our numbers right now, which will start to sunset the end of the year. Those are the two key reasons why our margins improved, but also to go back to what I said before, we've been working very hard on the details of our business, improving the operating aspects of our business. That also improved our margin and it's our intent to do so going forward.

We have a few headwinds or at least one major headwind when it comes to our margins in the next few quarters on the TS side and the Concentrix side as well. In that, we just went through our annual comp review cycle. As you would expect, we increased our compensation to recognize the good work of our team members. It's also a more competitive environment out there, so that's another driver of increased comp. But we typically work through those over a few quarters of time, but that's a little bit of a wait in our Q3 and Q4, rest of the year 2019 operating leverage. But we'll work through that as we always do.

Shannon S. Cross
Analyst, Cross Research LLC

Q

Thank you.

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

A

Thank you.

Operator: Your next question is from Vincent Colicchio with Barrington Research. Your line is open.

Vincent A. Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Yeah. Thanks for answering my questions. Couple of questions for Chris on Concentrix. Chris, when do you expect the communications vertical to stabilize, maybe get flattish and then grow?

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

A

Yes. So, Vincent, from our perspective, we see it to decline and generally we say for the foreseeable future, but really that till the end of Q4 is what we look at from a public perspective. We are selling net new services into the telecom vertical, but they are fairly small in dollar size to begin with. And I don't know, if I want to project out, but we expect that it won't be necessarily a drag in 2020. But for 2019, we continue to see it as declining.

Vincent A. Colicchio
Analyst, Barrington Research Associates, Inc.

Q

And then, what industry verticals were important growth drivers year-over-year for Concentrix?

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

A

So, this quarter, we saw very, very good strong stability within healthcare. We saw very good strong stability in financial services, and then consumer electronics was also good strong demand.

Vincent A. Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Okay. And if you're able to – if you were able to pull out non-contact center BPO revenue, would you say – did the margins improve year-over-year? I don't know if you look at it like that.

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

A

Yeah, we do look at it like that. Primarily, we have seen better margins in, I'll call it, additional sort of one-off types of services that are complementary to our contact center services. So, whether that'd be analytics, whether that'd be our Voice of the Customer business, our emerging businesses and so forth and so on, that's primarily driven by just getting more operationally efficient. That's also where we deploy a lot more technology. So we continue to see good margin expansion and expansion possibilities in that area.

Vincent A. Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Okay. You had a nice improvement in margins year-over-year. If I look at the sequential change in revenue and adjusted operating income, they changed by about the same gross amount. How should I think about that?

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

A

So, one of the things that we talked about in Q1 was the fact of us rebalancing the portfolio. And we've been in that process, so we're cleaning up some accounts and kind of getting that cleaned up as well as ramping new accounts. And so those haven't come to full, I'll call it, productivity in fruition, but that's what we commented about, seeing additional margin expansion through the course of the year.

Vincent A. Colicchio
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you for answering my questions.

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 evening. I just wanted to continue on Concentrix on the revenue side. It does look like the combined entity of Concentrix and Convergys grew this quarter on an organic basis. And now, you mentioned your intention to approach industry growth by Q4, but it looks like you're near that ballpark now. And I think guidance for next quarter also implies continued growth on an organic basis year-over-year. Quite a change from trends that we saw at Convergys before you acquired it. I know there are a lot of doubts that it could grow. The first question is, for Chris, maybe just what are the items that are leading to this acceleration in growth? And it looks like margins are solid, so can't attribute it to aggressive pricing. Is it new logos, expansion with the existing customers, the items leading to the acceleration and then the sustainability of growth in that segment?

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

A

So, Adam, a few things. If you remember a thesis for the deal, we believe that Convergys had a lot of very rich clients within that 10 to 150 category, and being able to kind of grow those, and help develop those accounts and we're starting to see that fruition. Obviously, we've also been very happy with new logos sales, but new logo sales tend to take a little longer in terms of hitting our revenue and also maturing into the right margin mix. So, that's really what we see is kind of contributing to the back half of the year into next. So, those have kind of been some of the contributors to what we've seen from a – both profit and revenue expansion.

I think the other thing that we've made comments to a number of times is that clients from both sides of the acquisition have found benefit in bringing it together as one and been able to leverage the larger footprint and larger capabilities that both companies offered that we wouldn't have been able to participate in as being separate. And that was really a big part of our thesis and that's really come – and played through very strongly with what we've seen in the quarter since we closed the deal.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. And sustainability of growth in the segment?

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

A

Yeah, absolutely. We continue to plan to focus on industry growth rates. And then as we've talked about exceed those going into 2020, and from what we're seeing in the market, from what we're seeing from our pipeline, we don't see any reason to differ from that.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. And maybe just as a follow-up and I'll first acknowledge obviously very solid results in this environment on both sides of the business. If there was maybe one thing to zone in on, on the negative side, it'd be cash flow, remains pretty subdued. I understand both DSO and days payable can be skewed by the net revenue treatment. And it looks like the inventory days are still fairly significantly elevated and that's where the potential improvement is, it has to be TS, given there's no real inventory in Concentrix.

And, Marshall, you mentioned in your prepared remarks and attributed the increase in DIO to business growth. But TS revenue growth was I think 7% year-over-year, adjusted for gross-to-net, but inventory dollars are up like 30% year-over-year. So, can you just help us understand why the dislocation is so large? And if you could tie in how we can think about cash flow moving forward in the context of your de-levering goals, that would be helpful.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Sure. Yeah. So, first, just to remind everyone, our first half, we did well on beating our overall metrics and guidance by over $0.25. So, just want to acknowledge that the growth rates and the investments we've made are paying our dividend and benefits for us. And clearly, part of that is, there's a tradeoff in TS working capital. As you know, our goal is to drive better efficiencies in working capital. Our goal is to still get leverage down to 2.5 times as we exit 2019. And we're still optimistic that the goal of $400 million in debt paydown, we can achieve as we exit 2019 as well.

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

And that factors in the incremental CapEx in the back half of the year for Concentrix? That sounds like it's happening?

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

Correct, Adam.

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

Okay. All right. Thanks. Best of luck.

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

Thank you.

Mary Lai
Head of Investor Relations, SYNNEX Corp. A

Thank you.

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

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

Yeah. Thank you. Just a question regarding the Hyve business, the cloud business. You didn't make any comments. I know that that's been sort of a work in progress. You've had a very big customer and I know you talked about not a lot of growth there as you sort of prune that portfolio. Could you give us an update? Did you see growth in that quarter? Was that a contributor to the upside in Tech Solutions?

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

Hi, Matt, this is Dennis. Regarding Hyve, overall, it was a good quarter. We hit our revenue goals for the quarter. I'm not going to break out any percentage, because we don't break out Technology Solutions segment, but we did hit our goals for the quarter for Hyve from a revenue standpoint. More importantly, we improved our profitability in the quarter for Hyve. Something that we've been talking about over several quarters now that was a imperative for us was to improve our returns on our Hyve business. And I mentioned in prior quarters, we're making progress on that. And in Q2, we got to a level that we're more satisfied with. Still work to do, but good progress on our goals there.

From a customer standpoint, we still are concentrated in our Hyve business. But in the quarter, we did improve the mix with the customers that we have in the Hyve Solutions part of our TS business. We sold additional offerings to our main customers and that's helped improve the diversity with that customer and round out our portfolio. So good progress overall on the Hyve business in Q2.

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

Q

Okay. And on the Westcon-Comstor which sounds like that's been a great success so far for you, including the cross-selling opportunities. How far along are you? I know you're on the same ERP system, which has helped, but how much is left in terms of that opportunity to cross-sell into your legacy, if you will, of our network of customers versus the Comstor-Westcon?

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

A

Yeah. As far as Westcon-Comstor is concerned, agreed, we are very pleased with the transaction and we're very happy that we're making real progress in the cross-selling efforts. We're a year out from the initial system cut-over that really allowed us to take advantage of the cross-selling efforts, but by no means are we at a point where we're satisfied. It does take time after system conversion to get the sales team fully trained on, on how to sell the product. It takes time to get the customers engaged and to buy from us in a different cadence. We've definitely made progress in the last year and really took it up a step in Q2 2019. But now, we think we have a lot of room to run in this area going forward.

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

Q

Okay. And just lastly, in past quarters, you've commented on target for fiscal 2019. I think the last time, you said it was going to be above the previous range of $11.40 to $11.90. It looks like you're obviously well on your way there now. Any comments about that outlook for the year?

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

A

At this point in time, Matt, we still stand behind our guidance of $11.40 to $11.90 for 2019. That was the guidance we gave at the beginning of the year. And then in the recent quarter, we talked about the fact that we believe we can achieve at the high end of that range or even greater than that as the year plays out. Clearly, we have two solid quarters behind us, and we think a very solid guide for Q3. We're equally confident in our ability to achieve the comments regarding the guidance for 2019.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

And, Matt, this is Marshall. As you're probably aware, we did that primarily just for clarity around the Convergys acquisition. We've achieved that. So, as we get ready for Q4, we'll provide our normal directional guidance on growth rate, economic growth, IT spend, channel functions, et cetera.

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

Q

Got it. Okay. Thanks a lot.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

A

Thank you.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey. Congratulation, guys. Thanks for taking the question here. I guess the first one for me is with regards to – so, just the synergies and just some context around the Convergys synergies. Is it – you're tracking ahead and you gave us some metric, I think $85 million I think in the quarter, and that's well ahead of the year one target. And then, you guys said that you expect to exceed the $150 million three-year target as well. What are the – like, what are the different vectors around which sort of tracking ahead and then potentially exceeding are? That would help us frame what perhaps kind of longer term synergy potential might be, just given what a strong start you are off to in integrating Convergys? And I have a follow-up as well.

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

A

Yeah. Ananda, it's Chris. I would look at it slightly differently. From my perspective, I would look at the fact that we're very confident of the $150 million, we're going to achieve that. After that, it's just in our DNA to continue to manage costs and get drive leverage in the business. But we're also entering phases of reinvesting in the business to continue to support the growth, so it gets a little more murky after that $150 million.

From my perspective, that's – what is important to look at is our business case, our analysis looked at what we think we can achieve, we're overachieving that. We're going to hit the $150 million and overachieve that. And then after that, just continuing to have it within our DNA of managing and growing a profitable business.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

And, Chris, let me ask a follow-on to that then, is it more useful to think about given that you're achieving synergies more quickly, you are then more able to reinvest back in growth more quickly? And is that the better way to think of it – the more – I guess, the more useful way to think about it, more accurate way to think about it? And then, if the answer to that is yes, might that also be part of the reason that it seems like you're tracking to see your revenue goals a little bit more quickly as well?

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

A

Yeah. Ananda, we're not tapering growth to try and focus on synergies. We're investing in growth. I mean, we're investing in growth sort of day one of closing the deal and continuing to be very opportunistic investing in what we need to do to drive the business going forward. I think really where the growth has come from as we talked about is driving sort of the benefits of the acquisition through to the client base, which has been very, very well-received and we've seen much quicker uptake on some of that than we originally anticipated, hitting some of the growth of where we are right now. I think we've also focused our efforts more, and we've talked about cleaning up the portfolio to drive a better margin profile. That's allowed us to put more focus on sort of clients that are wanting to consume more services from us. So all of these things are just really what we kind of planned and focused on in our pre-planning and then subsequently have been executing on once a deal was closed.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

That's really helpful. And just a quick clarification here. Just with regards to the comment on Hyve profitability, is that a quarter-over-quarter sequential profitability improvement comment? And that's it for me. Thanks.

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

Hi, Ananda. This is Dennis. My comment was a year-over-year.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Is that – and, Dennis, is that the most appropriate way to think about it, given the seasonality in the business?

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

Well, specifically to Hyve, that's something that again we've been talking about for some time as far as working on the profitability. So, I would take that as a continual comment, not just a year-over-year investment in the business as far as trying to improve it going forward. We've been working on it for continual year and a half now and, again, I think we're reaching a point that we're very pleased with. But by no means, we'll stop here, we're going to keep going.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Okay. So, structurally, you're very pleased. Definitely, you saw structural move forward and you continue to – that sounds like it's the overarching message.

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

Yeah. We saw structural move forward but now we got to keep that going.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Okay. Great. Thank you.

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 Tim Yang with Citi. Your line is open.

Zhen (Tim) Yang
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks for taking the questions. Your TS operating margins have been up at 30 basis points to 40 basis points year-over-year in past two quarters. Can you talk about how much is that from the compounded average and how sustainable this margin expansion could be? Do you have a margin target for the TS segment, given the current exposure and investments you have made in the segment? And I have a follow-up.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Tim, this is Marshall. Okay. Tim, this is Marshall. I hope I understood your question. The majority of the growth in – it's a Q1, Q2 comment [ph] here (37:54) year-over-year has been strong. There's some basis points attribution to gross versus net 8 bps to 9 bps, 10 bps. But generally said, the portfolio, just from a Technology Solutions standpoint, has been broadly based and equal in contribution.

Zhen (Tim) Yang
Analyst, Citigroup Global Markets, Inc.

Q

Got you. And do you have a target for the TS segment margins, given the current exposure and also the investments you've made in the [indiscernible] (38:23)?

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Yes. And you know us, we're always going to have a goal to improve that.

Zhen (Tim) Yang
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Thanks. And then, on seasonality, if we assume with the Concentrix to be flat sequentially in August quarter, it appears that your TS in August quarter will be down slightly on quarter-over-quarter basis. I think last year you had a similar seasonality but we normally see August quarter to be up sequentially in the past few years. Should we expect that current cadence to be the seasonality going forward or are you seeing any like demand pulling forward in the TS segment in May quarter? Thanks.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Yes. Tim, good question. As we stated over the last couple of years, our business is a lot different today. If you think about – that's why we highlight gross revenue from a bill perspective, because that gives a better sense of how we're growing year-over-year. A couple of things we might look to, we have one less day in this quarter than last, so that makes the sequential comparisons a little bit different. We're also mindful of the fact that we're going to be conservative in our guidance. That always resets things to some extent. And now, also be aware of just some of the headwinds on FX and how that plays into our Q3 guidance.

Zhen (Tim) Yang
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you.

Marshall W. Witt
Chief Financial Officer, SYNNEX Corp.

A

Thank you.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

A

Thank you.

Operator: At this time, I'll now turn it back over to Mary Lai for any closing remarks.

Mary Lai
Head of Investor Relations, SYNNEX Corp.

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

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