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TD SYNNEX Corp. (SNX)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Evan and I will be your conference operator today. I would like to welcome everyone to the TD SYNNEX Fourth Quarter Fiscal 2022 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 Liz Morali, Head of Investor Relations. Liz, you may begin.

Liz Morali

Head-Investor Relations, TD SYNNEX Corp.

Thank you. Good morning, everyone, and thank you for joining us for today's call. With me today are Rich Hume, CEO; and Marshall Witt, CFO. Before we continue, let me remind you that today's discussion contains forward-looking statements within the meaning of the federal securities laws, including predictions, estimates, projections, or other statements about future events, including statements about strategy, plans and positioning, as well as our expectations for future fiscal periods. 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 and in the Risk Factors section of our Form 10-K and our other reports and filings with the SEC. We do not intend to update any forward-looking statements.

Also during this call, we will reference certain non-GAAP financial information. Reconciliations of GAAP to non-GAAP results are included in our earnings press release and the related Form 8-K available on our Investor

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I will now turn the call over to Rich. Rich?

Richard T. Hume

Chief Executive Officer & Director, TD SYNNEX Corp.

Thank you, Liz. Good morning, everyone, and thanks for joining us for our first earnings call of the new calendar year. We are pleased with our strong fiscal Q4 results, closing out what was truly a phenomenal year for TD SYNNEX. We began the year with a lot on our to-do list relative to the merger and integration activities and ended the year having met or exceeded our objectives.

As I've mentioned along the way, this merger has gone very well. Today, TD SYNNEX is a $62 billion company, with over 23,000 coworkers, serving 150,000 customers across 100 countries. I judge the success of this merger from a few different perspectives. First, from the point of view of our customers and vendor partners. Our teams continued to provide consistent and uninterrupted service to our partners post-merger. And the financial results we delivered are confirmation of the strong value proposition that we are delivering to the market.

Next, from the perspective of our coworkers, we have largely completed our initiatives focused on harmonization of benefits and compensation, and recently undertook our first TD SYNNEX global coworker survey, which indicated a high level of engagement, an accomplishment that can be hard to achieve in the first year of a large merger.

Finally, looking at the merger through the lens of our shareholders, we exceeded the fiscal 2022 financial targets we set. For fiscal 2022, we achieved revenue of $62.3 billion, up 9% year-over-year adjusting for FX impacts and merger-related accounting policy alignment, which was above the 6% to 8% range we anticipated.

Non-GAAP operating margin was 2.8%, also above the targeted range of 2.5% to 2.7%. And we delivered non-GAAP earnings per share of $11.94, $0.29 above the high end of our guidance range we provided for FY 2022 on our September earnings call and $0.74 above the high end of the original guidance range provided January of last year, despite higher than forecasted FX and interest expense headwinds. Finally, we returned $240 million to shareholders via dividends and share repurchases during the fiscal year, representing progress towards our medium-term capital allocation goals.

With regard to the merger integration, we set the ambitious goal of achieving $100 million in cost synergies by the end of year one. And we overachieved on that goal by 45%, realizing $145 million in fiscal 2022. One of the largest integration projects is the consolidation of Tech Data, America's ERP systems into CIS, the legacy SYNNEX ERP platform. We have made excellent progress on the Canadian migration, which we transitioned first. And our US transition is well underway, having recently completed another major milestone.

I'm happy to report that more than 45% of the legacy Tech Data US SAP business has now moved over to CIS and is executing well. We will continue transitioning the remainder of the business throughout the fiscal year and are on track with our plan to largely be complete within two years of the merger closed date.

Let me now talk about the trends we saw in fiscal Q4 from a market perspective. In short, we experienced a continuation of many of the themes that have played out over the past several quarters. Advanced Solutions continued to experience robust growth in the quarter, above expectations, with strength in servers, networking and infrastructure.

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Endpoint Solutions' gross revenue was modestly down year-over-year as the PC market and related peripherals continued to see a normalization from last year's pandemic-related highs. Several areas of Endpoint Solutions saw solid growth, including printers and mobile phones. Our services and specialized solution businesses also experienced solid growth in the quarter.

Rounding out our portfolio, our hyperscale infrastructure focused business Hyve delivered a record quarter, with continued outsized, robust revenue and profitability growth as we continued to fulfill strong demand from our CSP customers.

We also experienced operating profit above expectations from the Hyve business, which Marshall will provide additional color on in a few minutes. From a regional perspective, all three regions delivered strong revenue growth on a constant currency basis, with operating margin expansion on a global basis.

We continued to accelerate our revenue in high-growth technologies as the markets we are targeting grew faster than the market projections we provided at our March Investor Day.

We achieved greater than a 20% year-over-year growth in gross billings for the quarter and for the full year 2022 in these areas, which include cloud, security, data analytics and hyperscale infrastructure. This growth was in excess of our expectation, and high-growth technologies represented $16 billion of our total gross billings in fiscal 2022, up from $13 billion in fiscal 2021.

We saw improvement in the supply chain during the quarter, with a meaningful reduction in our backlog. Despite decreases in both Endpoint Solutions and Advanced Solutions, our total backlog level remains elevated when compared to historical norms.

Our customers are living the reality of a more uncertain and volatile macroeconomic environment with inflation, higher interest rates and a competitive market for talent. This need for talent is particularly relevant in the IT sector, where the increasingly complex technology landscape and ongoing shift to cloud-based multi-vendor solutions requires an even greater level of knowledge and experience to serve the needs of the market. For these reasons and others, the value proposition that TD SYNNEX brings to the market resonates with our customers.

On the vendor side, our utility as a variable cost route to market also becomes more valuable in times of economic uncertainty when vendors desire to lower their cost. During the quarter, we were privileged to receive further recognition from our partner community, including being named the 2022 North America Partner of the Year by CDW; the 2022 Global Distributor of the Year by Palo Alto Networks; the EMEA Distributor Partner of the Year by AWS and Lenovo; and the Americas Distributor of the Year by Nutanix.

We also continue to progress on our ESG journey and expect to publish our first corporate citizenship report this quarter. In addition, we recently received a grade of awareness from the Carbon Disclosure Project, a strong achievement in our first year of combined reporting. We look forward to continuing to share updates on our continued progress in this space.

As we think about fiscal 2023, the critical nature of technology as an enabler of customer experiences and coworker collaboration, keeper of cyber safety and a tool to realize cost optimization and efficiency cannot be underestimated. And for these reasons, we believe IT spending will continue to outpace GDP growth in 2023.

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We are prepared and well-equipped to continue executing on our growth strategy and are targeting above-market growth rates as we leverage our industry-leading portfolio of products and services and broad global footprint to bring world-class service and innovation to the market. We enter fiscal 2023 even more confident in our strategy, being capable of capitalizing on the trends shaping the IT industry and the opportunities ahead.

Lastly, I want to thank our 23,000-plus coworkers around the world for their exceptional efforts in making TD SYNNEX's first fiscal year a great success.

I'll now pass it over to Marshall, who will share more details about our performance and outlook.

Marshall W. Witt

Chief Financial Officer, TD SYNNEX Corp.

Thanks, Rich, and thanks to everyone for joining us today. Our financial accomplishments in fiscal 2022 were significant, with adjusted year-over-year revenue growth of 9%, surpassing the high-end of the 6% to 8% target we provided earlier this year. Our operating margin performance also came in above the high end of our expectations at 2.8% for the fiscal year, representing a 14% improvement over the prior year and above our 2.5% to 2.7% target.

These results demonstrate the power and reach of our business model and the strong value proposition that TD SYNNEX is bringing to the market. Please note that comparisons versus the prior-year full fiscal year are on an as combined basis, which assumes the merger occurred at the beginning of the period.

Moving now to our fiscal fourth quarter results. Worldwide revenue for fiscal Q4 was a record $16.2 billion, up 4% year-over-year and up 11% in constant currency. When normalized for the revenue recognition policy alignment relating to the merger of $500 million, the year-over-year growth was 14%. Currency impacts, primarily driven by the euro devaluation, accounted for approximately $1 billion headwind year-over-year in fiscal Q4. Revenue was at or above expectations across all regions and in both Endpoint Solutions and Advanced Solutions in fiscal Q4. Additionally, Hyve delivered strong results in Q4, driven by better than expected demand and timing-related margin recoveries related to services performed in prior quarters.

Non-GAAP gross profit had a record quarter of $1.08 billion, our first quarter greater than $1 billion, and non-GAAP gross margin at 6.63%, up 44 basis points year-over-year. The improvement in gross margin was driven by mix shift to high-growth technologies, as well as the Hyve margin recoveries, which approximated 25 basis points.

Total adjusted SG&A expense was $582 million, representing 3.6% of revenue. Non-GAAP operating income was $496 million, up $88 million or 21.5% year-over-year. And non-GAAP operating margin was 3.05%, up 44 basis points year-over-year, driven by revenue growth, Hyve outperformance, the aforementioned margin recovery, cost discipline and merger synergy execution.

On a constant currency basis, non-GAAP operating income increased 26% year-over-year. Excluding margin recovery in Hyve, the year-over-year increase was 16%. Q4 non-GAAP interest expense and finance charges were $78 million, $18 million above our outlook due to higher borrowings and interest rates.

For fiscal Q4, the non-GAAP effective tax rate was approximately 21%, below the forecasted 24% rate due to the mix of locations where earnings were achieved. Total non-GAAP net income was $330 million and non-GAAP diluted EPS was $3.44, above our prior guidance of $2.70 to $3.10.

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Note that the previously mentioned Hyve margin recoveries contributed approximately $0.33 per share of non-GAAP diluted EPS for the quarter. Removing these, non-GAAP EPS would have been $3.11, slightly above the high end of our prior guidance range, despite headwinds from elevated interest expense.

Now, turning to the balance sheet. We ended the quarter with cash and cash equivalents of $523 million and debt of $4.1 billion. Our gross leverage ratio was 2.3 times and net leverage was 2 times, in line with our investment grade profile and approaching our previously communicated target of 2 times gross leverage ratio.

Accounts receivable totaled $9.4 billion, up from $8.1 billion in the prior quarter. And inventories totaled $9.1 billion, down $689 million or 7% from the prior quarter.

Net working capital at the end of the fourth quarter was $3.8 billion, a decrease of approximately $35 million from Q3. The cash conversion cycle for the fourth quarter was 23 days, flat from Q3. And cash from operations in the quarter was $302 million.

From a shareholder return perspective for the current quarter, our board of directors has approved a cash dividend of $0.35 per common share, which represents a 17% increase from the prior quarter. The dividend is payable on January 27, 2023 to stockholders of record as of the close of business on January 20, 2023.

For the full fiscal year 2022, we returned $115 million to shareholders via dividends, reflecting a 1.2% dividend yield. We also continued executing on our share repurchase program in the quarter, repurchasing $42 million of our stock and approximately $125 million in total during fiscal 2022, which exceeded our $100 million target for the year.

Earlier today, we announced that our board of directors approved a new $1 billion share repurchase authorization, which expires in January 2026 and replaces our prior authorization. We expect to increase our share repurchases year over year in fiscal 2023 as we progress towards our medium-term capital allocation target.

Before I move to discussing our financial outlook for Q1, I wanted to provide an update on our merger-related cost synergies. As Rich had mentioned, the teams did a phenomenal job of identifying, tracking and realizing synergy opportunities in 2022, allowing us to achieve our year one target more quickly than anticipated. We achieved $145 million in cost synergies through fiscal Q4 and continue to expect to achieve an additional $55 million in fiscal 2023, with much of the savings coming from the completion of our ERP system migration, which is on track for the second half of 2023. Once we are fully integrated on one ERP system for the Americas, we expect to continue to find optimization opportunities and generate revenue synergies.

Now, moving to our outlook for fiscal Q1, we expect total revenue to be in the range of $15.2 billion to $16.2 billion, which equates to year-over-year growth of around 5% on a constant currency basis at the midpoint. This outlook reflects the impact of year-over-year foreign exchange headwind of approximately $500 million and interest rate movements of $33 million. Our guidance is based on a euro to dollar exchange of $1.05.

Non-GAAP net income is expected to be in the range of $248 million to $287 million. And non-GAAP diluted EPS is expected to be in the range of $2.60 to $3 per diluted share based on weighted average shares outstanding of approximately 94.8 million. Interest expense for Q1 is expected to be approximately $73 million and we expect the tax rate to be approximately 24%.

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As we enter 2023, I wanted to provide a few modeling points to assist you. As Rich mentioned, we believe IT spending will continue to outpace GDP growth in 2023 and estimate our revenue growth to be 3% to 5% on a reported basis.

From an operating margin perspective, for the year, we expect a range of 2.6% to 2.8%, with improvements in distribution margins offset by lower your-over-year contribution from Hyve. Hyve working capital is expected to improve throughout the year, which is expected to reduce the recovery of carrying costs associated with these programs.

While it is a challenge to forecast interest expense with precision in the current rate environment, we would anticipate trending toward our guidance for fiscal Q1 at $73 million per quarter, at least through the first half of fiscal year and then slightly declining in the second half.

We expect our non-GAAP corporate tax rate to be approximately 24%. From a cash flow perspective, we continue to expect to generate in excess of $1 billion in free cash flow in fiscal 2023 and anticipate working capital to be a source of cash this year despite top line growth as supply chain constraints continue to ease throughout the year and our inventory position improves.

We are committed to progressing towards a medium-term capital allocations framework, targeting approximately 50% of free cash flow returned to shareholders via dividends and share repurchases, as best demonstrated by today's announcement with the other 50% targeted to reinvestment in our business and M&A.

In closing, I'd like to thank all of our coworkers for their focus and hard work in fiscal 2022, helping to build a cohesive company dedicated to providing best-in-class support and partnership to our customers and vendors.

I will now turn the call back over to the operator to begin the Q&A session. Operator?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Ruplu Bhattacharya with Bank of America.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my questions and congrats on the strong quarter. Rich, the PC OEMs have talked about elevated channel inventory levels. Can you talk about how you see PC channel inventory trending, both commercial as well as consumer? And when do you think that gets worked off? Are you seeing additional promotional activity and rebates from vendors and specifically what have you factored in for TD SYNNEX PC revenue growth in fiscal 2023?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Oh, good morning, Ruplu, and thank you for your question and Happy New Year to all of you. So, first, I'll comment that when we think about our inventory that it might be marginally ahead of our profile, but nothing out of the bandwidth of what I would call the norm.

When we look at the backlog for the PC ecosystem category, I would say that it's generally at profile. So, sort of consistent with the serviceability requirements that we had seen in the pre sort of COVID time.

Yes, there is some, I'll say, traditional activity, pre-COVID activity in terms of promotions and rebates, et cetera, that are underway. But I kind of think about it as, as I said earlier, is returning to sort of the pre-COVID, if you will, sort of ebb and flow of the business.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that. For my next question, maybe I'll ask a question on regional performance. Looks like in 4Q, on a constant currency basis, you saw the strongest growth in Asia, followed by Europe and then Americas. As we look to fiscal 1Q, should we expect a different relative performance by region given we have the Chinese New Year holidays coming up? And when I look at Europe margins, they're the lowest amongst the three regions. Is there something structural that causes Europe margins to be lower? And what can you do to improve margins there?

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

A

Hi, Ruplu, this is Marshall. So, your question in regards to Q1, even though we're not forecasting on a regional basis, we still expect to see, on a constant currency basis, modest growth in Q1. And then in terms of Europe and the question in regards to being structural, we still believe that we're going to have a good quarter for Europe in Q1.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. And as it relates to Europe margin profile, if I could, there are two call outs. First is that traditionally the margin profile in Europe has been lower. There's more cost of doing business in Europe related to country

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complexity. And then the second thing is the profile of the business, where we, for example, have mobile phone distribution, tends to have a bit of a lower margin profile. However, those areas with lower margins have great working capital attributes. So, the ROIC on those businesses that have sort of the lower margin profile are attractive.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for all the details there. If I can just squeeze one more in, I think for fiscal 2023, you suggested a 3% to 5% reported revenue growth. As we look at your high growth technologies and specifically cloud, how levered is that to overall cloud CapEx spend? So, if cloud CapEx is still strong but lower in fiscal 2023 versus 2022, do you think that TD SYNNEX cloud revenues can still grow mid-teens as you've done in the past? So, any thoughts on cloud revenues would be great. Thank you so much.

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

A

Yeah, I'll start, Ruplu, and then Rich can chime in. We still feel that the high-growth technology cloud space, industry growth will be mid-teens. And that's an industry comment. And I think the various services and products within that segment will reflect that. As I said in my prepared remarks in the Hyve area, we'll see more modest growth in fiscal 2023. But in terms of our overall longer-term thoughts on high-growth technology in cloud, we think it's going to be meaningfully above the, we'll call it, the average growth rate for the business.

Just speaking about your question in regards to CapEx, just as a reminder, CapEx is one correlation, but it's not the only correlations to the services that we provide to our hyperscale customers.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Thanks for all the details. Thank you.

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

A

Thank you.

Operator: Our next question comes from Joseph Cardoso with JPMorgan.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, guys, and thanks for the questions. First one for me, some of your partner OEMs have highlighted longer decision making, tightening the purse strings among other things from end customers. And they appear to seem to be cautioning around the IT environment – spending environment. I guess, are you guys seeing a similar environment from your end customers? And if so, what is driving you guys to be more optimistic around the IT spending environment and more specifically, your growth outlook for fiscal 2023? And then I have a follow-up. Thank you.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

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Sure. Yeah, Joe, this is Rich. Let me handle that first. So, if we think about the back half of last year, I think our reported growth rates in both the third quarter and the fourth quarter at constant currency and then adjusted for the accounting difference during the merge were double digit – mid-double-digit teens, if you will. And when you take a look at Marshall's comment relative to our preliminary thoughts around the year, he's talking about 3% to 5%. So, from my point of view, there is a pretty material, if you will, change in that trajectory overall.

The way we kind of think about it, we obviously looked at many, many different sources as we look to plan our business, the one that we most have the best correlations or seeing the best correlations to our GDP. Without getting into all of the details, our business is very concentrated in the Americas and Europe. And if you take a look at the GDP for those two regions, it nears flat. I think the Americas are up a couple of tens and Europe is down a couple of tens. And over the 15-year average, IT has outpaced GDP by about 3 points.

So, this is based on – this is a theory that we use when we think about the likely outcomes for our business in the coming year. And every quarter, we take a look at what are we hearing in market as it relates to GDP. I would say that it has been somewhat volatile. So, we continue to look at that metric as the greater macroeconomic theme sort of plays out in front of us.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Got it. Appreciate the color there. And then my second question, if I look at your revenue guidance for the February quarter, it's actually in line with what you were expecting for the November quarter. However, the earnings guide is a bit softer. It sounds like from your commentary that it's largely driven by interest rate headwinds and some FX. However, I just want to confirm there that you're not seeing any other material pressures to like areas of the P&L, like gross margins. And maybe even more specifically, are you expecting gross margins to improve going into next quarter as you continue to benefit from the mix shift that you saw this quarter?

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

A

Hey, Joe. So, as you think about or as we think about 2022, there was some benefit to the pricing environment. We called it out 5 to 10 basis points on gross margin. I would expect that to abate or normalize in 2023. And I think the other influencing factor about Q1 is just the mix shift, as we talked about earlier. Distribution, we expect to continue to grow well. High-growth technology specific to the hyperscale Hyve business will decline slightly. So, the mix itself is probably the last piece of trying to triangulate the margin profile for Q1.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. If I could, just to add on to the comments, the fundamentals of the execution of our businesses are quite good. And so, I kind of think of three buckets relating to as you – I think you called the softer guide from an earnings perspective, three points. Number one is interest by far the biggest a year to year. And then second is there is some currency overhang, presuming a more stable euro that sort of a base as we move into the future, the FX discussions. And then the third is the mix, in particular lesser growth in Hyve in that overall 3% to 5% guide. And it's those three factors. But we're very, very pleased with the fundamentals and the profiles of our businesses.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

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Got it. Thanks for the question, guys, and congrats on the results.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Thank you.

Operator: Our next question comes from [ph] Sameer Kalucha (00:32:15) with RBC.

Q

Hi. This is [ph] Sameer Kalucha (00:32:21) calling in for Ashish Sabadra. Thanks for taking my question. I was wondering if you can provide some more color on the inventory normalization. Do you think there is any pull forward of demand over here, or is it just supply chain normalization happening, as I've heard from partners? And when do you expect the supply chain on the Advanced Solutions side to normalize?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. [ph] Sameer (00:32:48), thank you for your question. So, a couple of things. Number one is, I hope – hopefully I'm going to answer all your questions here. But number one is certainly the reduction of the backlog benefited our overall sales growth at 14% when normalized for constant currency as well as the accounting 606.

When we think about the backlog, to give you a little bit more insight, as I said earlier, the backlog for the PC ecosystem businesses generally are at profile and serviceability levels that we had seen pre-COVID. We're still elevated in Advanced Solutions. And my crystal ball says with maybe some minor exceptions, by the time we get to the mid – at the mid-year point, that we should probably make our way near profile and have sort of pre-COVID serviceability for the majority of the Advanced Solutions categories. So, I do see, in Q1 and Q2, a bit more of a backlog run-off in that Advanced Solutions category and hopefully by the mid of the year, we'll be at profile.

Q

Got it. Thank you. And just a quick follow-up. We all hear from partners and industry players saying, cloud spending is being more rationalized and companies are looking at their spends more carefully than they have been in earlier times. How do you see that slowdown in Hyve playing out? Do you think it's a very short term, meaning one or two quarters kind of thing? Or do you think there's a little bit something more structural to look in the, say, mid-term when companies try to re-architect their applications, which will likely take longer? So, any thoughts you can provide on that?

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

A

Sure, [ph] Sameer (00:34:54). I'll start first. We're used to pencil sharpening. I mean, it's part of the business of always trying to create and invent ways of providing more value. So, whether it's distribution, whether it's high growth, those areas over time will feel pressure from just the competitive environment and from a pricing environment. But I think the majority of what we're seeing in fiscal 2023 as it relates to cloud service providers and their thoughts is how can we continue to provide more end-to-end solutions beyond just data center fulfillment? So, we are seeing that breadth of portfolio play out. And it's upon us to continue to kind of create new value that

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creates more premium and ultimately more margin for us. And Rich, [indiscernible] (00:35:36) anything else you want to add to that?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. Just two thoughts. And I want to break this between core distribution and Hyve. First on core distribution, remember that our client base is more toward small, medium-sized clients overall. And when new technology gets deployed like cloud, it's very much enterprise first and then makes its way down through the rest of the customer sets as offerings become more efficiently packaged. So, I – my guess is that if we look at the customer segmentation around cloud, you'll see that the growth rates are more robust in the SMB space because of the evolution of technology maybe versus the enterprise. So, that sort of relative to the total picture should be beneficial for us.

As it relates to Hyve and that business, as you know, it services the CSP, I'd share two thoughts with you. Number one is I do believe that the long-term view for hyperscale will grow at mid-teens, if you will. And then just recall, within our portfolio, we have the opportunity of customer expansion. And we're feeling good about our customer prospects, if you will, as we move through time and really taking advantage, if you will, of expanding our customer portfolio.

Q

Got it. Thank you.

Operator: Our next question comes from Jim Suva with Citigroup.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Can you go over a little more details, a little bit about the Hyve profitability changes? And was it purchasing, timing, true-up and why isn't it sustainable or just why the volatility there in the profitability? Thank you.

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

A

Hi, Jim, it's Marshall. Yeah, as we disclosed or discussed in our prepared comments, quite often within Hyve and we do this in distribution as well, we have programs that we perform throughout any given cycle or year for which once we perform the service, the cost plus margin gets recovered. And when we close those out or do the refinement review, we tend to get some final settlements or final margin associated with those programs. So, we wanted to call that out because it was meaningful in Q4. It happens in distribution as well as we're working with partners and customers and refining and making sure that the margins that we agreed to receive are achieved and recognized. So, it just isn't as visible.

We wanted to demonstrate that that was part of the strength in Q4. It wasn't the only reason why we outperformed, but it was one of those. And then, Jim, as I think about 2023, Hyve, we expect, will continue to perform well. The strong 2022 is just a tough compare and the margin profile itself was very, very exceptional for 2022.

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Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Okay.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yes, Jim, I just would maybe provide a little bit more clarity what I think about the over-performance to the midpoint of the guide, I would share with you a couple of thoughts. So, first of all, there's two pieces to Hyve. One is, as Marshall talked about, the margin catch-up and we tried to provide the clarity on that. Second is just the incredible performance overall in sort of the base business. We always talk about the lumpiness of our Hyve business. Then an over – we actually over-performed our expectation within core distribution and then kind of a take back was in interest expense. So, it'd be those four elements, core distribution, over-performance, significant over-performance in Hyve, the Hyve margin recovery and then the interest expense giveback.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then earlier in the question – or Q&A, you talked about the PC market and things like that, just curious, on the mobile phone market, there were some supply disruptions. How is mobile phone demand and kind of channel supply from what you see, but most importantly, demand from what you're seeing for mobile phones?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. So, to make sure everybody understands, we have mobile phone distribution in Europe only. The channel dynamics of Europe are different than they are within North America. So, it's sort of in that theater. We saw very good demand for mobile phone. I would say that, yes, we tactically have seen some issue relative to the volatility out of some of the Asian markets but we fully anticipate that supply to catch up really rapidly.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you so much for the additional details and clarifications. And congratulations to you and your teams.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Thank you, Jim.

Operator: Our next question comes from Shannon Cross with Credit Suisse.

Shannon S. Cross
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you very much. I was wondering, if you look at 2023, can you talk about what you see are the biggest pockets of growth? And I'm wondering if you can talk both from end demand as well as – I think there's just so many questions out there about what's happening, right? So, end demand and then also backlog fulfillment. So, if you go through some of your product lines, like you mentioned, I think, on the call, strength in printers, I assume some of that is basically catch-up from backlog during the pandemic. But if you could just go through maybe categories that you would point to that we can watch as we look at 2023? Thanks.

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Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah. Thank you, Shannon. So, I'm going to embellish a little bit more here. When we were on this call last year, we had informed that we had a point of view that said that the first half of the year or actually the entire year, we would see a moderating PC but in the second half of the year, we would see a robust sort of data center market. And in fact, we were talking about it yesterday, the year played out exactly as we had envisioned it from a category perspective.

Obviously, if we take a look at the first half of this year, we believe that PCs will be a challenging category as most of the market had – most of the vendors had projected, with the expectation that there'll be a recovery in the back half of the year. And I know that you're well-informed in the PC ecosystem market, but it's things like operating systems transition as well as more premium devices given the worker profile is different than it previously had been. And then there was even comments around the net useful life of a laptop, which is more prevailing these days, is shorter than sort of a desktop.

All of those things, I think, are anecdotally feel right to me. So, I do believe it's going to be a bit of a slow PC category in the first half with that opportunity in the back half. And then I think that will continue to run off backlog in Advanced Solutions in the first half and then see a more moderating Advanced Solutions in the back half. So, those are sort of the big themes that we think will play out. Obviously, things will ebb and flow based on the economic circumstance or the reality is the move – or the year moves forward as well but those are the big thoughts for this year for us.

Shannon S. Cross
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. And then can you talk about what – this, I don't know if it's a transition, but at least it's somewhat of a shift from transactional to device as a service, infrastructure as a service, pretty soon nobody will own anything. But the shift of purchasing from CapEx to OpEx, how are you seeing that play out? And do you feel like it's still a push from a customer – or from a company perspective versus a pull from a customer perspective? And how should we think about it running through your P&L over time? Thank you.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Sure. So, let me start with the infrastructure as a service thought. We see that as material and meaningful and building. And a lot of the – obviously, we have the traditional infrastructure as a service, platform as a service that is virtually delivered today. And those are very, very meaningful business. But we also see the on-prem as a service and infrastructure. And we're engaged with many contracts relative to that space. So, I see that one sort of developing and ramping.

Candidly speaking, yeah, although we provide device-as-a-service offerings as well, that – those discussions had begun arguably as many as five years ago. We haven't necessarily seen a – the ramp or that monetized the way it has been envisioned. We do participate in, I'll call it, more niche sort of activities around that space right now. We continue to work with vendors to see if that promise will play out. But I would have to say, of the two, the infrastructure one has more momentum right now than the device-as-a-service one.

Shannon S. Cross
Analyst, Credit Suisse Securities (USA) LLC

Q

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Great. And then just my last question is on cash flow. Is there any work – or maybe for Marshall, are there any working capital levers that you can pull for 2023 beyond getting the inventory levels down to drive incremental cash flow?

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

Shannon, if we think about 2023 and the comments we made around cash flow being at $1 billion-plus, we certainly understand that earnings itself will be a big component of that. We certainly expect that the inventory declines due to supply chain constraints will be a benefit. And then the last piece is we do also expect us to become more efficient in our working capital management.

One of the things, just to remind everyone, is that in many parts of the US, we still have duplicative warehouse systems. And so, with that comes [ph] some inefficiencies (00:47:04) that as we integrate into one ERP, some of that goodness will be felt in these working capital efficiency comments I made.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Yeah, Shannon, the way I think about it is the inventory is if you want to use the 80-20 or the 90-10 rule, and kind of think of it in the context of that, there are some other working capital efficiencies to be gained, but by far and away the inventory is the big one.

Shannon S. Cross
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thank you very much.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

No. Thank you.

Operator: Our next question comes from Keith Housum with Northcoast Research.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Good morning, guys. Just circling back to Hyve, just want to make sure I understand the margin benefit you guys had in the fourth quarter. Is this really just more of a timing difference, the recovery from the third quarter, which had probably a lower margin on the Hyve business than we expected? Just kind of offsetting that for the full year, exactly where you'd expect it to be?

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

Yeah, Keith. It's more timing within the year. But the first piece was the strong outperformance on Hyve in Q4. So, revenue was better than expected and from that came better expected margins.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Great.

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[indiscernible] (00:48:14)

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

...both business.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Got it. Got it. And then, Marshall, interest rates, I believe, honestly are still continuing to go up, especially if you listen to the Fed. How are you thinking in terms of the interest rate for the entire year? I'm assuming your guidance here is based on where interest rates are today. But assuming they go up, does that change, I guess, your target for your leverage? And how you think about prioritizing the payment [ph] down the (00:48:36) debt?

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

Yeah, Keith, near end, we are modeling another 50 bps in Q1, so we'll see if that – hopefully that's inaccurate and it's lower than that. But we model that in to get to our guide of $73 million for Q1. And then I think that'll stay around that range for Q2. And then given the cash flow benefits, working capital efficiencies we spoke to, I think it starts to come down a little bit in the second half of the year. But it will be elevated and it will be a headwind year-on-year.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Okay, appreciate it. And if I [ph] could slip (00:49:08) one more in here.

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

Yeah.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Obviously, the working down the backlog has been a benefit here for you. But as you're thinking about the first quarter, it sounds like order flow is exactly where you'd expect it to be for where we're at today. And that gives you the confidence you have in your guidance?

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

Yeah. There is nothing that's materially different than the order flow than what we were anticipating with the guidance, obviously it's early in the quarter but that's sort of our view.

Keith Housum
Analyst, Northcoast Research Partners LLC
Q

Great, thanks, good luck.

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

Thank you.

Operator: Our next question comes from Adam Tindle with Raymond James.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Adam, you there?

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

Can you hear me?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Yeah. Can hear you now.

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

Okay. Yeah. First one, I wanted to just clarify with Marshall on the fiscal 2023 revenue guidance, you said 3% to 5% reported. What is that in FX and accounting adjustments and the adjusted growth?

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

Yeah, Adam, at least for Q1, as adjusted constant currency about 5%. It's difficult to figure out where we think FX will go right now. It's probably going to end up being somewhat of a push because we're lapping a declining euro year-on-year. So, as we progress through this year at $1.05, I think it'll end up being somewhat flat plus or minus $200 million or $300 million quarter two, three and four.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Yeah. And then the 606...

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

Okay.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

...adjustments are completely behind us now.

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

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All right. Good to know, Rich. On that Q1 outlook, that 5% growth in constant currency, I looked at the last year, I think that like-for-like comparison was about 6%. So, looking at a similar growth rate as this time last year, but the environment seems a lot worse from a PC perspective in particular. Maybe you could just give us any confidence that you have, especially talk about how you're feeling here relative to that plan based on what you're seeing here on January 10.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Okay. So, couple things, first when we look at, or think about Q4, the – our Endpoint Solutions segment was marginally down year-on-year. As we think about the first quarter, I would tell you the following. First, we – as we've talked before, this – our forecast process builds bottoms up. So, we go to country to region to global. And so, we have that visibility. And usually the teams have a pretty good feel as to what's going on, on the ground. It is certainly a more volatile environment now than usual. So, obviously, we pay attention to that.

As of January 10, I would say that the theme of marginally declining PC segment or Endpoint Solutions segment and sort of a growing Advanced Solutions segment and the specialized businesses contributing growth as well is the way we think about it.

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

Got it. And just the last one, Rich, you mentioned revenue synergy upon completion of Americas ERP. Just an early look at any sort of timing ballpark quantification of this. Do you think that's going to come from vendors or customers? What do we have to look forward to in terms of revenue synergy when that materializes?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Yeah. So, first of all, in our prepared comments, we talked about moving over 45% of legacy Tech Data SAP on to CIS. So, in the rounding, roughly two-thirds to 70% of our business now is on the strategic CIS platform in the Americas. So, it's a good chunk that's now in there.

We have begun, Adam, to see some of the vendors, which were complementary to one side or the other, start to take off in those sales lanes, if you will. We think of it as sort of a build, which will grow and grow as we move throughout the year. But we aren't prepared to comment relative to what the quantification of that is. And we're in a way to pass a couple of more metrics into our milestones before we provide that visibility. But right now, I kind of view it as the sales teams – as I said, we see real transactions occurring, are getting up to speed with regard to product details, sales plans, et cetera. And we'll see how that goes moving forward.

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

Okay. Thank you.

Operator: Our next question comes from Ananda Baruah with Loop Capital.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

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Hey, guys, thanks for taking the questions and Happy New Year. Just a couple, if I could. Is there just sort of a mix outlook on the year? And I guess super simplistically, the guidance for Q1, the revenue was sort of totally right in line and [ph] bracketing Street (00:54:41), the EPS guide is a little bit softer. And so, Marshall, it sounds like a little bit of that is interest rates. What are the other components as well? Or do you think [ph] Street (00:54:54) was just maybe sort of inappropriately set with the...

[indiscernible] (00:55:00)

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

Yeah, Ananda, when you compare Q1 to Q1 for us, it's $33 million higher for interest expense. And then the FX impact is about $500 million, which $0.10 to $0.12. So, those two largely contribute to at least the compare and the discussion year-on-year.

Then when we think about our thoughts on mix outlook for 2023, distribution, we expect will continue to show momentum. And we think that the majority of high-growth technology will continue to show momentum, with the commentary we had around the hyperscale [ph] infrastructure/Hyve (00:55:39), just having a real tough compare to 2022, but still we expect Hyve to grow. But when you take those into consideration, the mix plays out the way we guided for Q1.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

All right. That's super helpful. And then are you guys thinking about getting active on M&A again? And I guess, where in M&A kind of in the stack would you get active like tuck-ins versus sort of medium size? I'm assuming you wouldn't do anything big because of the debt and where you are in the integration with each other, but where in M&A might you get active this year?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

Yeah. Ananda, thanks for the question. As you had stated, a transaction the size of the merger of the company is not necessarily on the radar or something that I would forecast. But as is usually the case, we're always prospecting and have a pipeline around M&A and predominantly looking to – looking at targets that would allow us to accelerate our strategy. And so, they come in in sort of two categories, the first one being the traditional one. So, I won't spend a lot of time explaining that. Then we also are very interested in accelerating the capabilities in our cloud platform. And if we find the right IP investment that would allow us to accomplish that, we would consider that along the way.

And then as it relates to our interests strategically, obviously, Europe is less consolidated. Asia-Pacific is even less consolidated. So, if something were to appear in those theatres, they would be of interest. So, that's how we think about the M&A, pretty consistent with what we talked about previously.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Awesome. That's really helpful. Thanks a lot, guys.

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.
A

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Thank you.

Operator: Our next question comes from Matt Sheerin with Stifel.

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

Q

Yes. Thanks. Good morning, everyone. Just a couple of questions for me. One, just on the pricing environment. Last year, we saw price increases across all your hardware product categories, including Advanced Solutions and PCs. We're hearing about pricing pressure on PCs, particularly as memory and other component costs come through. What's your take there and how does that flow through in terms of your top line or any impact on your business?

Richard T. Hume
Chief Executive Officer & Director, TD SYNNEX Corp.

A

Yeah, Matt, thanks for the question. So, with the overall supply chain profile sort of returning to pre-COVID levels for the PC ecosystem, I would suggest that we're going to see those dynamics and pricing sort of return to pre-COVID levels that someone had mentioned earlier I believe that there's ample supply in PC. And to the extent there's shorts and longs, that's going to dictate what will happen in the overall pricing environment for that PC ecosystem category, if you will, going forward.

My view is that there may be some, but a bit more limited pricing activity within Advanced Solutions when compared to last year. But I would suspect that by the time we get to the mid of the year, that those dynamics would return to normal. Just one last point of note. In Q4, on a year-to-year basis, we had commented that the Endpoint Solutions segment was marginally down. I would say that with the backdrop of that, actually ASPs were up in both the Americas as well as Europe, even in Q4. But I think there is a point in time where that laps and then we're kind of over it. And I would speculate that maybe there is still some stability in ASP in the first quarter, but we get back to traditional dynamics after that would be my crystal ball.

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

Q

Okay. Thank you. And then regarding the cost synergies, you're ahead of plan. You've got $60 million left. How should we think about how that flows through your P&L this year? Is this more back-end loaded because of the ERP implementation?

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

A

Hi, Matt. That's correct. The ERP is expected to complete in the second half. And then with that comes two elements. One is the system-related costs that should go away. And then two is the duplicative cost around supporting two systems. And that efficiency should also play through primarily in the second half of 2023.

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

Q

Okay. Thank you.

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

A

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Thank you.

Operator: There are no further questions at this time, which concludes today's call. You may now disconnect.

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